

Center for Economic Policies of IDIS “Viitorul”

Economic Statewatch:

Quarterly analysis and forecast

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Center for Economic Policies of IDIS “Viitorul”

ACRONYMS AND ABBREVIATIONS

In the present publication there were used the following acronyms and abbreviations:

“CBTRM” – “Central Bank of Transnistrian Republic of Moldova”;

NBM – National Bank of Moldova;

CISR – Center for Strategic Studies and Reforms;

CIS – Commonwealth of Independent States;

CEP – Center for Economic Policies, IDIS Viitorul

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

CEE – Central and Eastern Europe;

PPI – Public Policy Institute;

FDI – Foreign Direct Investments;

MDL – Moldovan Lei;

ES – „Economic Statewatch: Quarterly Analysis and Forecasts”;

MoE – Ministry of Economy;

MoF – Ministry of Finance;

MLSP – Ministry of Labor and Social Protection;

ILO – International Labor Organization;

HHBS – Household Budget Survey;

EGPRSP – Economic Growth and Poverty Reduction Strategy Paper;

H – half year;

Q – quarter of a year;

e – estimates;

f – forecasts;

yaer – yearly average exchange rate;

ygr – yearly growth rate (end of current year versus the end of the previous year);

yagr – yearly average growth rate;

ya – yearly average;

p.p. – percentage points;

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MAIN INDEXES

(Less Transnistria)

	1999	2000	2001	2002	2003	2004	2005e	2006p
Production								
GDP, MDL mil., current prices	12322	16020	19052	22566	27297	31992	36755	43000
GDP / capita, USD, yaer	321	354	408	459	543	765.6	892	890
GDP real, ygr	-3,4	2,1	6,1	7,8	6,3	7,3	7,1	6.0
Industrial output, real, ygr	-11,6	8,0	13,7	10,8	16,0	5,0	8,2	5.0
Agricultural output, real, ygr	-8,4	-3,3	6,4	3,4	-13,6	20,4	1,0	6.0
Gross investments in fixed capital, % of GDP	18,4	15,4	16,7	16,3	17,1	15,6	17,8	23,3
Households								
Monthly personal disposable income, MDL	133	186	241	322	422	491,4	568,6	670
Real disposable income, ygr	-18,7	6,1	17,7	26,5	17,4	3,5	5,0	5.0
Retail trade, ygr	-29,6	27,4	15,1	34,3	21,1	11,0	10,0	10,0
Prices								
Consumption price index	143.7	118.4	106.3	104.4	115.7	112.5	111,9	113
Food staffs price index	144	123.1	106.1	102.8	120	113.1	113.7	108,7
Non-food products price index	135.6	112.5	107.9	108.2	111.5	111.9	112.3	116,4
Services price index	155.6	111.6	104.5	104.4	112.6	111.6	107.8	112,1
Labor market								
Population, thou	3646	3639	3631	3623	3612	3386	3383	3385
Population employed in the economy, thou	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
Monthly average salary, MDL	304.6	407.9	544	692	891	1104	1320	1700
Real salaries, ygr	-12.5	2.2	21.2	21.1	15.0	10.2	5.2	4,5

Main indexes (continuation of the table)

	1999	2000	2001	2002	2003	2004	2005e	2006p
Foreign trade and trade balance								
Exports of goods and services, ygr	-23,5	5,5	14,5	18,3	21,1	24.8	10.8	18
Imports of goods and services, ygr	-36,1	22,3	11,2	18,1	34,6	26.5	30.7	20
Foreign trade volume of goods and services, mln. USD	1035,4	1248,9	1467,4	1813,2	2193,0	2760.5	3480	4800
Current account, % of GDP	-4,0	-9,4	-7,3	-6,2	-7,4	-3.2	-3.0	-3,5
ISD, mln. USD	38,8	127,5	148,5	110,4	39,4	50,0	75	60
Incomes from the labor retribution provided abroad, mln. USD	90,1	126,2	183,7	239,1	258	450	600	600
Public finance								
Incomes of the consolidated budget, % 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
External public debt and guaranteed by the Government, % 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 indexes								
Monetary base, ygr	41,3	29,8	27,9	31,1	17,0	38	37	40

Currency reserves, mln. USD, end of year	180,5	222,5	228,5	269,6	302,3	470	550	600
Official exchange rate, yearly average MDL/USD	10,52	12,43	12,87	13,57	13,92	12,3	12,7	13,0
Interest rate for loans in MDL, %, ya	35,5	33,3	28,5	23,1	19,2	21	18,2	18,5
International economy								
Global GDP, ygr	3,7	4,7	2,4	3,0	3,9	4,8	4,5	4,0
Weighted average of GDP growth PIB in the main partner countries (2/3 of Moldovan exports)	2,5	5,3	4,0	2,8	3,8	3,5	3,2	4,1

Source: DSSM, NBM, MoE forecast

Transnistria, selected indexes

	1999	2000	2001	2002	2003	2004	2005e
Regional GDP, mln. USD	332	281	199	250	309	405,00	517,5
Regional GDP, ygr	-30,1	-20,9	10,0	-2,7	18,1	16,2	11,8
Industrial output, ygr	-3,8	16,5	9,0	-18,7	21,4	47,00	17
Population, thou (estimates)	658,0	651,8	633,6	630,1	621,8	616,5	610
Retail trade and services, ygr	-18,3	11,9	23,1	18,4	7,6	7,30	20
Investments in the fixed capital, ygr	34,6	3,8	15,6	-32,7	-14,7	70,00	111
Exports, mln. USD	258	328	378	243	433	535,10	580
Imports, mln. USD	417	489	541	450	530	758,00	856
Consumption price index	240	190	127	111	133	120,40	115

Source: "CBTRM", CISR, estimates of the MoE

FOREWORD

Russia intends to strangle the geopolitical course of the young democracies pressing on them to give up.

POLITICS. Elections in the Ukraine and Belarus have consolidated the general trends on regional scale: thus we have a focused multi-polar pluralism in the case of Ukraine and a new triumph of the Belarusian authoritarian regime, in the second case.

In March-April the energy conflict evolved towards a new stage of conflict between the suppliers and consumers. For Moldova and the Ukraine this stage is associated with introduction of a new obvious "embargo" on wines and other agricultural products by Russia, on the background of an extensive media offensive. Russia intends to strangle the geopolitical course assumed by the elites of these countries, forcing them to give up. By excluding wines imported from Georgia and Moldova from the Russian commercial networks is more than an advertisement. It is a war which has not been applied to secessionist regimes. Thus, Russian officials do not deny that these punitive measures are a reaction to application of border control measures between the Ukraine and Moldova.

EU Assistance Mission at Moldovan-Ukrainian border proved to be efficient and adequate to the solicited purposes of the RM, meeting this way the implementation of the Action Plan EU-RM. It is obvious that 2005 has been a fruitful year for the initiatives on transnistrian regulation. During the first months of 2006 we have assisted a spectacular de-freezing of the transnistrian conflict, frozen particularly by mediators and not by its specific reasons that grounded the violent secession from the formal state institutions.

Modest growth of gross agricultural product has been determined by the raising output in the cattle growing sector.

AGRICULTURE. In 2005, the agricultural output made up in current prices MDL 11937 mln. or 101, 0% in comparable prices versus 2004 and 116% versus 2000. The growth of agricultural product, though very modest, has been determined to a great extent by the growing production in the zoo-technical sector. In this sector there was registered the highest growth of agricultural produce of the recent 5 years, which accounted for 8,6 per cent. The obtained results by farmers in the zoo-technical sector are appreciable; however they do not reflect constant trends of growth for both medium- and long-terms.

Despite the promising results obtained in the first half of 2005, in the vegetal sector there was registered a decline of vegetal production by 2,5% versus 2004.

2006 will be marked by the declining pace of industrial output.

INDUSTRY AND SERVICES. In the first quarter of 2006 the slow-down continued of industrial growth tempo in the RM. The services sector has manifested by up-keeping growing trend. This was contributed to by sub-sectors as follows: constructions, communications, transports of passengers and retail trade. The growth of this sector is due to attraction of modern technologies and of a positive trend in terms of investments.

From the very beginning of the year, production and distribution of both electrical and thermal power, gas and hot water has increased by 13% versus the same period of 2005. Raising consumption and investments worth over MDL 730 mil. made during 2005 have supported this growth. The largest share of investments accounts for distribution networks of electrical power worth MDL 536 mil.

FOREIGN TRADE. The current trends of the foreign trade of the RM displays the fact that it gets beyond any control. The growth rate of exports has been net inferior versus the imports. The considerable discrepancy in the exports and imports evolution of the RM has determined the accumulation in 2005 of a negative balance of the trade balance worth USD 1220,5 mln., which makes up an increase of the trade balance deficit by 55,8% or by USD 437 mln. USD, versus 2004.

The trade balance in the first months of 2006 has registered a 1,7-fold deficit versus 2005.

The same worrisome trends have been manifested in the first months of 2006. Thus the trade balance made-up in January-February 2006 a deficit worth \$ 170,9 mln., which is a growth by \$ 71,8 mln., (1,7-fold) versus the same period of 2005. The degree of imports covered by exports in January-February 2006 was of 48,1% versus 60,9% in January-February 2005. Nevertheless, these data do not reflect the real situation of the foreign trade, given that they characterize, in general, only the beginning of a rather difficult period for Moldovan exporters oriented towards CIS and for producers of export oriented goods.

MONETARY POLICY. During the first quarter of 2006, raising deposits continued to surpass the growth of loans, but the discrepancy between them diminished. Thus, during the first quarter, the deposit balance has increased by 8,7% and loans balance by 7,7%. Partially, this equalization of growth has occurred due to seasonal effects, the credits having registered bigger increase in the first two quarters of the year, than in the II-nd half.

By the end of this year, the NBM will have to raise the discount rate from 12,5%, to 13,5%, i.e. will make two raises.

We consider that the NBM will be pressed by circumstances to increase the discount rate by the end of the year.

USD is still on dominating position on the currency market, even if Euro has reached an increase in the foreign trade and remittance transfers. We consider that during 2006 the NBM will not be motivated to make significant acquisitions of foreign currencies from the currency market.

PUBLIC FINANCE. The high tempo of budget income growth registered in 2002-2005 will slow down considerably in the following years. For 2006 the Government plans a growth of about 18% of budget incomes, versus 2005, when the real incomes were much higher than the planned ones for 2006; this most probably will not happen again.

Moldova is changing its paradigm of development from the social budget to investment budget.

Once with resumption of relationships with the international financial institutions, the paradigm will change of public policies in the field of public finance.

Thus, for the following period from the socially oriented budget will shift to an investment budget. The sudden growth of investment expenditures in 2005 will continue in 2006 too, and the target of the immediately forthcoming period will be to increase the public investments, by attracting investment loans up to 20% of the total public spending.

PRICES. For 2006 the NBM has set a target to upkeep the inflation rate within 8 to 10%; the „Economist Intelligence Unit” has forecasted for this year an inflation rate of 10%, whereas the Ministry of Economy – of 11%.

In 2006 the inflation will be above official expectations and will make up 13%.

For 2006, the DSSM has considerably reduced the share of „food products” component in the calculation of inflation, which will significantly improve the quality of statistical calculations.

Should we compare the global reality with the domestic one, one can conclude that the fuels prices might record, in the RM, another increase to a maximum of 7% to 10% in the current year (assuming the current currency rate of exchange MDL/USD).

By the end of 2006 the raising purchasing power of the population will be about 4%.

HOUSEHOLDS. According to estimates of the CEP, in 2006, the share of incomes from the waged activities will contribute by 56,5% to increase of household budget incomes. Also, social provisions will grow also, first of all pensions – by 15.7% in 2006.

Currency flows from abroad will continue to constitute a significant supplement to the disposable income, contributing also in 2006–2007, to recovering the final consumption, at a raising tempo of about 7-8% annually.

In 2006, CEP forecasts a growth of retail trade by about 6% and of services provided to population by circa 10%. The volume of investments in businesses on behalf of the households will remain insignificant

In 2006 the trend will continue of declining number of employed in the national economy.

LABOR MARKET. During 2000-2005, in the RM the number of employed in the national economy has declined by more than 200 people. The recent data show that in 2006 the situation will continue to worsen. This fact owes to reduction, since early year, of gross production from the industry and services. The growing number of employed in agriculture does not mean anything else than lack of some employment opportunities in industry and services, i.e. poverty worsening.

In the first quarter of 2006, the average salary rose by over 25% versus the same period of previous year, on the account of increased salaries in the budget sphere. Declining level of economic growth and ceasing exports of wine products to Russia profiles a pessimistic perspective of potential increase of salaries during this year.

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Metamorphoses of autumn and spring campaigns in phyto-technology

Virtual operators of Mobile Networks – new possibilities for the mobile telephony market in Moldova

A year of preferential commercial treatment granted to Moldova by Russian Federation.

Re-launched privatization process

Budgets of households with migrants

Funding to education – a residual funding

POLITICS

General trends

Elections in the Ukraine and Belarus have consolidated the general trends on the regional scale: we have both a focused multi-polar pluralism in the case of the Ukraine and, in the other case, a triumph of the authoritarian regime in Belarus. Both the West and Russia have specified their stance with regard to these evolvments, which were, by the way, predictable long before the final results were announced, so the logic of the great powers has not surprised the international arena. While the apparent «stability» after the Belarus elections conserved in Minsk an anachronistic and dictatorial regime, «the orange instability» places the Ukraine diametrically opposite: it congeals a new post-electoral coalition, thus strengthening, based on unanimously accepted principles, the Euro-Atlantic trajectory which the Ukraine adheres to, as “top of the lance” of the “democratic option” in the ex-soviet area, thus silencing the speculations about a potential pro-Russian backlash in the general orientation of the country. President Lukashenka maintains popularity with on-going reprisals against an inert or fragmented opposition. President Yushchenko has to temper his ambitions and forge a common platform of cooperation for the sake of national interests. Russia has continued to use energy resources in an attempt to regain international prestige. The energy conflict has evolved this spring into a new phase between suppliers and consumers. For Moldova and the Ukraine this stage is associated with the introduction of a veritable “embargo” of wines and other agricultural products by Russia, on the background of a large scale media offensive. Russia intends to abuse its dominant economic position in regard to Moldova and the Ukraine to strangle the geopolitical course adhered to by the elites of these countries.

The exclusion of wines imported from Georgia and Moldova from Russian markets is mostly a warning. It is a war which does not refer to secessionist regions. **The selective treatment Russia has given to reform minded post-Soviet republics confirms the political and unilateral nature of its new commercial policies** and makes more ambiguous, more absurd, and more unjustified, the membership of the RM in CIS. Russian officials do not even disguise the fact that these punitive measures are a response to new border control measures between Moldova and the Ukraine. The EU Mission for Assistance at the Moldovan-Ukrainian border proved to be efficient and adequate for the aims solicited by the RM, thus supplementing the implementation of the EU-RM Action Plan. It is obvious that 2005 has been a fruitful year for the initiatives related to the Transnistrian regulation. During the first months of 2006 we have witnessed a spectacular de-freezing of the Transnistrian conflict, maintained up until then mostly by mediators for vague reasons, which had been the basis of violent secession against the formal state institutions.

Domestic Context

Maintaining political stability and the trajectory towards domestic reforms, as stipulated by the EU-Moldova Action Plan, have set forth, in the early months of the year, major initiatives in domestic policy development. Nevertheless, only 33% of the citizens of the Republic of Moldova consider that the state of affairs is good¹.

¹ Public Opinion Barometer, IPP/Civis, April 2006.

Political stability Index (PSI)*

		The country is administered according to the will of the people			
		Urban		No	
		Yes	No	Yes	No
Elections are free and correct	Yes	Democracy pillars	Disappointed	Democracy pillars	Disappointed
		20,7%	18,1%	35,6%	14,6%
	No	Spectators	Dissatisfied	Spectators	Dissatisfied
		3,7%	57,5%	6,2%	43,6%

Index worked out by the Gallup International Association and estimated by CBS-Axa in July 2005 and April 2006 in the RM. The formula of the calculation of political stability index is as follows:

„Democracy pillars + the disappointed – the dissatisfied = Political Stability Index (PSI)“

The conclusion of this evaluation is that the share of dissatisfied voters in the RM is greater than those who are satisfied with the functioning of legal institutions. The urban area is more prone to political instability (-18.7% versus 6.6% in the rural area). In the last year one can detect a certain improvement of the PSI in the urban area, whereas at the regional level one can notice a concentration of negative fluctuations. Having been calculated based on linear random questioning in the Gagauz area, this index reached the level of -33,5%, which describes an aggravated crisis with structural effects.

The logic of the events focused on 2 pillars: (1) Realization of the Action Plan EU-RM, and (2) evaluation of the results of the first year since the Tarlev – 2 cabinet was assigned.

Without new and remarkable evolvments on the political arena, these results have been focused on two 2 pillars: (1) realization of the Action Plan EU-RM and (2) evaluation of the results of the first year since the Tarlev-II Cabinet was assigned. The announced reforms are weekly confirmed at the practical implementation level, the government agencies face more and more often, while disputing competencies or searching for refuge from the critics, coming from the legislative body and public opinion. In comparison with the first term, the current Cabinet of Ministers from Chisinau cannot utilize political “loyalty” as resistance tool of its “efficiency”; it has to conform to the standards and rigors imposed by the “pro-EU offensive” declared by the Parliament. Foreign, economic, and political pressures require more engagement than Parliament can reasonably muster at the moment, making it exposed and vulnerable. Yet, this vulnerability is operational exclusively by the head of the state, and not by the Legislative body from Chisinau, who do not seem to be decisive in terms of influences on desired reforms.

The opposition is contemplative, or sporadic in approaching its relationship with the current Government.

The opposition has been sporadic in confronting the current Government, even though the majority of the Parliament seems to be open for changes, but only when the latter do not wish to considerably affect the current configuration of state power. For example, one can consider the negotiations of the National TV and Radio Broadcaster Code, legislation on local autonomy, or numerous economic legislative drafts, all required by the executive body. Political negotiations take a lot of time, and, typically, the faction of the PCRM cannot make any decisions before it gets clear-cut instructions from the head of the state, a process that complicates the legislative agenda even more and curtails the efficiency of Parliament sessions. This situation implies delays in meeting the commitments to domestic reforms and high resistance with regard to modifications regarding the change of the Regulation on Parliament Activity, as well as increasing immunity protection for members of parliament.

There are, undoubtedly, positive results too. We are excited about the inclusion of the RM in 2006 in the GSP-plus system which will open new doors for the penetration of Moldovan goods into the EU market; though, it seems like the negotiators of this regime did not manage to promote exactly those products that would benefit local producers. It is worthy, also, to praise the initiative aimed at reforming the central administration (Resolution of the Government of the RM no. 1402 dated December 30-th 2005), which opens the way to new and important evolvments. In the same background of re-gaining trust on an international scale, the RM has recently obtained access to foreign financing, and respectively, the possibility also to express the issue of its foreign debts in the Paris Club. On April 5, after a 3 year freeze, the Regional Director of the WB for Belarus and Moldova signed a first Lending Agreement in Chisinau. There is, in fact, such an increase of strategies and national programs that the efforts of government are fragmented. The authorities of the RM fulfill concomitantly 4 strategic programs: EGPRSP, APEURM, the Moldovan Village and the Governing Program "Country Modernization & wellness of the people", which are added to about 50 other cross-sector strategies that are also ranked as national priorities. Repeated requests from Prime Minister Tarlev from the ministries for new priorities in 2006, within 20 days, in sessions of the National Commission for Implementation Monitoring, stir up hilarious reactions. The often vexing role the executive body plays in the effort of economic modernization causes some ambiguities as it allows government agencies some discretion to choose by themselves what they have to do.

Certain officials continue to look at the APEURM as a tool of Moldova's adherence to EU, which may be misleading to the public; the Action Plan is an instrument of domestic reform acceleration rather than a commitment to integration. The domestic transformations on social, economic, and political scales provide adequate avenues for public expression but do not suffice as a guaranteed place beside other candidate-countries for integration. Although well-intended, the comments of EU officials cannot promise radical changes with regard to the current status of the RM towards integration into the EU, mentioning on every convenient occasion that "more actions are expected rather than words" on behalf of the RM. Presiding over the Cooperation Council EU-RM dated 11.04.2006, the Minister of Foreign Affairs of Austria - Ursula Plassnik & names the RM "a close neighbor and partner of the European family, rather than candidate-member and part of the family"². Being conscious of the aspirations of the RM on its course of reforms, European officials, as a sign of friendship and respect, recommend Chisinau responsibly manage expectations and continue reform efforts for the good of both the citizens of the RM and of foreign investors. Nevertheless, the EU has applauded successes so far registered in the realization of APEURM and has promised further assistance. In fact, the most important changes observed in 2005/06 are, actually, the effects of positive EU involvement, including: inauguration of the Permanent Delegation of the European Commission, institutionalization of Assistance Mission on border with the Ukraine, inclusion of EU in the negotiations process, all of which have had concrete effects of the domestic policies in the RM. These reforms have also added momentum to the completion of the Action Plan RM-NATO, which creates necessary conditions for consolidating the stability and security of the RM. Yet, by an uncompromising refusal to talk about the Euro-Atlantic Dimension of Integration, respectively NATO, the officials of the RM refuse to objectively accept the same conditions the Baltic States have accepted to be included among the favorites of the integration, outpacing much more robust and viable states such as Romania and Bulgaria, due to their adherence to the North-Atlantic Alliance. The Republic of Moldova is compelled to find its own place next to allies.

Assimilation into EU standards by institutions, processes and people pertains, in other words, to the domestic efforts which in 2005 have been modest. This is the explanation of the formidable dilemma which currently is faced by the RM diplo-

It is worthy of praise also the reform initiated, aimed at reforming the central administration (Resolution of the Government of the RM no. 1402 dated December 30-th 2005), which opens the way to new and important evolvments.

The domestic transformations on social, economic and political scales, can provide for better conditions of negotiations with regard to the EU, and not a guaranteed place next to the candidate-countries to integration.

² 11.04.2006, Plassnik: "Moldova – neighbor and partner in the European family".

macy: "describing a halted walk as a recordsman bounce", and the stammers of the administration as a nightingale trill. It is this why the MFAEI faces difficulties in completing the Monitoring Report APEURM within due terms and, accordingly, in the optimal format required by the EU. The Strategy for European integration in the RM pertains to ranking the domestic priorities at the political level, i.e. by submitting the internal Report on Monitoring the Action Plan. While appreciating the supportive effort of the authorities to find the most appropriate format of making one's own contribution to integration, it should be mentioned that the report is still far from a final product, as expected by the EU. Stuffing the text of the report with useless and inappropriate details, extracted from the daily routine of the ministries, would only stir consternation and apathy in Brussels with regard to the future progress of the RM", which aspires, strategically speaking, to be treated as a candidate for association and stabilization on a trajectory that would separate it from the route destined for the Ukraine and Belarus.

EU wants to find in the RM credible, stable, democratic and efficient interlocutors, in modernizing the institutions of the country according to existent standards of the EU.

What does the EU want with regard to RM? The EU wants to find in the RM credible, stable, democratic and efficient interlocutors, in modernizing the institutions of the country according to existent standards of the EU. The concerns of the PACE reports on the stagnation of the democratic reforms and the maintaining of CoE monitoring on the Republic of Moldova, do not support the official proceedings of the RM, but quite inversely. The real problems of the RM pertain to totally different dimensions and solutions, some of which include: (1) missing a strategic program of ACEURM implementation; (2) unclear role of the APEURM in the process of European integration of the country; (3) ambiguities related to the stance of the MFAEI as central coordinator of the Government in terms of Action Plan implementation; (4) discrepancy in vision of the role of the AP in the process of European integration of the RM at all levels of state power: both lower and top levels; (5) delayed connection of the civil society in the APEURM implementation process; (6) double standard used by the Moldovan authorities while speaking diplomatically to the European Union and at the same time obsessively controlling the main institutions of the state.

The evolution after the 3rd of March prove clearly and unequivocally the commitment of the EU to deplete the „snakes' marsh" from Tiraspol, testing this way the Ukraine, as credible neighbor, loyal to its pro-EU aspirations, at the same time providing for secure conditions and maneuver at the currently extended EU borders.

What does the RM desire with regard to EU? First of all Moldova would benefit from the visibility of the integration agenda, political support, and broader economic support. The evolution after the 3rd of March prove clearly and unequivocally the commitment of the EU to deplete the "snakes marsh" from Tiraspol, testing this way the Ukraine, as a credible neighbor loyal to its pro-EU aspirations, and at the same time providing for secure conditions at the currently extended EU borders. Advancing the current statute of the RM: from a "new neighbor" to "candidate-country to integration" seemingly has to be put on hold, but can be assisted by the recent association of the RM to CEFTA. Having thus a guaranteed access to GSP-plus and CEFTA, the RM can more surely become, one day, attractive for integration. Not today but most surely some time in the near future.

More committed economic support on behalf of the EU will possibly be seen clearly after the approval of the EU budget in 2007, whereas the authorities from Chisinau need to produce more certain priorities, in addition to proving they have the capacity to manage the European resources at both the local and national levels. Searching strategic priorities, without a critical monitoring of progress, can imply that domestic actions are on an unproductive pathway. At least for the moment, this pathway unveils amateurism and incongruence between the policies of the executive body and pro-EU aspirations of the RM. At least today the hyper-centralism of political power in Chisinau proves just the opposite with regard to European aspirations of the RM.

On the other side, the opposition lives in the inhibition of the recent general elections and does not seem to have recovered the necessary equilibrium for becoming more efficient than it has been during the last several years. Having a deficiency of natural combativeness, the opposition wastes political energies on various "behind the curtain" tactics, either trying to dribble the opponents on the same electoral segment or trying to perfume the success of its "provisory"

alliances, which are tending to become more constant. Thus, although the opposition contributed to promoting a new law on special status and necessary conditions for regulating the Transnistrian conflict, the background changes and the composition of the institutions targeted by the opposition: administration of the Superior Council of Magistracy and Supreme Court of Justice, and Chamber of Accounts and the Central Electoral Commission, have remained to a large extent irrelevant. Before April 2006, they did not succeed in adopting a new Code of the National TV and Radio Broadcaster, or a credible reform on decentralization, targets which, although included on the work plan of the legislative body, did not find appropriate solutions in 2006. The critical reactions of the independent media over the final draft of the Code of the National TV and Radio Broadcaster's, launched publicly on the verge of intense-intra-political debate, serve as an example of the failure of the opposition to influence meaningful reforms³.

Half measures and concerns, mostly irrational, the slightest attempt to curtail freedoms of the state press, convey a rather poor message with regard to the objectives announced previously by the logic of "democratic consensus". The "arrears" of the authorities from Chisinau in terms of providing for civil rights and liberties are not much better. At the beginning of April, the RM was condemned in Strasbourg for using torture, and at the end of May, the representatives of the Government will have to submit a report on meeting the recommendations made by CPLR of the Council of Europe on the situation of local autonomy, a touchy subject for the authorities. The initiative of reforming the most prominent ruling party, and additionally, the hope of a foreign consultation to facilitate this process, are faced with hostility. The latter (PCRM) do not seem open to entirely acquit the political commitments, contradicting the allies and image they wanted to accredit after the general elections of March 2005. The "moldovenism" trend has been reactivated by several new publications on the topic of ethno-genesis of the native population of the RM, as sporadic actions aimed at imposing the communist ideology upon the titular nation's identity, as well as to accelerate the inclusion of the subject of "integrated history" as mandatory discipline of official "patriotism". Although the opposition has eluded the gravity of these recent actions, the press did not hesitate to associate them with the older dream of the PCRM leaders on appropriating the monopoly on the issue of identity. The armistice concluded between this party and a part of the opposition does not seem to have excluded many of the relapses of the soviet historiography nor the irrepressible instinct of the communists to use the existent confusions in the domain of identity. The last data furnished by the DSS prove important demographic changes and of ethnical structure in the RM, which will unavoidably explode within a couple of forthcoming surveys.

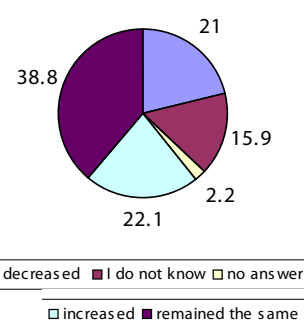
On the background of these extremely politicized actions the Ministry of Education fails to propose convincing reforms of the educational system by refusing to move on issues relating to: budget spending, policies on professorial/teaching staff, university autonomy, and adjusting the national system to the rigors of the Bologna process. As previously stated, the majority did not accept to make any decision on these topics, having left the respective desired reforms in search of solutions. Whatever their shortcomings, the opposition nowadays is applauded on the external arena. For western partners of the RM in particular is clear that the internal stability and modest cooperation between the opposition and majority party is a sign of progress and maturity, determined by the vote dated April 4, 2005. These political gains need some more consistency and technical support. It is relevant that even the leaders of the PCRM have agreed to pursue various relationships of cooperation which have been initiated by the Parliament, and by the MFAEI. The site of the MFAEI, as that of the Parliament too, invites NGOs and think tanks to cooperate, offering them a series of special topics for reflection. In line with that, various organizations have submitted to the coordination unit of the MFAEI their own version on the results of the Action Plan monitoring⁴,

³ At the end of his mission, the US ambassador to Moldova - Hodges - underlined that her biggest disappointment in Moldova was the lack of progress in freedom to expression.

⁴ Basa-press. 18.04.06. Report on monitoring the Plan states an insignificant progress.

Having a deficiency of natural combativeness, the opposition wastes political energies on various „behind the curtain“ tactics.

Since the current government is in the office corruption...? (%)



Source: Public opinion barometer, IPP/Civis, 2006

Much better are neither the „arrears“ of the authorities from Chisinau in terms of providing for civil rights and liberties.

It is relevant the fact that even the leaders of the PCRM have assimilated the idea that they might employ the civil society in certain actions, various relationships of cooperation which have been initiated by the Parliament, and by the MFAEI.

There is a huge resistance at the executive level against a profound form of the judiciary system.

The idea to reform this system in a full and productive manner faces the same huge party and bureaucratic state resistance which looks with fear at any changes that might remove the tutorship of the state upon local affairs.

in a draft, analytical format, which tangibly rarefies the doze of triumph, which, typically, the officials are biased to consider as their contribution to the integration of the RM to the EU. Although there is political will, the progress on implementation is still modest and, as long as strategic reforms remain as drafts, refers only to a general framework of communication between the state and civil society. The policies of the executive body from Chisinau are continuously diluted by the resistance of an inefficient bureaucracy and of some factions which suffocate the internal reforms and market economy. There are visible differences in terms of evaluation of registered progresses as an implication of constructive cooperation. In general terms, these differences pertain to the hazard of the agreements delivered by "caesarian surgery" of intra-party relationships, where vital issues are debated upon the platform of internal politics. Taking each example by itself: Justice reforms need to guarantee the independence of the system and its institutions, to raise the efficiency of judges and magistrates corps, to simplify the recourse and appeal procedures to the courts, to adjust the functions of the prosecutors office according to European norms, and to provide for the administrative autonomy of the justice system. Despite the steps made in summer months (renewal of the Supreme Council of Magistracy, revise of the norms of assignment and promotion of judges), there is a huge resistance at the executive level against a profound reform of the judiciary system. This resistance is translated in terms of budget dependence of the judiciary of the moneys allocated through the Ministry of Justice, and the reluctance of the majority party to cede control upon respective bodies (prosecutor's office).

Justice is an important chapter of the commitments of the RM towards EU. The justice reform need to guarantee the independence of the system and its institutions, to raise the efficiency of the judges and magistrates corps, to simplify the recourse and appeal procedures to the courts, to adjust the functions of the prosecutors' office according to European norms, and to provide for the administrative autonomy of the justice system. Despite the steps made in summer months (renewal of the Supreme Council of Magistracy, revise of the norms of assignment and promotion of judges), there is a huge resistance at the executive level against a profound form of the judiciary system. This resistance is translated in terms of: budget dependence of the judiciary of the moneys allocated through the Ministry of Justice, and reluctance of the majority party to give-up the control upon respective bodies (prosecutors' office).

Local autonomy. It is amongst the most extremely affected domains in the last years by the effects of the "vertical power" in the state, interests of the local authorities are weekly heard and the interests in the legislative body. The idea to reform this system in a full and productive manner faces the same huge party and bureaucratic state resistance which fears any changes that might remove the tutorship of the state upon local affairs, diminishing political clients and the discretionary nature of the fiscal system. There are certain elements of hope, i.e. formation of a special commission conducted by the Chairman of the Parliament, Marian Lupu, which might "separate" the real interests of modernizing the local powers from the demagoguery of the old nomenclature, creating conditions for the systematic approach of the transformations required in the LPA system. It is not probable that the Ministry of Finance or the newly created Ministry of LPA is open to the titanic effort necessary at this moment. The civil society invokes today a series of about 14 laws and 20 normative deeds on legitimization and amending several older laws, only in 2006, whereas the current Government does not seem to be enchanted at all to proceed with radical changes of the LPA system which they find convenient. The result of the special commission will be a real litmus test for how members of parliament approach the mission of LPA modernization.

TV and Radio Broadcaster. The members of parliament have proceeded inappropriately with regard to the adoption of the new Code of the TV and Radio National Broadcaster, and this has occurred because, although previously several drafts and concepts had been endorsed in the field of the TV and Radio National Broadcaster and by expertise from the EC, the members of parliament decided

to cope by themselves, with a modest or illusive involvement of the mass media professional associations, a policy that nourished some strong, regrettable tensions, in March-April. As mentioned above, there are various political / electoral interests, which might be affected in case the PCRM looses the control of the state-run TV and Radio National Broadcaster, which had been planted during the recent 5 years with both party-affiliated and secrete service "personnel", whose opposition towards the initiated reform is predictable and even natural. The reform contains not only the consolidation of the autonomy of the Public TV and Radio Broadcaster towards the state political factors (the Law on TV and Radio National Broadcaster, formation of a Coordination Council, etc.), but regulates the manner of local TV and Radio Broadcaster functioning, and even defending it against repressive instincts of political authorities. As previously mentioned, PACE will monitor very strictly the results of reform on the grounds of the recommendations and advice sent previously to the RM.

Political reform. In this regard it is taken into account that, first of all, the acceleration of the central administration, as well as the creation of certain conditions that would benefit the functioning of the opposition within the legislative body. The previous resolutions of the PACE contain explicit stipulations about the modification of the Regulation of the Parliament (guarantees upon the manners of expression of the opposition's opinion) and adopting a law on the status of the member of parliament (immunity, expression in case of emergency of certain projects initiated by the opposition, providing some additional positions to the opposition, and verification of the budget resources expenditures, etc.). It is vital also to adopt certain amendments to the electoral Code and legislation with regard to political parties in the RM, which are expected to provide a more adequate representation of the popular vote, descending the electoral threshold, shifting from one national circumscription to a system of regional circumscriptions, and the mixed system majority-proportional of election. The existent framework of the parties reproduces an authoritarian and corruptible model of funding which corrupts the leaders and institutions managing the political process. It is obvious that the time has passed to disfavor the credibility of the post-electoral coalition protagonists of April 2005, and we can suppose that there is a new serious concern for the PCRM and CDPP leaders who have credited the change of forces footing.

The existent framework of the parties reproduces an authoritarian, corruptible and intransparent model of funding, which corrupts the leaders and institutions which manage the political process.

● PREDICTIONS FOR 2006

Political evolutions confirm the benefits of stable and cooperative climate between the majority and opposition, but these will decline proportionally to stagnation of both political reforms and economic decline. Intra-political cooperation will continue in 2006 because, at least nowadays, it satisfies the interests (and ambitions) of the most important political actors: CDPP and PCRM.

The results of the implementation of PAUERM are, to a large extent, inconclusive, compared to the expected effort on behalf of the public authorities of the RM, which defines the objective lines of the institutional framework, resistance to change of the state bureaucracy, and also a lack of sincerity from political authorities or even

discouragement towards European integration as such.

There are favorable conditions in 2006 for raising the degree of cooperation between state and civil society, but this cannot offset the absence of a pro-change infrastructure in the central administration, and the persistence of some corrupted and inert office-holders, as well as lack of progress in the implementation of PACE.

Authorities have quit the idea of partial local elections in the Municipality of Chisinau, without any riposte on behalf of the opposition. Nevertheless, the political forces will reactivate in the early autumn with the aim to win in the forthcoming local elections.

Foreign policy

Russia started to harass Georgia and Moldova, by blocking any kind of agricultural exports on its markets and offering this way, reasons for large discussion about the fact that Russia wants to destroy them economically.

If in December-January, the conflict provoked by Gazprom targeted particularly the Ukraine, in March-April Russia started to harass Georgia and Moldova by blocking any kind of agricultural exports on its markets and suggesting that Russia wants to destroy them economically, opposing the pro-European course of these countries. The confrontations in this new stage of hostilities with Russia have stirred-up the efforts of Moldovan authorities to look for external assistance and remedies against the embargo imposed by Russia. The most active efforts of the MFA of the recent months have been focused mainly as follows: (1) on consolidating the dialogue with EU and USA and looking for support and alternative options on the markets thereof, and (2) extension of bi-lateral relationships with "new" Europeans, who have expressed readiness to support, by means of technical projects, the evolution of the internal reform movement in the RM. The technical support is granted with regard to a series of vital roadblocks for the modernization of the state, such as: central public administration reform, strengthening customs service, and military reform. The technical assistance programs of the RM have been presented in Chisinau during a series of visits at top level by the heads of Baltic States. Lithuania and Latvia, followed by Estonia and Slovakia; Romania and Poland have launched alternately coordinated actions of firm support of the pro-EU course, as well as internal changes of the RM. The visits of the presidents Arnold Ruutel, Valdas Adamkus and Vaira Vijke-Freiberg have been aimed, in March-April, at supporting the authorities of the RM politically, in conditions of increasing and diversified pressures exercised by Russia.

Nevertheless, the political authorities of the RM adapt with difficulties to the democratic behavior and language style so familiar to Baltic leaders. They lose easily precious grades when the RM is compared with Georgia or the Ukraine. One explanation could be the fact that in Chisinau there is little hope that Russia might review its "errors" towards the RM and forgive its "deviations" of foreign policy.

The share capital of the Joint Stock Company "Moldova gaz" S.A. represent MDL 1,33 mld, 50% of shares plus 1 belong to Gazprom, 35,33% to the Government of the RM, and 13,44% to the Committee for administration of the properties of Transnistria, the rest of the shares being in property of some 1705 minor share holders. It is unclear in what conditions the shares were transmitted to Russia and Transnistria, and who are those 1705 private shareholders. In 2005, Tiraspol announced that it will get out of the competence of the S.A. Moldova gaz, and transmit its shares to Gazprom as part of remitting its debts to Russia. Until 2006, Gazprom supplied the RM with gas at \$80 per thou of cubic meters, thus paying \$2,5 for 100 km of transit through the territory of the RM. On January 1, 2006, the debts of the RM for the gas purchased without penalties was worth \$687 mln., of that \$ 567 mln. is the debt of the secessionist regime.

It is important to mention that, despite of the strive of the delegation of the RM to stabilize the price on natural gas supplied by Gazprom, the attempt to conserve the price of 110 \$ for the next quarter did not work, and more signals have been received that by the end of the year, this price could out pass the generally applicable prices in Europe (\$220-260 per thou of cubic meters). An obvious conclusion on these negotiations is that, apparently, Gazprom wanted very much in the Ukraine: taking over the control share package of the national transportation and distribution system of gas, but their success apparently has not gratify its ambition. Thus, although it took-over back in 1999 the control share of the national agency Moldova-Gas (51%), Gazprom has insisted on possessing, during the recent negotiations, shares which were previously conveyed to the secessionist leaders from Tiraspol⁵, although Chisinau did not confirm legally the recognition of this transaction, the authorities of the RM react concussively, reconfirming their structural dependence of Russia,

⁵ Abashkin confirmed that the Tiraspol administration, who owns 13,44% of shares of "Moldova-gas", conveyed it to "Gasprom" for management.

without looking for an effective alternative solution for the energy source.

On 27 March 2006, the Russian authorities banned the imports of wines and sparkling wines from Georgia and Moldova that were considered the traditional table wine suppliers on this market. Russia banned previously the imports of meat and plants since April 2005, and from January the imports from Georgia, under the guise of alleged toxic substances identified in laboratories from Russia. Moreover, before the 30th of April, Russia had not provided any signal to the effected side of these restrictions upon the collected samples. As a result, the international media qualified univocally these decisions as being obstructionist, politically motivated and non-conformed to the qualities of a democratic state⁶. Since April, the associations of wine producers from Georgia and Moldova have officially announced that they will sue the decisions of the Russian authorities on banning the exports from these countries⁷. High officials of the Ministry of Economy from Chisinau stated that these obstacles will determine the RM to oppose the acceptance of Russia into the WTO (Info-prim Neo. 03.04.2006). Also, they charged Russia for having violated the free trade agreement, which provided that any restrictions will be mutually consulted in advance, and having recognized the quality certificates issued by the competent bodies (Rostest and Moldova-vin)⁸.

Apparently, the Russian business which had been investing in various wineries of the RM and Russia has been vitally damaged, but this argument did not make Russian authorities remove the imposed restrictions. Moreover, the restrictions imposed to Georgia and Moldova were not extended upon the Russia tutored enclaves: Transnistria, Abkhazia and South Osetia, which proved additionally the decisions made by Moscow are strictly political, aimed to penalize the pro-EU course of those countries. Even the EU qualified the restrictions imposed on exports to Russia and Georgia as incompatible with the WTO policy, for which Russia displays an interest in membership. We assume that application of economic sanctions against Moldova has been approved at the highest level in Kremlin, which was applied in several weeks after the introduction of new customs regulations by the Ukraine, in compliance with inter-governmental agreement dated December 2005, and failure to convince the Kiev authorities to give up their decisions.

At the end of March, Boris Tarasiuk, Minister of Foreign Affairs of Ukraine, stated that "the Ukraine does not see the perspectives of CIS"⁹ ..., stressing that despite of efforts made by Kiev leaders in 2005, a lack of viability is apparent in its structure, and especially in the relationship with Russia, including, political pressures, blackmail, and bellicose declarations". In Georgia also, discussions with regard to rationale of staying in the CIS

As a result, the international media qualified univocally these decisions as being „obstructionist, politically motivated and non-conformed to the qualities of a democratic state“.

Georgia and the Ukraine announced that they consider the possibility of quitting the CIS, to which Russia reacted, would resort to repressive measures against those countries. The reason for which Russia still supports this defunct political project is that it's also a symbol of "revival of its post soviet influence", so that a weakening of its composition is associated with a personal affront of the ambitions and integrationist rhetoric of the Russian leadership. On May 2 the president of Georgia required the Government to report on the consequences of eventually quitting CIS, identifying the bi lateral agreements and necessary measures for diminishing the eventual shock of such a decision. On May 7, the Ukraine also initiated consultations on this issue, and on May 10, in the Moldovan Parliament, the Minister of Foreign Affairs, Andrei Stratan, declared in a legislative body session that the effects of eventually quitting the CIS would be evaluated fast and a balanced decision will be made. Russian officials assume that the actions on retaliation against "rebel" state might include: closing Russian market for agricultural products, imposing some insurmountable prices on exported gas and electrical power, and canceling the residence permits of all Georgian citizens who've immigrated to Russia. The observers note, however, that in a large part, these threats are inconcludent, given that Russia had already used its roughest instruments for political pressures.

6 Source: www.vremea.net/news/2006-03-31/16:13:08.html

7 Winemakers look for justice in Court. Kommersant.ru.04.04.2006.

8 Chisinau, 21 March, (Infotag).

9 Intefax, 24 April 2005.

These restrictions have nourished serious debates about the reason of Moldova's, Georgia's, Ukraine's and other countries are still part of CIS.

Russian officials have blocked several more proposals launched by the GUAM member countries, inter alia: creation a Free Exchange zone CIS, frozen conflicts, expression of an attitude towards the starvation of the population (1930-1933) and „holodomor” in the Ukraine etc.

The „Kuchima” policy towards Moldova was usually ambiguous and insincere, accepting separate negotiations with separatist leaders from Tiraspol.

kept going on at the highest political level, particularly after certain Russian political circles have saluted the intentions of separatist leader, V. Kokoita, to request again the Russian state Duma to “annex” the South Osetia to Russian Federation. The observers note a prompt rise in political hostilities between Russia and smaller countries, one more reason for being also the Assembly of the Ministers of Foreign Affairs of CIS countries, on April 21. At this event, the ministers of the Ukraine, Moldova, Georgia and Azerbaijan created for the first time a common front, opposing openly policies promoted by Russia to the detriment of the interests manifested by the group of GUAM countries¹⁰. Georgia and Moldova have made protests against the abusive and politically motivated restrictions on wine and agricultural products exports to Russian market, considering them as “unfriendly actions” and requesting explanations from Russia. The Ukraine also requested explanations from Russia, because of the exclusion of cattle meat from the list of products comprised in the Free Trade Agreement.

In its turn, Russia tried to deny the accusations, warning signers of the protest declarations that they would suffer even more from the results of these penalties should they continue to “politicize these aspects”. Russian officials have blocked several more proposals launched by the GUAM member countries, inter alia: creation a Free Exchange zone CIS, frozen conflicts, expression of an attitude towards the starvation of the population (1930-1933) and “holodomor”¹¹ in the Ukraine etc. Russia could obstruct discussion of these issues, based on the support from Belarus, Uzbekistan, Kyrgyzstan and Tajikistan, and the situation when Armenia, Turkmenistan and Kazakhstan refrained from vote, whereas Moldova, Georgia, the Ukraine and Azerbaijan were treated as countries un-loyal to Russian interests. It is obvious that these divergences will increase the intensity of actions of coordination in finding alternative to CIS, determining the radicalization of the forthcoming CIS assemblies.

The following reason pertains to Russia's opposition towards the application by the Ukraine of a new customs regime on the border, by banning any kind of exports without due customs registration according to Moldovan legislation. This regime has been solicited repeatedly during the last 5-8 years to accept some hard compromises with regard to the Ukraine (giving up some segments of Moldovan territory, in Palanca, in lieu of insignificant parts of properties placed on the territory of the Ukraine, signing of a political Treaty, many of stipulations thereof being contestable, etc.), to which the Ukrainian authorities have responded, typically, negative. The “Kuchima” policy towards Moldova was usually ambiguous and insincere, accepting separate negotiations with separatist leaders from Tiraspol, in lieu of feigned or real dividends from this region. The elections of 26 March 2006 and the course of the “orange” regime in Kiev show some worn-out structures of communication, stereotypes related to the “elder brother” complex, as well as certain “annexation” visions amongst politicians in Kiev. The “orange” revolution was, in this regard, an image revolution. Combined with the interest of its leaders to fight corruption, to limit the interests of certain occult groups, and to eradicate criminal links from the power circles of Kiev, this revolution has inspired hope for the situation at Moldovan-Ukrainian border.

The pro-EU aspirations in Kiev, accompanied by the interest of WTO membership, have created necessary conditions for the Ukrainian leaders to strategically analyze the benefits (and risks!) of tolerating an illegal and semi-criminal trade regime, on the border segment with the RM, without quitting the ideas of an eventual extraction of Transnistria from the sovereignty of the RM. The West supported with much enthusiasm the political decision of Kiev

¹⁰ Jamestown Foundation, Tuesday, April 25, 2006 -- Volume 3, Issue 80 ((Interfax, Itar-Tass, Moldpres, Imedi TV, 21, 22).

¹¹ Translator's note: “Holodomor” is a compound noun of two words, “holod” - starvation and “mor” – death.

to align to the WTO and EU standards and values. The Ukraine solicited from Moldovan authorities the necessary conditions for facilitating the legalization of economic subjects from Transnistria. The RM suggested facilitating conditions of registration for all economic subjects, according to its legislation¹², and more over, after the Ukraine adhered to the Border Agreement, the authorities from Chisinau tried to dissipate the tiniest doubt upon the intentions to positively encourage the business in the region by legalization. After some hesitations, even the officials from Kiev recognized that there existed all necessary conditions for the business circles from Transnistria to continue their business, this time in conditions of legitimacy and security. It worked. Moscow reactions have followed immediately, Kiev was accused of unilateral application of sanctions against a “party of negotiations”, and Chisinau was likewise accused of violating previous agreements (Memorandum of 1997). Russia requested in an ultimatum way to suspend the new customs regime and place it at the discretion of the pentagonal format, thus threatening with partial sanctions, which are “behind the Transnistrian blockade”.

On 19 April 2006, the Russian Duma saluted the introduction of the application of restriction on imports from Moldova and Georgia¹³, suggesting that there could be a link, at the highest political level, between this decision and others (14 March), which accused Chisinau and Kiev of a “blockade on Transnistria”. The idea is zealously speculated that the new customs agreement should be discussed among the pentagonal format of negotiations, because “in this way it affects one of the sides”, and that agreement on implementation might mean an “economic blockade” aimed at changing the Transnistrian regime. Forgetting the diplomatic tone and conduct, the Russian ambassador to Moldova, Nikolai Reabov, declared:¹⁴, „Russia will never accept to have its interest in the region buried”, casting the blame for raising tensions on the actions of the leaders of the RM, the Ukraine and West. The declarations of Russia have been rejected by the authorities from Kiev and Chisinau, accompanied by immediate declarations from the EU at the local level. A communiqué of the Ministry of Reintegration dated March 21 states that, even the Memorandum of 1997 provides that “the right to foreign economic activities is exercised in conformity with the national legislation of the RM, international law, and the installation of the Moldovan-Ukrainian border agreement pertains to the relations of two independent states, which cannot be subject to discussion”¹⁵. The Parliament of the RM accused, on March 21, the Russian Federation of “politicizing” the trade, and thereby destroying traditional cooperation with the RM¹⁶.

***Nikolai Reabov,
declared:
„Russia will
never accept to
have its interest
in the region
buried”, casting
the blame for
raising tensions
on the actions
of the leaders of
the RM.***

One more reason for concern is the ostentation of the Russian leaders in using the “Kosovo” case as precedent for the eventual recognition of the separatist regimes, created by themselves, on the territories of other countries. It is symptomatic that in 2006 Russia does not limit to discourse only. In May, the Kremlin administration offered presidential honors to a separatist leader in Moscow, and in mid-May the Transnistrian, Abkhazian, and Osetinian leaders, together with the Ministry of Foreign Affairs of Russia, scheduled the stages

12 Moldovan Government decided to require for the implementation of customs procedures only 0,18%, without levying any other taxes or duties from the businesses in the region. By accepting this registration may mean, for Tiraspol, to give up benevolently the status-quo created in the recent 15 years, which would generate immense profits. Relying on the total support from Russia, the separatist regime banned the economic agents to register, by blockading the customs check-points to the Ukraine, and appealing to Russia on the pretext of so-called „humanitarian catastrophe”.

13 “RFE/RL Newslines,” March 28, 2006.

14 Chisinau, 20 March (INFOTAG).

15 The Minister of Reintegration considers that Russian and Tiraspol distort the meaning of the Memorandum of 1997. 21 March, Infotag. Recognizing the right to foreign economic activity is only one element of the devolution of competencies with a unitary state and territorially indivisible.

16 Moldovan lawmakers accuse Russia of politicizing wine imports, RFE/RL (USA) April 24, 2006.

of the separatist regimes inclusion into CIS. The West does not offer any reason to perceive that such a course might be accepted. Nevertheless, neither the EU nor the USA have officially criticized the embargo imposed by Russia against some countries considered "strategic allies", and which, in their turn, pretend to have relations of "strategic partnership" with Russia. Similarly, in January 2006, the EU declared that fixing the price on gas exported from Russia regards exclusively the relations of this country and importing countries, although at the political level the EU has supported the elaboration of its own energy strategy, warning Russia that it will do everything possible to diversify its suppliers of raw materials, including gas. The same determination is implicitly recommended to new European neighbors (the Ukraine, Moldova), which will not be able stabilize the pace of economic growth if they manage to get rid of structural dependencies of the eastern market.

● PREDICTIONS FOR 2006

The radicalization of Russia's stance towards the "un-loyal" states of CIS suppresses the last nostalgias of the old elites, who would prefer to separately come to terms with Moscow.

The pressures used against the Ukraine, Moldova and Georgia are qualified univocally in the West as abusive and inadequate with the status of "G8 country" lavished upon Russia. It is expected that the political purpose to super-tender the interest of G8 to have Russia in this Club, even at the cost of some "minor" derogations from the generally accepted conducts, foretell unpleasant surprises for the Russian President Putin, the host of G8 Summit

in 2006. In 2006 CIS has accumulated more dissatisfaction on behalf of the countries affected by unilateral restrictions from Russia.

In 2006 the centrifugal tendencies of CIA are unavoidable, in line with the operating some new forms of cooperation and political solidarity among the ex-soviet states.

Russia will seek to manipulate Georgia's, the Ukraine's and the RM's threats to quit the CIS by substituting them with separatist regimes from Suhumi, Tzhinvali and Tiraspol, which may be recognized by the end of 2006.

One more reason for concern is the ostentation of the Russian leaders in using the „Kosovo“ case as precedent for an eventual recognition of the separatist regimes.

Transnistrian Conflict

Extension of an negotiations format, participation of EU and USA (in a format described as "5 plus 2" was followed by the assignment of the EU Mission on monitoring the border between the RM and Ukraine, thus inspiring new hope for a new perspective of conflict regulation from this part of the secessionist region. The political consensus reached in April 2005 created necessary conditions for defining a state policy on the "Transnistrian" problem, canceling in reality the speculations towards so-called "disinterest of elites" to resolve the conflict. Only in conditions of an internal political consensus it was possible to involve the West, though, through the Mission for Border Assistance (EUBAM)¹⁷ the EU and USA participated in the extended format of negotiations. Russia is obviously frustrated by the consensus reached between the RM, UE, USA and the Ukraine, which has placed it in the ungraceful role to directly support the separatist leaders, who are actually its citizens. It is of interest that the pressures of the EU and USA exercised upon the Ukraine have been due to the fact that in the Autumn of 2005 the Russian mediators and secessionists from Tiraspol tried to isolate the new participants in negotiations, by preserving the old pentagonal format, in which the "old" mediators had more rights than the "new mediators". The West felt frustrated and reacted with the installation of the customs regime at the Moldovan-Ukrainian border.

¹⁷ Monitoring mission (EUBAM) has been authorized in 2005 for a 2-year mandate. It comprises 70 customs operators and police officers from about 16 countries, plus about 50 individuals of the personnel staff.

On the other hand, Russian diplomacy tried to capitalize the presence of the EU and USA in negotiations by accrediting publicly the so-called "analogy" between Kosovo and Transnistria, promising to use unilaterally the precedent of "Kosovo" in recognizing in the post-soviet area, and accusing the West for allegedly having used double standards in resolving conflicts from post-soviet area. This political conduct culminated in February 2006 with a declaration of the Russian president, V. Putin, who required international legalization of separatist enclaves in the post-soviet area, affirming that Russia will not hesitate to treat equivalently the regions which emerged after territorial conflicts in the former soviet area, on the background of its military doctrine, and "legitimate" interests in this area. Once this action strategy was drafted at the top level, Russian diplomacy immediately started to work, raising the worries of the West, who would like to see Russia as business partner, with less imperial ambitions.

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After the unsuccessful attempt of the Transnistrian leaders to influence the decision of the Ukraine by picketing in Kiev, non-stop rallies at passages¹⁸, the EU and USA participated in the extended format of negotiations. Russia is obviously frustrated by the consensus reached between the RM, UE, USA and the Ukraine, which has placed it in the ungraceful role to directly support the separatist leaders, who are actually its citizens. It is of interest that the pressures of the EU and USA exercised upon the Ukraine have been due to the fact that in the Autumn of 2005 the Russian mediators and secessionists from Tiraspol tried to isolate the new participants in negotiations, by preserving the old pentagonal format, in which the "old" mediators had more rights than the "new mediators". The West felt frustrated and reacted with the installation of the customs regime at the Moldovan-Ukrainian border. On the other hand, Russian diplomacy tried to capitalize the presence of the EU and USA in negotiations by accrediting publicly the so-called "analogy" between Kosovo and Transnistria, promising to use unilaterally the precedent of "Kosovo" in recognizing in the post-soviet area, and accusing the West for allegedly having used double standards in resolving conflicts from post-soviet area. This political conduct culminated in February 2006 with a declaration of the Russian president, V. Putin, who required international legalization of separatist enclaves in the post-soviet area, affirming that Russia will not hesitate to treat equivalently the regions which emerged after territorial conflicts in the former soviet area, on the background of its military doctrine, and "legitimate" interests in this area. Once this action strategy was drafted at the top level, Russian diplomacy immediately started to work, raising the worries of the West, who would like to see Russia as business partner, with less imperial ambitions.

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After the unsuccessful attempt of the Transnistrian leaders to influence the decision of the Ukraine by picketing in Kiev, non-stop rallies at passages, and in the extremely brutal stances of the Russian politicians and diplomats, Moscow decided to "purge" the market of Georgian and Moldovan wines and other agricultural products. The Russian interdictions have been applied in a totally inappropriate period: only a couple months before the Summit of G8 scheduled to take place in St. Petersburg, and just in the year when Moscow hopes to be accepted as a full fledged WTO member. With appreciation for the political events of this past year, Russia's acceptance into the WTO is anything but certain, given that it will possibly integrate only when its "legitimate interests" will be protected. In the international press many articles emerged that contest Russia's relevance in the G8 due to its aggressive policy and rapid degradation of the domestic democratization process. Then the Moldovan ambassador from Russia was called-off, as a sign of double warning in the language of foreign relations, to which the MFA of Russia reacted with political declarations, which display the nature of Moldovan-Russian relationships at this moment.

¹⁸ The separatist authorities have declared that only in the first 16 days of economic "blockade" their economy lost over \$ 37 mln., confirming that the Ukraine is not a guarantee-state any more. As a result Smirnov requested Russia to increase its military presence in the region and immediately offer military and financial assistance to the regime.

For many observers the decision of the Ukraine to implement the agreement signed with the Moldovan Government on December 30, 2005, is a big surprise.

A due attention deserve the affirmations of "the dearest Russian ambassador, Reabov, in the RM (20 March), who did not hesitate to label the Moldovan-Ukrainian border agreement as a political action, a method of increasing the tension and forced attempt to extract the economic subjects on its economic field". The ambassador rejected the possibility of any official visit of President Voronin to Moscow until "there are no favorable conditions for this", both social and political, also mentioning that the RM is the main culprit of the conflict in 1992 and that it is Chisinau, not Transnistria, who terminated the negotiations process. One should specify that nobody in Moscow has repudiated the extremely stubborn statements of the Russian Ambassador, although the Minister of Foreign Affairs, A. Stratan, had expressed the hope that this might represent the personal opinion of the ambassador¹⁹.

The "opinions" expressed by Reabov have raised a series of protests in the political media and civil society, followed by pickets of the Russian Embassy and tensed declarations in the Parliament. Russia does not need to be reminded about non-fulfillment of its own commitments comprised in the Declaration of the OSCE (1999) in Istanbul, i.e. about those 1200 officers and soldiers illegally deployed in the Transnistrian region of the RM. Willing to add more drama to their demarche, Russian authorities tried to blame the Moldovan-Ukrainian actions for the "humanitarian catastrophe" in Transnistria²⁰, and did not provide any index that might support their accusations.

The demarcation line surrounding the separatist regime, as of today, consists a subject of serious investigations and political efforts.

Nothing would have foreseen, a couple of days before, that the Ukraine would assume such a risk, even at the domestic level (elections from March) and on international arena (against the will of Russia to conserve the status-quo of the separatist enclave), and the fact that immediately after March 3, 2006, the EU and USA have supported with consecutive declarations the actions of Kiev authorities. In comparison with other decisions made in Kiev and Chisinau, when strident declarations were not followed by actions, it seems like this agreement is treated most seriously. The customs bodies of the Ukraine, supervised by the EU Mission for Border Assistance, have managed to efficiently stop the circulation of unauthorized goods, by dispatching trains through the Northern part of the RM, in order to avoid the secessionist region²¹. Many economic agents from Transnistria registered in Chisinau, and others preferred to close down their business, after being threatened by the local authorities with immediate sanctions, and even arrest. The largest iron and steel company from Rybnitsa decided to dismiss its employees on wage-less vacation, "until the situation is clarified", whereas the secessionist regime solicited direct financial assistance from Russia to survive the current crisis.

The new border regime would not have been possible without involvement of the EU in its effort to contribute to a more stability and legitimacy at its borders. One should not underestimate the role of the USA and of "new Europeans".

It is clear that the Assistance Mission, ridiculed initially and credited even by some analysts with few chances to bring forth evidence of illicit traffic of weaponry, manages to find an extremely efficient solution for the "black hole" of the 450 Km boarder between the Ukraine and RM. By imposing new customs, commercial and international regulations started a precedent worthy of being followed by the plan of "constitutionalization" of the area on the left bank of the river Dniester, accompanied by actions that would isolate, legally and economically, the operations of the separatist regime, assuring also, a solution to integrate to the residents and businesspeople from the region. The new customs regulations of the Ukraine have left the Transnistrian authorities wordless, who were accustomed with the idea that they can profit easily from the status-quo, "frozen" mostly by the guarantees of the mediators than by conflict dynamics, which permitted the re-export of some massive quantities of goods, drugs and weaponry through the ports of Odessa and Ilichiovsk, generating considerable profits to corrupt circles. A rigorous control on the Transnistrian border segment, obviously affects economic relations of the Ukraine and Russia, which exports on yearly basis some USD 200 mln. and USD 250 mln, respectively, to the secessionist region. However, these losses are incomparable

¹⁹ Chisinau, 22 March. (INFOTAG).

²⁰ Chisinau, 22 of March (INFOTAG, Moldova does not see any need of humanitarian assistance to Transnistrian region.

²¹ <http://www.org/featuresarticle/2006/03/E67D63B2-962D-4B1C-8322-720B7231556F.html>

with the losses caused by injuring the sovereignty of the Republic of Moldova upon its constitutional territory; this should be the motto of the authorities of the RM with regard to its partners from the West and Russia.

The new border regime would not have been possible without involvement of the EU in its effort to contribute to more stability and legitimacy at its borders. One should not underestimate the role of the USA and of the "new Europeans". The Western political reactions which were heard immediately in London, Washington and Brussels, and largely explain why the Ukrainian authorities have decided to firmly apply the strict control on the border right on the date of March 3, with less than 3 weeks before the decisive round of the Parliament elections, when the natural reaction of the Ukrainian politicians might be to wait until the elections to act. Officially, the aim of the focused actions of the Ukraine and RM on their border was defined by: consolidating the legitimacy of commercial relations, and simplifying the customs check regime and consolidating security in conformity with the commitments stipulated in their Action Plans with the EU. The declarations issued by the heads of the diplomats of those two countries announced that, the common actions on the border prove the will of the states to apply the European standards in all the fields, and confirm their aspirations to associate to the European communities".

The declarations have been immediately supported by the EU, USA and Austria (presiding the OSCE), which have displayed encouragement for the joint actions of the RM and the Ukraine. It is possible that Russia try to make some pressures on the EU because of the aforementioned reason at the official level, of a "humanitarian catastrophe" caused by the customs regime of the Ukraine, on the other hand forcing the close-down of Russian businesses which managed during the last 15 years to appropriate the lions' share of the industries in the region. Social frustrations might serve as creative predictions for convincing the authorities in Kiev to keep their commitments. As of today, the Kiev and Chisinau officials ascertain with satisfaction the positive evolutions on the Moldovan-Ukrainian customs, in the sense of legalizing the flow of goods that pass through the state border of Moldova and the Ukraine, yet, stress, at the same time, the need to undertake urgent measures in providing for security and stability in the region, in relation with the bottlenecks of the free crossing of people and goods in the Security Zone. And the last but not least, the authorities of the RM need to curtail also the free circulation of some doubtful persons, to and from the separatist region, both with and without citizenship, to reduce criminal elements who that danger the regulation of the Transnistrian conflict.

In an optimist scenario, the price for maintaining Transnistria should be more that Russia is able to pay. By setting impediments to unauthorized exports from the region and barring facilities of illegal production of weaponry the chain of black economy in the region will cut.

In a pessimistic scenario Russia will continue to pump financial and military assistance to the separatist regime, by tightening on the other hand reprisals against the citizens of the RM.

● PREDICTIONS FOR 2006

Customs regimes between Moldova and the Ukraine cannot be suspended or cancelled, which conveys an extremely important signal to the population and active business community from the region. The political elites of the region also are in a state of expectation and decision, which does not seem to be in favor of up-keeping the status-quo which benefits the interests of a few families. Everything seems to be favorable for the emergence of a new form of political opposition in Transnistria, on the wave of public dissatisfaction and disappointment of the behavior of the separatist leaders.

Comparative advantage of the Transnistrian industry has been maintained on the account of unregulated trade, and of some discretionary taxes with importers; in new conditions the economy

of the region will collapse, should it stay isolated, through a lack of any new legislation, to the RM and European market. Closing down some important companies enhance the risk of social protests, and losses for businesses operational in the region. The panic might be aggravated by the internal pressures of Transnistrian security forces against those representatives of the business, who wish to legalize their businesses, or by increasing some "waves" of economic "refugees" from the affected region.

Being encouraged by the tangible progresses of the Assistance Mission at one of the borders in the CIS area, the EU officials will enhance political support in regulating the frozen conflicts, including by way of special projects of economic and social "stabilization", decentralization and purging of the munitions stockpiled in the region.

Agriculture

In 2005 the agricultural produce made up in current prices MDL 11937 mln.

The increase of gross agricultural product, though modest, has been determined in a large extent by the raising output on the cattle growing sector.

On January 1, 2006, the cattle stock in the farms of all categories have diminished versus the similar period of 2005.

The negative trends, characterizing the vegetal sector, will deepen in this year, because of the relatively poor harvest attained by the growers of autumn cereals, grapes and fruits.

It is envisioned that up to 30% of the total volume of cereals to be processed with the purpose of producing ethanol and technical oils.

In 2005 the agricultural produce made up in current prices MDL 11937 mln., or 101,0% in comparable prices versus 2004 and 116% versus 2000. The increase of gross agricultural product, although modest enough, has been also determined in a large extent by the raising output on the cattle growing sector. This sector has recorded most increase of the agricultural product of the last 5 years, production which accounted for 8,6%. The results obtained by the farmers in the cattle growing sector are appreciable, yet, they do not reflect some constant trends of growth for both middle and longer terms. Thus, on January 1, 2006, the cattle stock in the farms of all categories have diminished versus the similar period of 2005¹. In 2006 the farming sector will be influenced by the same factors, which had a significant impact in on the evolution of agriculture in 2005:

- external restrictions and interdictions on Moldovan exports of farm products;
- climate implications;
- super-saturation of the domestic market with some kind of farm products;
- raising prices of agricultural acquisitions.

The attempts of the state to veil the consequences of these factors upon the evolution of the agrarian sector, by means of its policies, will not remedy the situation in agriculture, given the inconsistencies and weaknesses of the agrarian policies, as well as the respective sector disorganization.

Current evolutions and forecasts in agriculture

The analysis of the situation in the vegetal sector

Despite of the promising results obtained in the first half of 2005, in the vegetal sector a decline was recorded of vegetal produce by 2,5% versus 2004. Diminishing vegetal production has occurred, in a large extent, on the account of declined produce of corn for seeds (by 20%), tobacco (by 24%), fruits and berries (by 13,3%) and grapes (by 25%). According to the National Statistics Bureau of the RM, in 2005, the share of vegetal produce in the overall agricultural product made up 69% (in 2004 - 71%), of them cereals and legumes made up 32, 8% (in 2004 - 33,3%), technical crops - 8,8% (in 2004 - 8,5%), potatoes, legumes and pumpkins - 13,3% (in 2004 - 11,5%), fruits and grapes - 12,4% (in 2004 - 15,9%).

It is significant the fact that the delayed cultures have influenced a lot the vegetal agricultural production. These crops cultivation in general terms has been performed within the autumn agricultural works, which we consider a failure of 2005. In our view, the negative trends, characterizing the vegetal sector, will deepen in this year, because of the relatively poor harvest attained by the growers of autumn cereals, grapes and some fruits². It is the sectors where the agricultural producers are working have been affected mostly by the unfavorable climate conditions of the current year winter.

In 2005 the agricultural product made up in current prices MDL 11937 mln. The modest growth of the global agricultural product has been determined by the growing output in the cattle growing sector. On January 1, 2006, the cattle stock in the

¹ Except for the swine-stock which in the respective period increased by about 19%.

² At the beginning of April 2006 there were processed only 14,3 thousand ha of the un-ploughed land since autumn. Like in 2004, the Government decided to stimulate the economic agents involved in soil processing works. In this regard there was issued the Resolution of the Government No. 1109 dated 26 October, 2005 on assigning certain awards, with the view to stimulate both morally and economically the economic agents in the farming sector, who would finish the autumn ploughing of the whole area by December 1, 2005. According to this resolution the awards were differentiated in three groups, depending on the area of the crop land of each rayon. Also, based on the legal deed mentioned above three awards were established for the 1st place winners (one award for each group), to the rayons that will manage to provide a due quality autumn ploughing of the entire area of farm land by December 1, 2005, as follows:

- group I - award worth MDL 120 thou and Honor Award of 1st degree;
- group II - award worth MDL 100 thou and Honor Award of 1st degree;
- group III - award worth MDL 80 thou and Honor Award of 1st degree.

farms of all categories has declined versus the respective period of 2005. In the current year negative trends will deepen, which characterizes the vegetal sector, due to relatively poor harvest which will be collected by the producers of autumn cereals, grapes and fruits. It is forecasted that up to 30% of the total volume of cereals be processed with the view to produce ethanol and technical oils.

Table 1. Production of main crops in the vegetal sector

	Output, thou. tons.		Agricultural output in 2005 versus 2004, %.	Degree of influence upon gross agricultural output in 2005 versus 2004.
	2004	2005		
Cereals and legume beans, total.	2994	2828	99,3	-0,2
Wheat	861	1055	129,8	3,4
Corn for beans.	1794	1486	80,2	-3,5
Sun flower.	335	336	98,2	-0,1
Tobacco.	8	6	76,1	-0,2
Soy beans.	40	65	161,2	0,5
Sugar beat.	911	989	10,8,6	0,2
Legumes.	315	389	121,9	0,9
Fruits and berries.	430	384	86,7	-0,7
Grapes.	686	517	75	-2,6

The Ministry of Agriculture and Food Industry made public for the first time some forecasts with regard to structure, level and evolution of the agricultural output until 2015³. In 2006, according to the estimates, the share of cereals and legumes was supposed to account for some 62% of the total area of the farm cultivations. In the longer term the area covered by cereals will remain intact and will be changed provided the situation in the cattle growing sector will improve. The necessary volume of cereals, according to the estimates of the Ministry of Agriculture and Food Industry (MAFI), make up 3–3,5 mln. tons a year, of about 500 thou. tons of cereals for food purposes. Also, it is envisioned that up to 30% of the total volume of these crops will be processed for producing the ethanol and technical oils.

According to the MAFI, raising volume of cereals and legume beans (from 2978,1 thou. tons in 2005 to 3603 thou. tons in 2015) will be generated by the growing average output per ha, which in this period will increase from 27,6 q/ha to 35 q/ha. In our opinion, such a evolution is problematic. The private sector accounts for about 60% of the cereals harvest and legumes grown in the country⁴. The farmers of this sector usually practice mono-culture, preferring constantly to plant corn, potatoes, and, paradoxically, some technical crops beyond soil rotation. Also, this sector is constantly characterized by a very reduced productivity of the agricultural crops.

The structure of technical crops will be considerably revised, due to reduction of areas planted by sun flower (from 275 ha in 2005 to 145 ha in 2015) and increasing share of planting rape, sugar beat, soy beans and tobacco in the structure of the technical crops. Thus, in 2015, the areas covered by rape will increase to 110 thou. ha, which is a 5-fold increase of the planned areas of rape for 2006 (farm plantations for the harvest of 2006 have been almost totally compromised in the cold period of the current year). Promotion of this culture, which we consider to have perspective, was carried out with much deficiencies, which finally implied a serious and regrettable failure of the people who invested in introducing this crop in the farm rotation. The areas covered by sugar beat will increase from 35 thou. hectares in 2006 to 45 thou. hectares in 2015, and those covered by tobacco will increase from 5,5 thou. hectares to 6,0 thou. hectares in the same period. The farming plantations with soy will increase in the period 2005-2015 by about 10 thou. hectares, from 35 thou. ha planned for 2006 up to 45 thou. ha in 2015.

³ Draft Strategy for Agricultural and Food Industry Development for the period of 2006-20015.

⁴ In 2005 the private sector accounted for 35% of the gross product of cereals and legumes (except for corn), and about 85% of the corn production.

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● METAMORPHOSES OF THE AUTUMN AND SPRING CAMPAIGNS IN PLANT TECHNOLOGY

After finishing the autumn agricultural works of the last year in the agrarian sector there were unploughed some 143 thou. ha of farm land, or about 8,63% of the overall plough land in the country.

During the autumn agricultural works it took three months sow the autumn crops, whereas in normal tempo the optimal period it should take a little more than two weeks. In September-October of 2005, delayed sowing was explained by the inappropriate climate conditions - drought. In the first decade of October, when there were sowed only 30% of the areas supposed for this, from a total of 410 thou. ha of autumn crops, it used to be talked about that: „while ploughing the dry soil ploughs were getting broken, and the costly seeds might not germinate“. In fact the agricultural technologies provide that the soil for cereals sowing be prepared long before sowing and after the optimal predecessors for these crops. Finally, most of the autumn crops did not succeed to develop in due manner and got in winter time unprepared for supporting the low temperatures, which were registered in the 1st quarter of the current year.

Consequently, at the end of March, after evaluation of rape plantations, wheat and autumn barley, from the overall area of wheat – 246,9 thou. ha, 24,9 thou. ha remained unsown, or 10,9% of the sown land. Another 46,9 thou. ha of agricultural crops, or 19% of the area covered by this crop, were supposed to be “rehabilitated” with winter barley. Similarly, from the total area of the agricultural areas covered by autumn barley, it was planned to re-sow 9,4 thou. ha or 10,9% of the sown areas. Another 7,5 thou. ha of farm plantations with autumn barley, or 22% of the overall area covered by this crop, were supposed to be re-habilitated with spring barley.

From the overall area of rape, the area which at the last year end was 14000 ha, 11000 ha of farm plantations, or 74% of the total area covered with its crop, were supposed to be turned over.

Despite of that, it is the natural factors (delayed spring and abundant precipitations) have failed the forecasts of the specialists in the filed. Currently these forecasts are revised, and the situation of the autumn crops is reported as favorable.

In our opinion, the consequences of the delayed farm works from the last autumn, and of the last spring, which is also delayed, will be perceived by the farmers during the whole period of farm cycle. The harvest of the vegetal sector will be relatively small versus the harvest obtained in the previous years. We mean first of all cereals harvest, some technical cultures, grapes and some fruits (particularly the fruits).

Should we get back to cereals, then we will have a new year of 2003, when the gross harvest was only 100 thou. tons, and we will have a very poor harvest of poor quality cereals. On the other hand, the prices for cereals will grow unavoidably. Also, the cattle growing sector will be affected. More over, in 2006 one can expect an extension of the cereals' areas for the harvest of 2007, which might be a mistake. Less affected will be the farmers who did not insure the farm crops and who used the possibilities granted by the state through Government Resolution no. 320 dated 23 March, 2005 on establishing risks and objects subjected to subsidized insurance in agriculture. It is this resolution that established the subsidizing of the insurance policies from the state budget for autumn wheat insurance and grapes of the harvest of 2006.

In the legumes growing sector there are forecasts to optimize the areas covered with main legume cultures and bacca, which are used traditionally for obtaining plant growing products for both domestic market, processed and exports. Thus, the agricultural plantations with legumes and pumpkins will increase from 36,9 thou. ha and respectively 5,4 thou. ha in 2005 to 60,0 thou. ha and respectively 11,0 thou. ha in 2015.

At the production enterprises – the output of the wine-growing sector, by 2015, it is forecasted to extend the areas aimed for wine-growing plantations up to 130 thou. ha, including by table types – up to 20 thou. ha. Also, it is envisioned to initiate some 75 thou. ha of modern wine-growing plantations, in line with the reclaim of 55 thou. ha and the increasing volume of wine-growing seedling-plant production up to 25 mln. of engrafted vines.

In the fruit growing sector, the orchards cover an area of about 110 thou. ha, of which about 75 thou. ha have a considerable potential of production, capitalizable by performing economic-organizational and technological already known. By the end of 2015, the overall area of fruit-growing plantations will make up 103,65 ha, of them 91,08 ha per harvest with a gross harvest of 967,89 thou. tons and with an average harvest of 106,3 quintals/ha.

Agricultural policies

Realizing the measures provided in the EGPRSP.

In the first quarter of 2006 the Ministry of Economy and Commerce submitted the first annual report on EGPRSP implementation. The report was objectively evaluated as positive by the international institutions and the civil society, and was submitted after a long period of public debates. Regarding the implementation of strategy provisions in the rural area, there are no mentioned remarkable successes due to missing measures in the respective component to provide for generating qualitative changes in the rural economy, or to influence the poverty there. Or, 3 of those 7 actions comprised in the „Agriculture” chapter of the Action Plan of the Strategy provide to carry out studies, that are not measures to immediately influence the poverty phenomenon by economic growth. These studies, being performed qualitatively within certain analysis, can only contribute to identifying the problems in the field and propose solutions for improving the situations. From these considerations, the report included obviously only several general findings of the MAFI regarding the situation in agricultural sector.

According to the report, „the agriculture continues to be defined as having the lowest level of productivity and labor remuneration. While contributing with about 18% to GDP and providing employment to a about 45% of the labor force, the low productivity and poor growth in the agricultural sector reduced the perspectives of the rest of reforms. In line with the poor access to funding resources, the agrarian sector faces other several major constraints: slow restructuring of processing industry, excessive parcelation of land plots, underdeveloped land market, concentration of farm assets “in the hands” of some managers with adequate administration capacities, raising prices of fuels, reduced dimensions of the domestic market and very high exigencies on foreign markets. The low level of investments implied deterioration of the net of rural roads, of the market infrastructure and of the irrigation systems. In addition to that, the vulnerability of the sector to natural disasters complicate even more the recovering process in agriculture”⁵.

⁵ The first annual report on EGPRSP evaluation.

Table 2. Priority actions of the Chapter "Agriculture" in the EGPRSP plan.

Actions in the EGPRSP plan	Result
1. Consolidate the land plots based on a special study, to comprise the analysis of the current situation through the angle of efficiency and social equity, and work out recommendations on concrete actions in the field of land plots consolidation for the middle- and long-term (MAFI, 2004).	The Study specified in the EGPRSP Action Plan has not been produced ¹ . In 2005, at the National Conference „Land Plots Consolidation – a first step towards investment raising in agriculture”, organized in Chisinau by the Ministry of Agriculture and Food Industry, a national program was initiated on consolidation of the land plots.
2. Carry out a Study with regard to restructuring the Ministry of Agriculture and Food Industry (2005).	The Study was not carried out, as provided in the EGPRSP Action Plan. There was issued the Resolution of the Government No. 578 dated 15 June, 2005, on approval of the Regulation, structure and limit-personnel of the central staff of the Ministry of Agriculture and Food Industry. Official Gazette of the RM no. 83-85/625 dated 17 June, 2005.
3. Carry out a Study on subsidizing in agriculture, with a view to revise the subsidizing system in light of the objectives of economic growth and poverty reduction of the EGPRSP (2005).	The respective Study provided in the EGPRSP Action Plan has not been worked out. The subsidizing system in agriculture suffered some qualitative changes, but there is an immense room for improvement.
4. Work out together with NGOs some programs targeted to poverty reduction by activities of informational service revision and training and professional improvement, consulting, finding for small businesses and micro-enterprises (Ministry of Agriculture and Food Industry & NGOs, 2005-2006).	Several NGOs, without MAFI, implement projects, comprising activities of informational and training services, professional training, and consulting to enterprises in the rural area (AGROinform and others).
5. Work out strategies of the farmer organizations and farm enterprises in providing for a more efficient access to information, markets, means and production opportunities (MAFI, 2005-2006).	A series of NGOs, but not MAFI who provide support to farmer organizations and farmer entrepreneurs (AGROinform, Camib and others).
6. Promote the development of exports market (2005-2006).	During 2004-2005 as a result of the embargo set up by the Russian Federation, the Republic of Moldova lost the largest market of agricultural products. Starting from January 1, 2006, the RM benefits from the General System of Preferences Plus, which constitutes a preferential regime of trade offered by the EU for supporting the development of a good government. From CIS countries, only the RM and Georgia benefit of such commercial preferences. The EU provided the GSP-Plus to only 15 countries. Thus, in conditions of new trade preferences granted by the EU, about 87,7% of the Moldovan exports to the EU will benefit of free access.
7. Carry out studies aimed at working out the Strategy of Rural Development (2005-2006).	In the first quarter of 2006, the MAFI submitted the draft-Strategy for agri-industrial sector development for the period of 2006-2015.

INDUSTRY AND SERVICES

General trends

In the 1st quarter of 2006 the tempo of industrial output in the RM continued to decrease. The reasons of this involution are of both political and economic nature. Among them are tensed relationships with the Russian Federation, low attractiveness of the RM for foreign investors, low quality of native products and difficulties in promoting the national products on foreign markets.

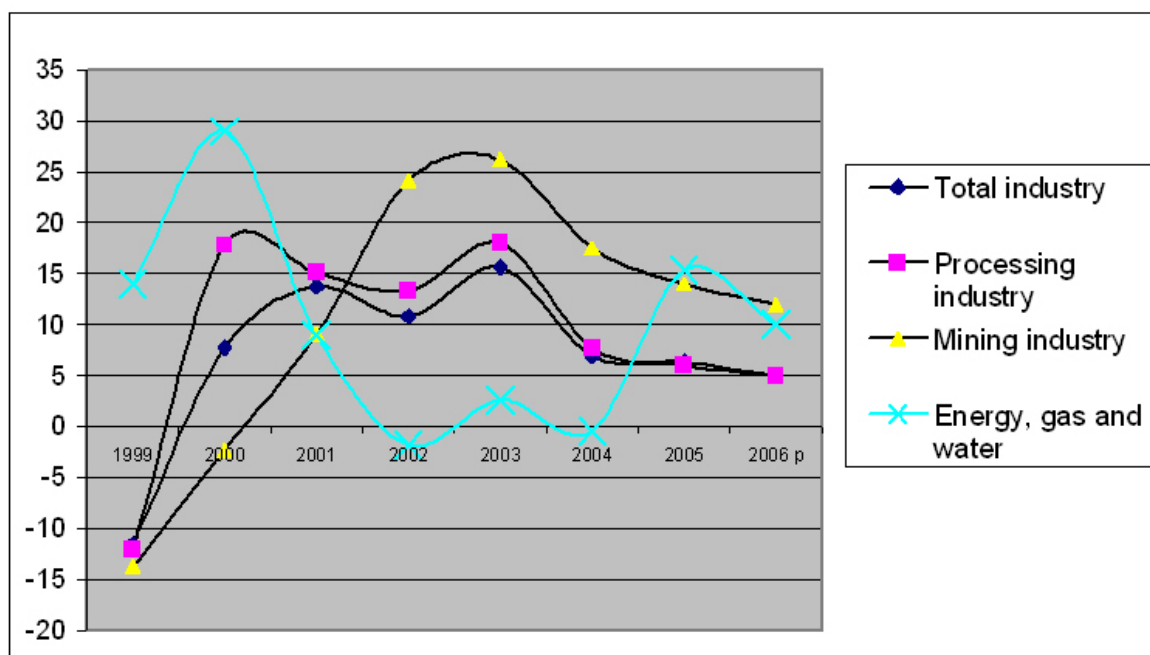
In the first 3 months of 2006, the trend of the services sector keeps growing. The sub-sectors that contributed to that are as follows: constructions, communications, passenger transpirations, and retail trade.

The growth in this sector is due to attracting modern technologies and of a positive trend of investments.

Worsening relations with the Russian Federation will have negative impacts upon the national industry in the future too. Enhancing the economic relations with Romania will imply only positive effects for the national industry.

In the first quarter of 2006, the industrial sector slowed down the growth rate. Due to investments and implementation of modern technologies, the services sector kept-up a growing trend.

The pace of national industry growth



Source: DSS, CEP

The pace of industrial growth keeps slowing down

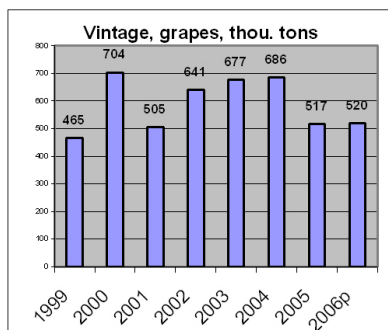
	Total Industry	Processing Industry	Mining industry	Energy, gas and water supply
1999	-11.6	-12.1	-13.8	14
2000	7.7	17.8	-2.3	29
2001	13.7	15.1	9	9
2002	10.8	13.3	24.1	-1.8
2003	15.6	18	26.2	2.6
2004	6.9	7.7	17.5	-0.4
2005 e	6.3	6	14	15.3
2006 p	5	5	12	8

Source: DSS, forecasts and estimates of the CEP

The process of slowing down pace of industrial growth started in 2003. This trend has been continuing in the 1st quarter of 2006. In the period January-February 2006, the index of industrial output volume was 101,3% versus the same period of the last years. In the previous issue of the ES were identified several reasons that do not allow an enhanced tempo of industrial branches development. However, the 1st quarter was particularly marked by the (1) difficult foreign economic conjuncture, and (2) incapacity of native products to compete on the foreign markets; (3) missing specialized personal, with qualifications of international standards in marketing at the native companies. In addition to that one should consider the raising price of energy resources, which will affect the enterprises using intensely the natural gas in the production process (cement, glass production, etc.), as well as the restrictive measures of the Russian Federation on imports of alcohol drinks, by issuing an insufficient number of fiscal/excise stamps; these measures have culminated in total cease of imports.

Processing industry on decline

The effects of missing a consequent policy for national industry development did not have to be expected for long time. In the first two months of 2006, the processing industry declined the production volume by 1% versus the same period of the previous year. The crisis in this industrial sector should not be attributed to only the wine exports crisis, though, the latter did have its negative impact. The situation in this industrial sector has been saved due to significant raise of production volume at the enterprises involved in processing and preserving meat and meat products (12%), processing and preserving fruits and vegetables (88%), production of oils and fats (5%), and of dairy products (6%). In 2006, the processing industry will have an increase of the production volume index of 5%.



Less native bear is consumed and less sparkling wines are produced.

Decreasing production of sparkling wines and bear

Since the beginning of the year we have become witnesses of the difficulties faced by the wineries and breweries. Ceasing exports to Russian Federation had a negative impact upon the whole branch. Although the producers consider the Moldovan wines represent a „sole and advantageous combination” of price and quality, compared to producers of other countries, it seems like this “combination” does not spill-over on the whole industry. We do not put to doubt the capacity of certain producers of better quality wines, however this will rank on a better market segment, and the wine sale at these reduced prices will not be profitable. Decreasing production volume of wines is conditioned by the reduction in the first two months of the year of production volume of sparkling wines by 61%. The wine industry faces not only the problem of quality of the raw materials but the problem of quantity too. In 2005 the grapes harvest was by 25% less than in the previous year. Insufficiency of raw material caused the decline of production volume of sparkling wines.

Result of the wine and alcohol industry

Name of product	Unit of measure	Feb.		2 months		% executed versus February 2005	% executed versus 2 months of 2005
		2006	2005	2006	2005		
Grapes wine bottled	thou. dal	2341	1622	3566	3017	144	118
Sparkling wines	thou. bottles	350	633	619	1575	55	39
Divin	thou. dal	120	72	203	112	167	181
Brandy, vodka and other drinks	thou. dal	130	154	222	314	84	71
Ethylic alcohol	thou. dal	135	119	316	253	113	125

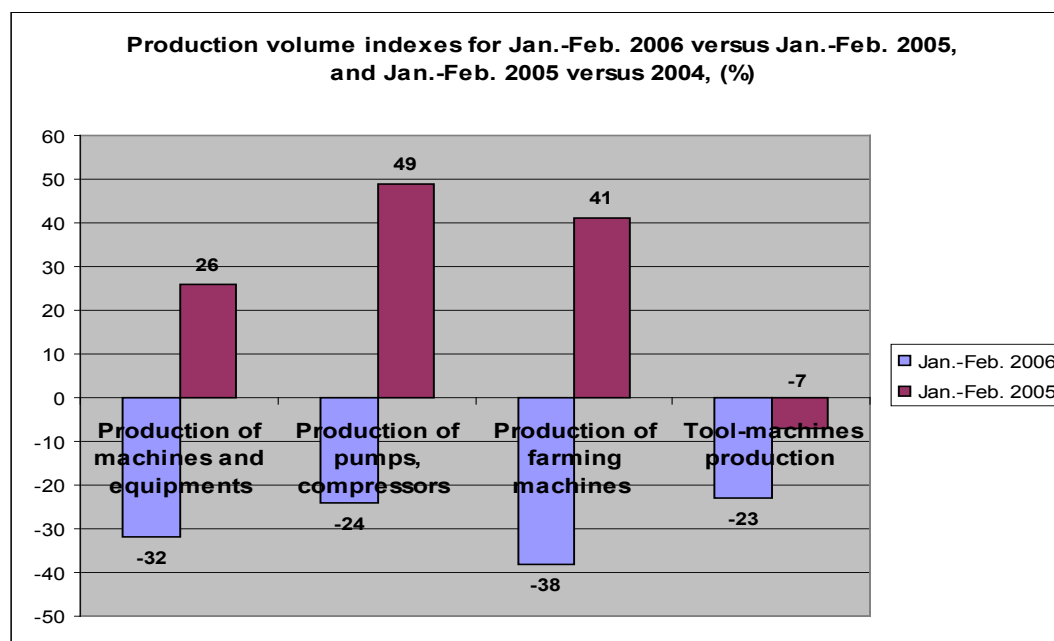
Source: Agri-Industrial Agency "Moldova-Vin"

Machine building industry is geclining.

During 2005 only 1% increase was registered of wine production (versus 7% in 2004) and of 7% in beer production. There are no substantial premises that would determine an focussed growth of production volume in the wine and alcohol industry in 2006.

The machine-building and equipment industry need a new breeze

A sudden decline of the industrial output volume versus January-February 2005 has been registered at the enterprises producing domestic appliances (by 45%), production of farm machines (by 38%) and pumps production (by 24%).

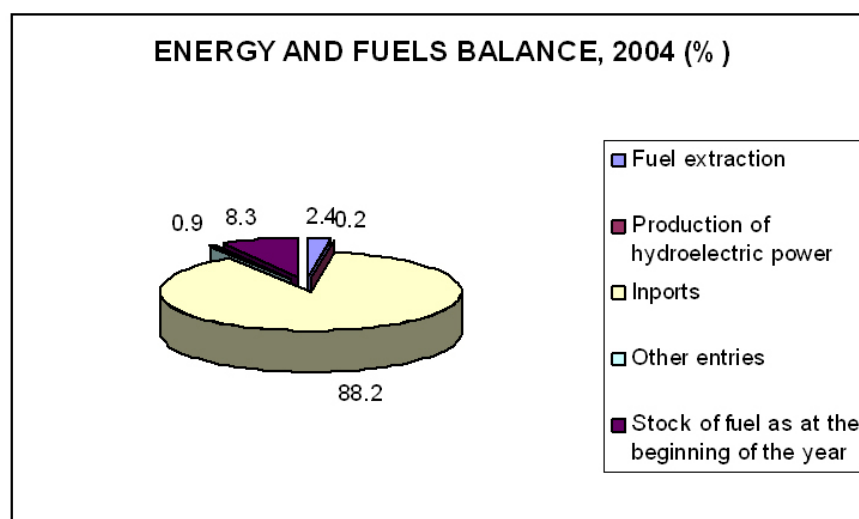


The main reason of deepening crisis of this industry does not consist in declining demand, but rather in small value the Moldovan products are for consumers. Thus, the native products are placed by the imported ones. This process becomes more tendentious is as much as the purchasing power in the country is growing. Not only the quality leaves much to be desired, but functional characteristics too, the design and services in the warranty and post-warranty periods of the equipments. The second decade consecutively there were no vast Research & Developments of new products. The enterprises did not enrich the product mix with conceptually new products to meet the demand of the market, but rather, the maximum exploitation of old products, realizing improvements at exterior level, and less of functional and qualitative nature. The machine-building industry needs a new breeze, that might be materialized by means of investments in terms of both capital and know-how.

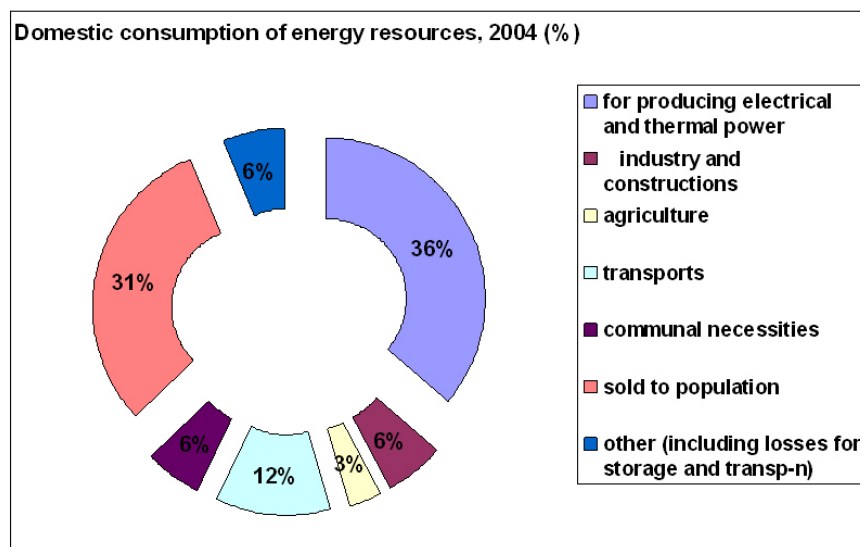
Thus, the subsequent decline of production volume in the machine building and equipments industry will be unavoidable.

Is the energy sector ascending?

Since the beginning of the year the production and distribution of electrical and thermal power, gas and hot water increased by 13% versus the similar period of 2005. Increasing consumption and investments worth over MDL 730 mln. during 2005 have supported this growth. The largest share of investments accounts for the distribution networks of electrical power of MDL 536 mln. However, this figures do not constitute something to be happy about, because the Republic of Moldova imports almost 90% of the energy resources. Without having access to own energy resources it will be necessary to import energy resources in the future too for both consumption and transformation thereof into other forms of energy.



The structure of domestic consumption of the energy resources show that 1/3 of them are used for producing electrical and thermal power and some more 1/3 are sold to the population. The industry and constructions, as well as the transports use below 20% of the electrical power. Thus, raising prices of energy resources in a greater extent affects the population and less the real sector of the economy.



The natural gas imported is used for covering both the consumption needs of the population and for producing thermal and electrical power. The import of energy resources, for transformation in other forms of power, is an economic advantage because we import raw materials and consume a final product. Nevertheless, if one takes into account that the main supplier of natural gas, the Russian Company Gazprom, might raise the price for natural gas up to the level when using the natural gas for producing electrical power is not profitable, it might be more advantageous to buy it from atomic or hydro-electric power stations, from neighboring countries. A positive trend in developing the energy system might be its modernization, so that the losses of the electrical power transportation be diminished and transition capacity increased. This might serve as an additional source of incomes. At the same time the diversification of sources (suppliers) is a strategic priority for the RM. The dependence of the Russian Federation is dangerous and disadvantageous.

More over, the diversification of energy resources, consolidation and development of energy sector and capitalization of the economic potential and international collaboration in the energy sphere are the basic priorities of national interest.

The service sector continues to grow

In the first two months of 2006, the services sector has enhanced the growing pace. Compared to similar period of previous year, the services increased by 10%. The high rate development of this sector is due to investments injected first of all by the companies which perform in this sector of economy, and, on the other hand, due to demand of these services which keeps growing and is fed by the remittances from abroad.

***In 2006 the
services sector
will grow by
10%.***

Constructions

During the following two years, the constructions sector has increased faster than GDP. This sub-sector continues to attract significant investments. Thus, for 2006 investments are expected worth USD 615 mln. Only in January, the volume of constructions and assembling works reached the volume of MDL 80 mln., which is 7% more than in January of the previous year. Over 70% of the construction works are carried out in the mun. Chisinau. Up-keeping an accelerated volume of this sub-sector development it will be difficult, as a result of raising prices on construction materials, on land plots for construction purposes and increasing cost of labor force in constructions. At the same time, in conditions when the constructions need more significant investments, sustainable development of this sub-sector has no chances to succeed without a significant support granted by the financial institutions. Thus, development of long-term mortgage lending is a necessary prerequisite for construction sector development.

Transports

The trend of declining volume of goods transportation registered in 2005 continued in the first months of 2006 too. Thus, the volume of transported goods diminished by 12.5% in the period January-February 2006, versus the same period of 2005. This decline is due to reducing traffic of the railway transportation, by 12% and of motor transport by 23.6%. An inverse trend is noticed in passenger transportation. Thus, the railway transport was used by 14.4% less passengers, motor-transport – by 3% and air by

25.8%. Decreasing volume of goods transport is explained by the slowing down of some industrial branches development. At the same time, the raising volume of passenger transport denotes increasing mobility of the citizens, including the intensification of international passenger transportation, by both vehicle and air, as a result of labor force migration.

Telecommunications

Telecommunications sub-sector will continue to increase during 2006. In the field of fixed and mobile telephony the number of subscribers keeps growing. In line with that, the average income obtained from a subscriber increased by MDL 62 per month. The increasing volume of sales of fixed telephony during the last year was 27%, and for mobile telephony by 52%. The IP telephony services are growing, facilitating the communication among the family members who work abroad. According to the forecasts of the National Agency for International Communication Networks a sustainable increase is expected of the IP telephony market.

● VIRTUAL OPERATORS OF THE MOBILE NETWORKS – NEW POSSIBILITIES FOR TELEPHONY MARKET IN MOLDOVA

The Mobile Virtual Network Operators (MVNO) are the companies which do not have their own frequency resources. These companies buy en-gross the network traffic from the mobile operators and sell it to final consumers, connecting the latter based on their own tariffs. In Europe there are already more than two hundred companies with status of virtual operators, and in some countries, these took over up to 60% of the mobile telephony traffic. In the last year about 110 mln. people used the services of these operators.

This year, this figure might reach 200 mln. The attractiveness and advantages of such an operator consists in its flexibility to adapt to the requirements of a specific group of consumers, which is difficult to realize for large mobile telephony operators. A virtual operator has the possibility to develop a larger number of tariff ceilings, which would meet the needs of more client categories.

Virtual operators of mobile networks have possibility to combine the services of mobile telephony with the services of fixed telephony by forwarding the telephone calls, this way offering an economic advantage for users. In line with that, the virtual operators have possibility to develop while meeting the needs of the segment of corporate users by offering competitive prices for services due to forwarding capacities of calls and using more advantageous communication channels.

The perspective of developing such operators, in Moldova, in the near future, are small due to missing legal framework which might regulate the activity of such operators. Nevertheless, for mobile telephony operators, a partnership with virtual operators might be a possibility to sell a part of the unused traffic and attract new users of mobile networks. The advertisement costs, marketing and clients services for a mobile operator may be from 27% to 52%.

Thus, there is a real and advantageous possibility of „outsourcing“, attracting and servicing clients by virtual operators. In these conditions, the mobile operator might deal with maintenance and insuring the functionality of the networks and might earn profits through additional services in line with speaking through mobile telephony (mobile internet service, data transfer, etc.). This will be even more welcomed in so much as competition will enhance on the mobile telephony market. The sales networks of mobile telephony and accessories might have real chances to become in the future virtual operators. Once with emergence of these companies and raising competition on the market, it will be even more beneficial for the clients.

FOREIGN TRADE

The current developments of the foreign trade in the Republic of Moldova reveal that it got completely out of any control. Last year both the imports and exports increased. The export growth rate was much lower than the import growth rate. Due to the considerable gap between imports and exports the 2005 trade balance was negative in the order of \$1220.5 million, with a 55.8% increase in the trade balance deficit, or by \$437 million if compared to 2004.

During January-February 2006 the trade balance registered a 1.7 times higher if compared to the same period of 2005.

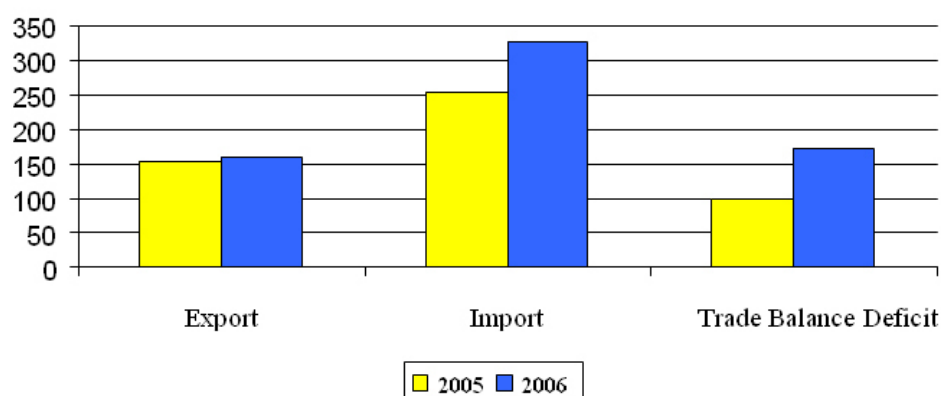
The same worrisome trends were registered during the first months of 2006. Thus, during January-February 2006 the trade balance registered a deficit of \$170.9 million or by 71% up (1.7 times) if compared to the same period of 2005. During January-February 2006 the imports were covered by exports in proportion of 48%, if compared to 60.9% during January-February 2005. However, these data don't show accurately the real situation of the foreign trade, as they reveal only the general trends of the beginning of a very difficult period for Moldovan exporters that used to target only at the CIS market and for all producers of exported goods.

Exports

During the first two months of 2006 the exports summed up at \$158.1 million and exceeded the ceiling registered during the same period of 2005. This increase was mainly generated by the intensification of the commercial transactions in February, which increased by 30% against January and by 6.7% against February 2005. We believe that during the next months the exports growth rate will stabilize and the gap between imports and exports will reach threatening levels.

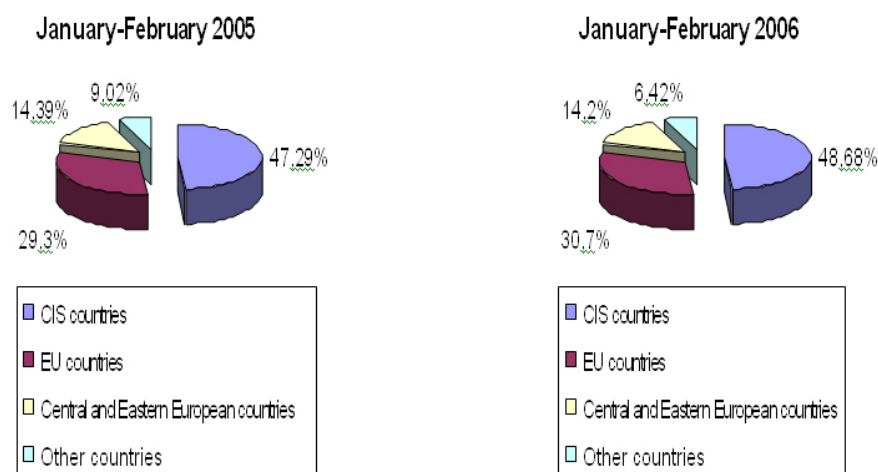
During the first two months of 2006 the exports summed up at \$158.1 million and exceeded the ceiling registered during the same period of 2005.

Table 1. The Foreign Trade of the Republic of Moldova during January-February 2006.



Source: National Bureau of Statistics of the Republic of Moldova

At the same time, the geography of exports hasn't changed much. During the first two months of 2006 the shares of exports on the CIS and UE markets increased insignificantly. The modest increase in the exports to the CIS countries (a bit over one percent) was mainly generated by the augmentation of the exports to Ukraine (\$14.1 million) 1.6 times if compared with the first two months of 2005.

Table 2. Geographical Orientation of the Exports

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

At the same time the exports to Russian Federation and Romania diminished, constituting 95.6% and 90.8% respectively, if compared to January-February 2005.

Table 3. The Main Trade Partners of Moldova for Exports, January-February 2006.

	\$, million	in % against January-February 2005
Russia	51.0	95.6
Romania	19.8	90.8
Italy	17.3	77.5
Ukraine	14.1	1.6 times
Belarus	8.2	102.0
Germany	6.7	96.3
France	5.7	1.9 times
Turkey	4.9	2.6 times
Poland	3.7	2.5 times
Belgium	2.8	141.3

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

The exports to Russia will diminish dramatically.

The exports to Russia diminished because of the difficulties appeared in the mutual transactions with alcoholic beverages during the winter months¹. In the near future the exports to this country will decrease dramatically because of the barriers imposed on the exports of vegetable, wine and animal products to a less extent.

¹ During this period the Moldovan wine importers found it difficult to obtain excise stamps. The Russian Federal Customs Service ceased issuing excise stamps on the grounds that "on January 1, 2006 Russia will introduce a new excise system". Previously the applicants could obtain excise stamps on the same day or a few days later after the submission of the application. But this time was extended up to several months during the aforementioned period.

● ONE YEAR OF PREFERENTIAL COMMERCIAL TREATMENT, PROVIDED TO MOLDOVA BY THE RUSSIAN FEDERATION.

It is doubtless that the Russian Federation is the biggest trade partner of the Republic of Moldova. In 2005 the share of exports to Russia amounted at 31.84% (\$347.5 million), while the share of imports from this country was 11.70% (\$268.2 million). The Russian Federation is one of the few countries, which the Republic of Moldova had a permanent positive trade balance with². In addition, Moldova entered into a number of advantageous bilateral treaties and agreements with this country, such as:

The Treaty between the Republic of Moldova and the Russian Federation on the Economic Cooperation for 1999-2008. The Economic Cooperation Program between the Republic of Moldova and the Russian Federation for 1999-2008 (signed in Moscow on October 2, 1999 and entered into force on August 11, 2000).

Treaty between Moldovan Government and the Russian Cabinet-Government on Free Trade, signed in Moscow on February 9, 1993 (entered into force on March 30, 1993).

Treaty between the Moldovan Government and the Russian Government on mutual promotion and protection of capital investments signed in Moscow on March 17, 1998 (entered into force on July 18, 2001), etc.

Treaty on Technical Barriers in Free Trade Zones, signed in Moscow on June 20, 2000³, etc.

In spite of the above-mentioned, over the past year Moldova benefited of a special non-friendly treatment from the Russian Federation, which doesn't comply by any means with the plenty of bilateral treaties and the multilateral treaties signed in the framework of the Commonwealth of Independent States⁴. Thus, on April 18, 2005 Russia banned the

import of beef, pork, lamb and poultry from the Republic of Moldova. According to a press release of the Russian Ministry of Agriculture, this ban was introduced in order to prevent the entrance of unsafe cargos, in veterinary and sanitary terms, on the territory of the Russian Federation. According to the head of the Federal Service for Veterinary and Phytosanitary Supervision Serghei Dankvert, quoted by Interfax press agency, this decision was based on the fact that "the applications for import of meat from Moldova to Russia, submitted to "Rosselkhoznadzor" are related to a quantity of meat that exceeds the total output of meat products, registered in the Republic of Moldova. This means that Moldova is used for meat re-export, a fact that doesn't exclude the possibility of some dangerous diseases to enter Russia."

Russia banned the import of Moldovan alcoholic beverages and started a large campaign aimed at extracting the Moldovan products, which have been already imported, from the Russian market.

On May 16, 2005 the same Russian institution banned the Moldovan exports of vegetable products. Russia grounded this decision on the fact that "the quality certificates issued by the services empowered to certify the Moldovan products don't correspond to the batches delivered in the Russian Federation". Though the Moldovan authorities proved that neither of the above decision was grounded, the barriers are still in place. Moreover, this spring Russia banned the import of Moldovan alcoholic beverages and started a large campaign aimed at extracting the Moldovan products, which have been already imported, from the Russian market⁵.

2 In 2005 Moldova had a positive trade balance with the Russian Federation in the order of \$79285.3 thousand.

3 Law no. 787-XV dated December 28, 2001 on the Ratification of the Treaty on Technical Barriers in Free Trade Zones, Monitorul Oficial no. 11-12/37 dated January 17, 2002.

4 Similarly, other two CIS states (Georgia and Ukraine), GUAM members, faced numerous barriers in the mutual trade with Russia. Russia banned the import of wines, vegetable products and soda from Georgia and animal products from Ukraine. According to data of the Ukrainian State Committee, in 2004

the share of exports to Russia amounted at about 99.8% of the total Ukrainian exports of meat and meat products and about 70% of the exported milk. The volume of these groups of products exported in 2004 to Russia amounted at \$480 million or 8% of the Ukrainian exports to the Russian market.

5 According to Interfax press agency, the head of the Federal Service for Veterinary and Phytosanitary Supervision Ghenadi Onishchenko officially banned the import of alcoholic beverages from Moldova and Georgia. He says that this ban will be maintained until the Russian authorities take an additional decision re-export or destruction of the batches already imported from the respective countries.

The attempts to reorient the Moldovan exports to the neighboring states will have an ephemeral success.

The export involution will be definitely influenced by the technical barriers imposed by Russian Federation on the Moldovan wines. The delayed attempts of the Moldovan authorities to diminish the impact of the Russian embargo on all exports of agricultural products and alcoholic beverages are relevant and logical, but they won't attenuate the financial losses incurred by wine-makers and exporters. There aren't any ideal short-term remedies this situation and this fact was very clearly considered by those who planned the "strengthening of the trade relationships between CIS partner states". Moreover, it is feared that Russia could influence other CIS countries to use the same practices of economic blackmail against the Republic of Moldova and Georgia (Belarus). The attempts to reorient the Moldovan exports to the neighboring states will have an ephemeral success, as they will delicately and friendly protect their own producers from an eventual invasion of Moldovan wines⁶².

Moldovan producers will have to comply with higher sanitary and quality requirements than the existent ones.

We could have comparatively higher chances if we try to reorient these good to the Central and Eastern European and some Asian countries. To this end, Moldovan producers will have to comply with the sanitary and quality requirements of those countries. In addition, the Moldovan specialized institutions and wine producers will have to double their efforts in order to promote the alcoholic beverages on those markets. The export reorientation will call for considerable funding, which are very likely to become a big hindrance for export diversification. On the other hand, the Republic of Moldova, via means of MEC, should have a more consequent negotiating position with the EU regarding the possibility to obtain an Autonomous Trade Preferences (ATP) regime, which will be more advantageous for Moldovan exporters than the recently obtained GSP+ system.

Imports

In 2005 the imports increased enormously, registering \$2311.7 million.

In 2005 the imports increased enormously, registering \$2311.7 million. It is worth worrying about the increase in the import of food products, beverages, tobacco, animal products and insignificant diminution in the import of vegetable products. Traditionally, these products account for a large share in the total exports. In 2005 the share of food products, beverages, tobacco, animal and vegetable products constituted about ½ of total exports. Last year, the imports of the last two categories should have logically diminished considerably because of the embargo imposed by the Russian Federation on products of this type.

Russian Federation stands out of the trade partners of the Republic of Moldova. On the one hand, this country hindered the Moldovan exports and, on another hand, managed to increase 2.3 times its exports to Moldova.

There was registered a surprisingly unexpected evolution in the foreign trade transactions with these products. According to the National Statistical Bureau, in 2005 the imports of livestock and animal products increased by \$18.5 million (+47.8%), if compared with 2004, as a result of the increase in the following imports: bovine meat (5.5 times) from Brazil; cheese (2.3 times) from Ukraine, Russia (note: the state that banned the imports of animal products from the Republic of Moldova) and Poland; poultry and fresh, refrigerated and frozen giblets (+83,6%) from the USA, Brazil, Poland, Hungary, Germany; fresh, refrigerated, or frozen pork (+75,4%) from Brazil and USA; bacon, pork and poultry fat (+61,5%) from Poland, Germany, Brazil; gallinaceans, geese, ducks, and turkey (+42,8%) from Hungary and Romania.

Similarly, the imports of food products, beverages and tobacco increased by \$45.4 million (+43,1%), because of the increase in the following imports:

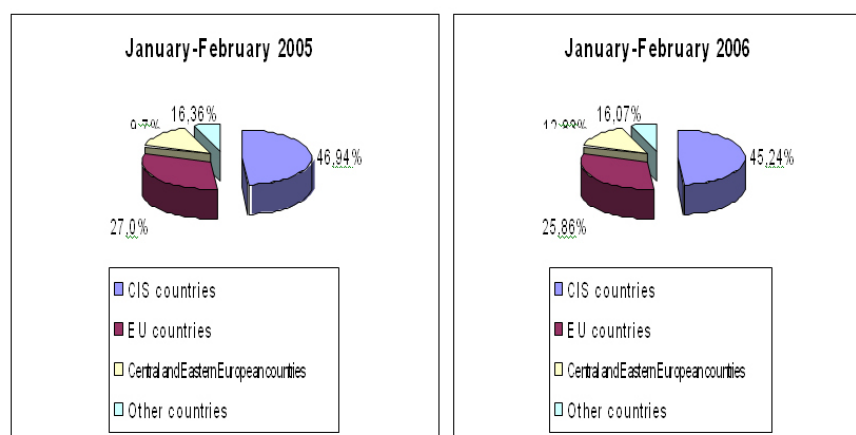
^{6 2} Romania and Ukraine are recognized as states with old traditions in agriculture and wine industry.

sugar (29.0 times) from the Czech Republic and Slovakia; wine and grapes (+56,3%) from Spain; cigarettes and cigars (+50,7%) from Russia and Ukraine, beer made of brewer's malt (+48,7%) from Ukraine, Russia, and Romania; fruit and vegetable juice (+45,1%) from Ukraine, Romania, Italy; sausages and meat products (+40,4%) from Poland, Romania, Ukraine, etc., sauces (+37,7%) from Ukraine and Russia.

If compared to the similar period of 2005, in January-February 2006 the imports increased by 29.7% and amounted at \$329.0 million. In addition, the share of goods imported from the Central European countries increased during this period. Russian Federation stands out of the trade partners of the Republic of Moldova. On the one hand, this country hindered the Moldovan exports and, on another hand, managed to increase 2.3 times its exports to Moldova.

The trade between Moldova and China is characterized by one-way trade transactions. Missed opportunities for wine export!!!

Table 3. Geographic Orientation of Imports.



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

The trade between Moldova and China can be regarded as a special relationship, characterized by one-way commercial relations. We mean here the huge imports from China, which practically aren't followed by exports. During the first two months increased 1.6 times and reached the value of \$12.6 million.

Table 5. Exports of the Main Trade Partners to Moldova, January-February 2006

	\$, million	in % against January-February 2005
Russia	78.9	2.3 times
Ukraine	60.3	100.5
Romania	39.1	1.8 times
Germany	19.8	124.6
Italy	19.2	116.9
China	12.6	1.6 times
Turkey	12.0	98.4
Belarus	8.7	105.4
France	7.4	124.2
USA	7.3	92.4

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

There was registered an increasing trend in the imports that can be easily substituted by local products.

During the first two months of 2005 there was again registered an increasing trend in the imports that can be easily substituted by local products. Thus, there was registered an increasing trend in the share of the following products in total imports: food products, beverages and tobacco (5.7%), vegetable products (3.5%), livestock and animal products (2.6%).

● THE ENHANCEMENT OF FOREIGN TRADE IS POSTPONED

A number of acts were passed during 2000-2005, including strategies, Government Ordinances aimed at enhancing the foreign trade. Here we can mention the Government Ordinance no. 1186 dated November 22, 2000 on the approval of the Concept of Imported Products Substitution⁷¹, Export Promotion Strategy for 2002-2005⁸², Government Ordinance no. 151 dated February 10, 2005 on Foreign Trade Enhancement and Diminishing the Commercial Balance Deficit 93, etc. In 2005 the implementation of Export Promotion Strategy for 2002-2005 came to an end. According to the estimates included in the aforementioned strategy, "the increase in exports will not settle the issue of negative trade balance, as it is mainly determined by the import of energy resources, but it could be reduced gradually simultaneously with enhancement of the general economic state".

In addition, according to the Government estimations, in 2002-2005 the negative trade balance was supposed to decrease from \$305.2 million in 2000 to \$165 million in 2005. This diminution was supposed to be generated by the higher export growth rates than the import growth rates". In reality, the evolution of the exports and

imports during the strategy implementation period were completely against the Government estimates.

Though the exports increased up to \$1091.2 million, the imports increased to a much higher extent, registering \$2311.7 million. On the other hand, the trade balance deficit exceeded both the estimates of \$1000 million for 2005, and the ceiling of \$1200 million foreseen for 2007 in the 2006-2008 Medium Term Expenditures Framework, approved by the Government in the last quarter of 2005.

This means that besides the foreign trade, it is also necessary to enhance the development, monitoring and implementation of various strategies, Government ordinances, and other objectives aimed at improving the foreign trade. For instance, the Exports Promotion Strategy completely ignored the fact that during the first trimester of 2002 the Ministry of Agriculture and Food Industry was supposed to develop sector development programs on wine making sector revival, essential oils production, honey and nuts collection, fruit and vegetables processing, including through freezing.

At the same time, the Strategy on Trade in Agricultural Products was developed and proposed for debates in line with the report on EGPRSP implementation. It is a paradox that a non-existent strategy is being publicly discussed in the Republic of Moldova. In addition, 6 years after the approval of the Concept on Imported Products Substitutions it was decided to revise the customs duties in order to protect the local market from imported products, which can be easily substituted by locally produced ones.

⁷¹ Government Ordinance no. 1186 dated November 22, 2000 on the approval of the Concept on Imported Products Substitution. Monitorul Oficial 149-151/1299 dated November 30, 2000.

⁸² Government Ordinance no. 80 dated January 29, 2002 on the Approval of Export Promotion Strategy for 2002-2005. Monitorul Oficial no. 21-22/156 dated February 5, 2002.

⁹³ Government Ordinance no. 151 dated February 10, 2005 on Foreign Trade Enhancement and Diminishing the Commercial Balance Deficit. Monitorul Oficial no. 26-28/196 dated February 18, 2005.

MONETARY MARKET

During the first quarter of 2006, the growth of savings accounts kept exceeding the growth of credits, but the difference between them decreased. Thus, during the first quarter the balance of savings accounts increased by 8.7 % and the credit balance by 7.7%. This leveling of growths is partially due to season, since the credits tend to increase more during the first two quarters than in the second semester.

How will the NBM refinancing rate evolve?

We consider, based on the arguments below, that NBM will have to increase the refinancing rate until the end of the year since:

The inflation has increased during the first quarter of the year.

The sterilization operations have reached a significant level, the commercial banks have a surplus of liquidities and are willing to make deposits with the NBM at a very low interest rate.

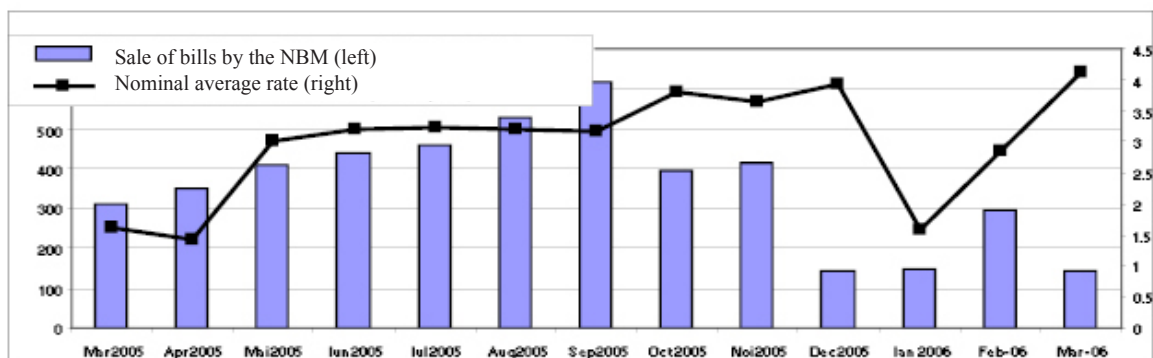
The profitability of interbank operations was extremely fluctuant

The inflation pressure demonstrated during the first quarter of the year. The NBM has set as goal for 2006 maintaining the inflation rate between 8%-10%. During the first quarter of the due year, the calculated inflation rate, according to DSS, was of 4.8%. Thus, half of the limit foreseen by NBM had already been achieved during the first quarter and the prices do not seem to stop at this level.

Considering the international price for gas, a price increase is very much possible to be registered. We do not leave out the fact that The Republic of Moldova could face new rises in the price of natural gas, proving this forecast wrong mainly depending on the political factor. In April 2006, the gas and gasoline prices set a new "world record". This rise in the price will have an impact upon the internal fuel prices (see chapter Prices).

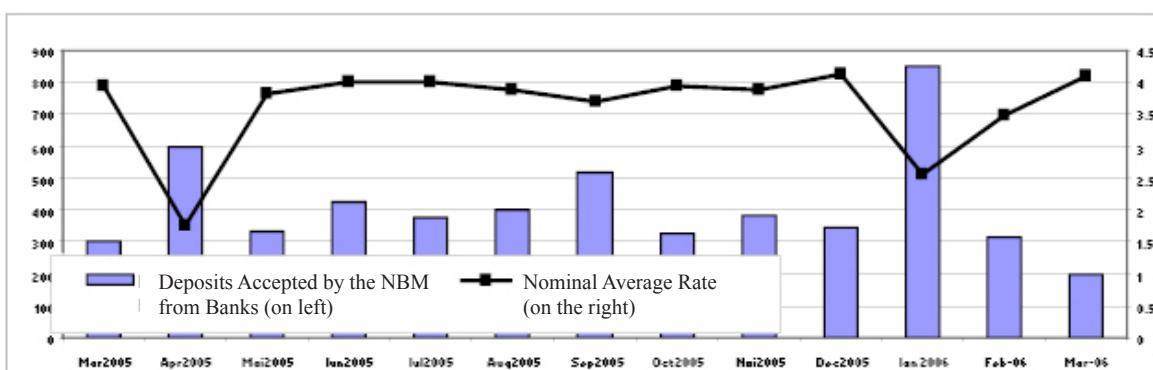
The sterilization operations have reached a significant level. During the first quarter of the due year, NBM carried out significant operations aimed at decreasing the monetary base by about 2 billion lei.

Sale of NBM treasury bills and their profitability



Source: CEP based on data from the NBM

Deposits Accepted by the NBM from Commercial Banks and Interest Rates on Them



Source: CEP based on data from the NBM

The significant sterilization level proves that NBM is more than conscious of the liquidity surplus in Moldovan banking system. Any surplus of liquidity could generate inflation in a matter of days.

The profitableness of interbank operations was extremely fluctuant. If in 2005 the interest rate for NBM bills was steady, reaching 3.2%-3.6%, in the first three months of 2006, the interest rate of these instruments registered a significant fluctuation, varying from 1.57% in January to 4.5% at the auction from March 29, 2006. During the previous years, this volatility came out in moments of interest rate trend change on the market (feature specific not only for the Republic of Moldova). This phenomenon makes us believe that NBM could decide to increase the refinancing rate. Remembering that during the past two years, NBM has decreased the refinancing rate from 14,5% down to 12,5%, seeking to cheapen the crediting resources.

NBM will have to increase by the end of the year the refinancing rate from 12.5% to 13.5%, meaning there will be two increases.

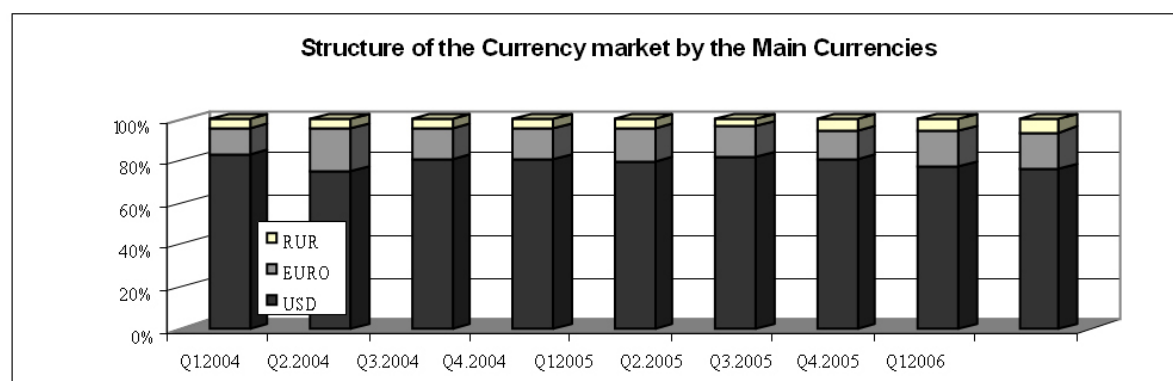
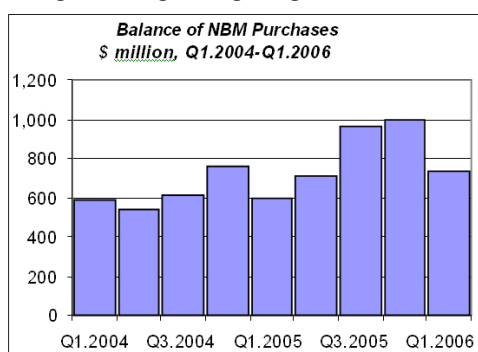
Even though NBM assured the Government that it will promote a policy of cheapening the crediting resources for the national economy, NBM can not act against the laws of the market and will do everything possible to achieve the primary goal of its monetary policy – inflation control. We think that NBM will have to increase by the end of the year the refinancing rate from 12.5% to 13.5%, meaning there will be two increases.

The change of the interest rates trend on the market will impact the monetary base as well. The monetary base could increase under the level planned by NBM. Reminding you that NBM plans an increase of the monetary aggregate M2 by 40%. In our opinion, the NBM will take into consideration the inflation in the due year and will oppose to an excessive growth of the monetary base. Finally, in our opinion, at the end of the year the monetary aggregate M2 will increase by 28%, and aggregate M3 – by 26%.

Due to the increase in the interest rates on the monetary market, it is estimated that the credit balance growth rate will diminish from 33% in 2005 down to 29% in 2006.

Currency Market

USD still holds a dominating position on the currency market, even though EURO has gained a growing weight in external trade and international transfers.



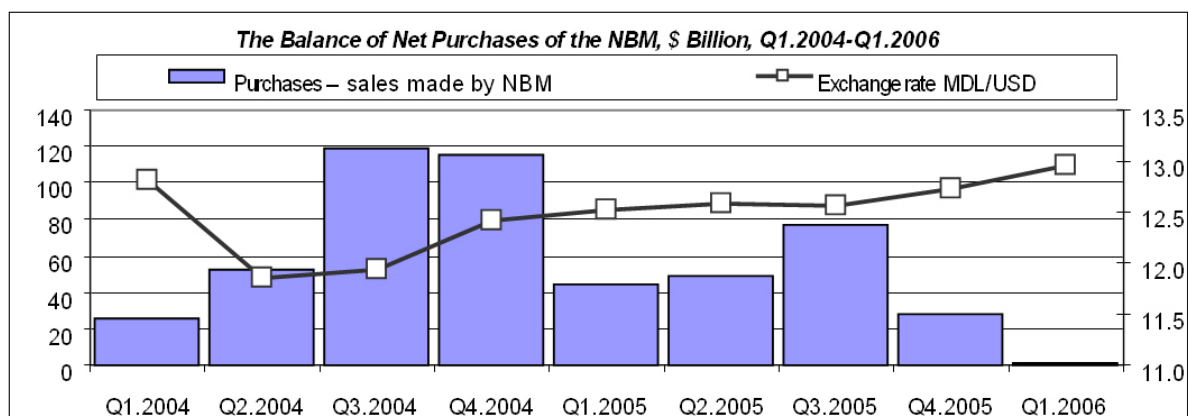
Source: ME calculations on the basis of NBM data

The share of RUR increased over the past two years. We believe that this was caused by the instability of the Russian currency and the increase in the nominal salaries of Moldovan migrants to Russia.

The NBM on the currency market

During 2004, the NBM has significantly interfered on the currency market, acquiring big amounts of currency. This interference has drawn much criticism towards the NBM. Analyzing the diagram below we see that these net purchases (meaning the total amount of acquisition minus sales) were indeed necessary in order to prevent an appreciation of the Moldovan leu. As a result of the big acquisitions during the second and third quarters of 2004, the Moldovan leu has registered a slight decrease, dictated by the situation of national economy.

The share of RUR increased over the past two years mainly because of the instability of the Russian currency.



Source: ME calculations on the basis of NBM data

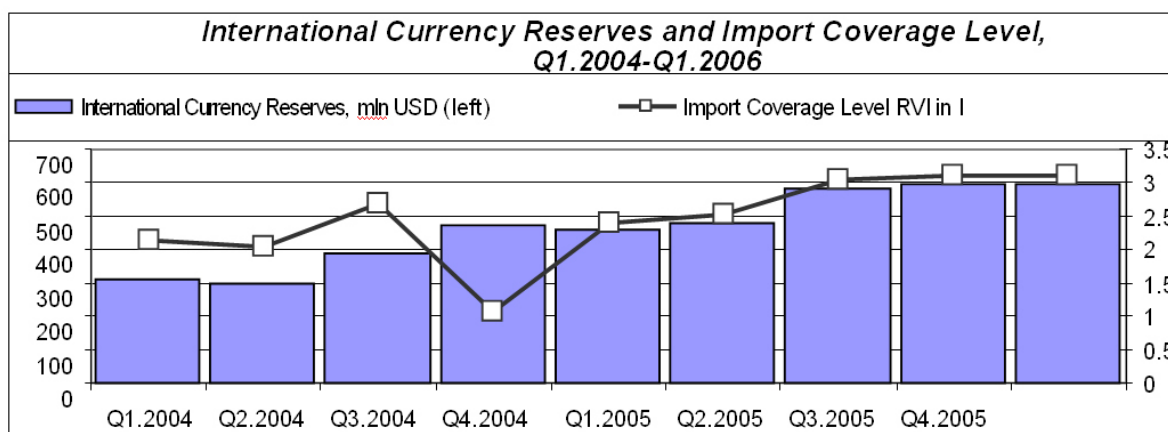
The actual level of official currency stock is no reason for BNM to proceed with massive currency acquisitions.

In 2005, BNM has also intervened on the currency market, but it didn't always aim at diminishing the pressure on Leu appreciation. In 2005, the net foreign currency sales made to The Ministry of Finance and other ministries amounted at 51.4 millions. BNM got these funds by buying them on the interbank market.

The questions that follows is "Will the NBM be motivated to buy significant amounts of foreign currency in 2006, just like in 2004?"

1. As we estimate a slight depreciation of the USD on the international market in the second half of 2006, we estimate that the BNM will not be motivated to interfere in the currency market.

2. At present, the level of Official International Reserves cover more than 3 months of import. The level of Official Currency Resources at the time being can not be a reason for NBM to make massive acquisitions in order to cover the currency reserves.



Source: ME calculations on the basis of NBM data

3 The banking system in Moldova faces an excess of liquidities. The NBM acquisitions of foreign currencies are equivalent to the amount of issued Lei. Considering the inflation processes in the economy, the NBM will not be motivated to aggravate the liquidity situation in the banking system.

We don't leave out the fact that BNM will periodically interfere in the currency market in order to acquire currency at the request of the Ministry of Finance. We think these acquisitions will not exceed 75 million lei per year.

A new foreign commercial bank in the Republic of Moldova

We have estimated in the third issue of the EM that the changes operated at the Law on the Financial Institutions of the Republic of Moldova represented at that time an effective measure that would allow opening in Moldova branches of foreign banks. The main modification referred to the capital of all the resident banks established after July 1, 2005, at least 70% of which had to be owned by other financial institution, and 30% - by non financial organizations. The effect was fast and as a result, a representative office of the Austrian Bank "Raiffeisen International Bank Holding AG" was opened. A few weeks later, the Raiffeisen Bank representative for Russia, Ukraine and Belarus announced that Raiffeisen intends to buy one of the three top banks from Moldova. Now, Raiffeisen has an indirect influence on the Romanian Commercial Bank branch in Moldova because it purchased the main office of the Romanian Commercial Bank from Romania.

Conclusions and forecasts.

We think that by the end of the year the NBM will have to increase the refinancing rate to 13.5% during the first quarter, mainly determined by the inflationist effects in the first quarter. This would mean a change of the trend, because during the past two years the refinancing rate was decreasing. If the NBM decides to increase the refinancing rate, it will in partly solve the cash surplus problem, but it will also lead to a credit's rise in price up to an interest rate of 19.2%. We think that the monetary aggregate M2 will increase in 2006 by only 28% if compared to the 40% previously planned by the NBM. In the short run, the increase in the refinancing rate will decrease the profitability of the deposit-crediting operations of commercial banks, but on average term it will lead to an improvement of the bank markup.

We think that during 2006 the NBM will not be motivated to make acquire sizeable amounts of foreign currency on the currency market.

Public Finances

The budgetary revenues growth rate will diminish in 2006

General Trends

The high growth rate of the budget revenues registered in 2002-2005 will significantly decrease next years. The Government plans for 2006 an 18% growth in the budget revenues, and unlike the situation in 2005 when the real revenues were much higher than the planned ones, in 2006 this will most likely not happen.

When the relationship with international financial institutions is re-established, the pattern of the public policies on public finance will also change. Thus, for the next period, we will shift from a socially oriented budget to an investment one. The sudden increase in investment expenses in 2005 will maintain itself in 2006 as well, and the key objective in the very next period will be the public investment increase by attracting investment loans up to 20% of the total public expenses.

The share of direct taxes in the state budget will increase during the next years

The budget revenues will become more predictable

The budget revenues source will change during 2006 – 2007. Since 2003 the budget receipts mainly consisted of the value added tax on imported goods, which increased constantly due to a large flow of remittances from abroad.

We think that in 2006 the growth rate of remittances from abroad will stabilize, causing the remittance-related budget revenues to stabilize as well.

The remittances are an economic factor, which influence the budget receipts and can't be controlled by the Government. As a result, forecasting budget revenues remains difficult. Thus, over the past few years the budget is over-executed¹ in terms of revenues, mostly due to VAT receipts over the estimated. We think that in 2006 the state budget will be over-executed at the same chapter, but to a lower extent. The positive impact of this process is that it will gradually increase the role of the Government controlled factors that influenced the budget receipts. This way the forecast of the budget receipts will improve.

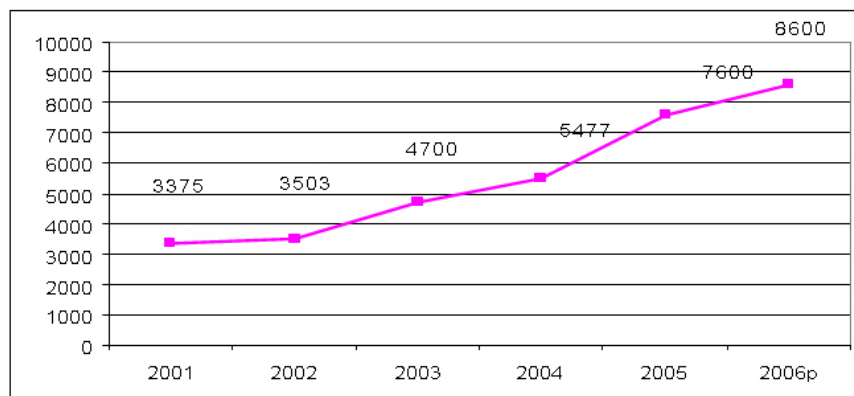
The state budget will be over-executed at the minimum level

In spite of the ban imposed by Russia on wine exports and their effect on the state budget, we think that the state budget won't be significantly affected. The possible losses will be compensated by the additional revenues from the TVA imposed on imported goods. Moreover, we think that (1) these interdictions won't last, (2) the economic units will gradually redirect their export (in the medium term of 3-5 years, this process will be benefic for our national economy and the state budget) (3) the economic units will manage soon to get a qualitatively new position on the Russian market.

Based on the aforementioned, we consider that the budget will be over-executed at minimum 105% and the total receipts will reach at least MDL 8.6 billion.

1. Except for 2004, then considerable privatization-related revenues were missed and the National Bank of Moldova failed to receive the expected revenues. Anyway, the VAT receipts were much higher than estimated and helped cover the gap between budgetary revenues and expenditures.

Diagram 1. State Budget Revenues Dynamics



Source: 2000-2006 State Budget Law, CEP prognosis

In 2006, the state budget will have two types of revenues that almost fully lacked during the previous years: (1) revenues from privatization (2) external grants for investment projects.

The Government is in the final phase of signing a new Memorandum with the IMF and World Bank has already prepared a crediting package for a group of states (including Moldova) and set as a condition Moldova's signing the agreement with the IMF (see chapter "External Debts"). We believe that the resumption of the privatization process is closely related to the reestablishment of the relationship with international financial institutions. (see box "Resumption of The Privatization Process"). In the short term, the resumption of the privatization process will generate budget revenues (on medium and long term) and improve the business climate in Moldova.

The resumption of the relationships with international financial institutions will help increase the investment expenditures

● RESUMPTION OF PRIVATIZATION PROCESS

UA long row of events as: amendment of the legislation on financial institutions, evaluation of the assets of Banca de Economii, a possible resumption of the relationship with the international financial organizations, the desire of a foreign bank to buy one of the tree top banks of Moldova, Government's intention to modify the financial sector regulating policy, all these make us believe that we face a new privatization process.

This process is significant, similar to the one in 2000 when the power grid was privatized.

The impact of this process is much larger and much deeper than a simple collection of financial sources of state budget financing.

1. If we make a comparative analysis with the privatization process of the electricity grid, we can say that the foreign investor will condition his participation in the privatization process with improving the legal framework of the privatized sector. This will improve the business climate and the investment rating if the country.
2. A new bank on the market means new technologies, new services, access to resources and long term credits for economic units.

3. The privatization process is crucially important for the resumption of the relationships with international financial institutions. The reestablished relationships will surely improve the governing process and will help increase the public investments
4. A foreign bank will surely be an intersectorial institution, with a wide range of financial services and will impose modification of the financial sectors principles. There can be one mega-regulator instead of the 4 regulating institutions that would be a benefit for Moldova's small economy.
5. New investor's presence on the financial market will impose modifications of the financial legislation in order to liberalize the money flow, thus improving the investment climate of the country.

In other words, restarting the privatization process is nothing more than a new way to cash some 10 million lei in the state budget. However, it also implies a modification of the public policies.

The long term effect is the improved business climate and investment rating of the country.

From Social Budget to Investment Budget

The first gas supply program was launched in 1991, but the first investments were made in 2005 only.

Since 2001 the Government budgetary policy was socially oriented and it demonstrated a continuous growth in the share of social expenditures in the state budget, to the detriment of current expenditures destined for maintaining public institutions and capital investments. This was justified by the need to restore the population's purchasing power, especially of those in the budget sector, and reduce the gap between the incomes of budget workers and other sectors of the national economy. For example in 2002, the share of remuneration expenditures in education was about 60%, today they have grown to 80%.

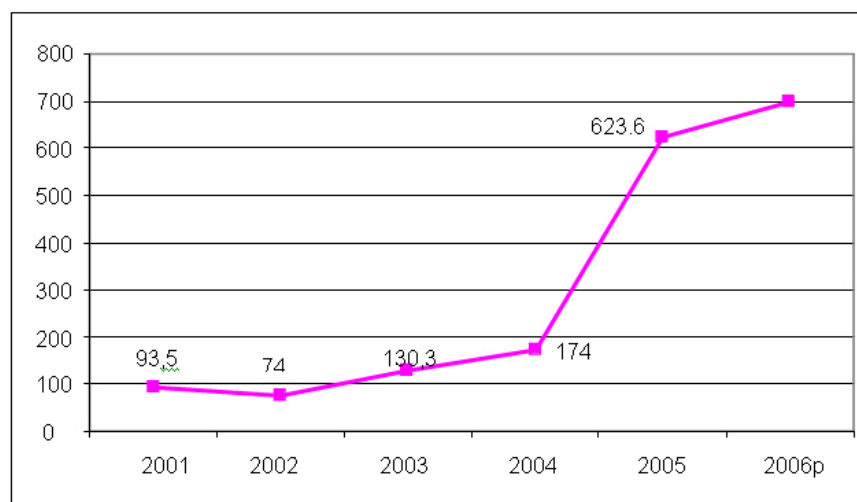
Since 2002 there have been implemented a unique expenditures directing program in order to reduce poverty among people, especially budget workers as being the most disfavored social group.

But, the implementation of this policy for more than 3-5 years can have severe consequences on national economy. Simply said, most of the budget sector revenues were generated by the erosion of public assets.

In 2005 the real investments were 3.8 higher than initially planned.

For 2005, there have been foreseen essential investments from the state budget in volume of 162.4 billion lei, but due to budget over-execution and the political decision to accelerate the gas supply process in the regions of Moldova, the investments amounted at LEI 623.6 million or 3.8 times more.

Diagram 2. Dynamics of the State Budget Revenues



Source: 2000-2006 State Budget Law, Estimations of CEP experts

The investment outcome in 2005 will maintain itself in 2006 as well, but the budget possibilities are at the upper limit for public investment.

The main goal of the national economy revival, including the economic and social infrastructure reconstruction can not be achieved unless the public investments are significantly increased. The only viable source of public investments is the external grants for investment projects.

We believe that in the future 3-5 years the state budget will be, or at least has to be an investment budget, and the investment expenditures have

to be at least 15-20% of all the budget expenditures. This can be accomplished only by relieving the relationship with the international financial institutions.

During the next 3-5 years the state budgets will be an investment budget.

● SIAMESE TWINS OR THE PECULIARITIES OF THE CONSOLIDATED BUDGET

Republic of Moldova has commitments to European Council to increase the local public authorities' level of autonomy. Based on these commitments, the Parliament will come up till the end of May with a Concept on Reforming the Legal Framework in Public Administration, which also provides for increasing local financial autonomy.

The present system of local public finances can be compared to Siamese twins, because the local budgets cannot be considered separately of the regional or state budget.

A reform of the system implies separating the budget process and budgets at all levels.

The main objectives of the reform are the following: (1) impossibility of an administrative level to interfere in a budget process at a different administrative level, (2) the competence of local public authorities should correspond to the allocated financial resources.

So far the entire system is maintained by the Ministry of Finance, which, on one side, develops the budgets, and on the other side provides through

the transfer system the local public authorities with the necessary financial resources according to the set budgets. As a result, the local public authorities have no possibility to identify on their own the local problems that need to be solved and neither have the financial resources to solve them.

In order to prevent these difficulties it is necessary to separate the budget process and the local budgets from the state budget. The revenues can be separated only if the local authorities will be entitled to have their own tax revenues. Mayoralties may have the following revenues: income tax for individuals (approx. 1 billion MDL) and property tax (approx. 300 million lei), and for the regional authorities: income tax for legal entities. The expenditures can be separated by delegating competences to the local authorities according to the amount of allocated financial resources.

Thus, the local public authorities will have their own revenues and will independently make the decisions how to use their financial resources according to their legal competences, and this will take the regional authorities and the Ministry of Finance out of the budgetary process at local level.

Prices

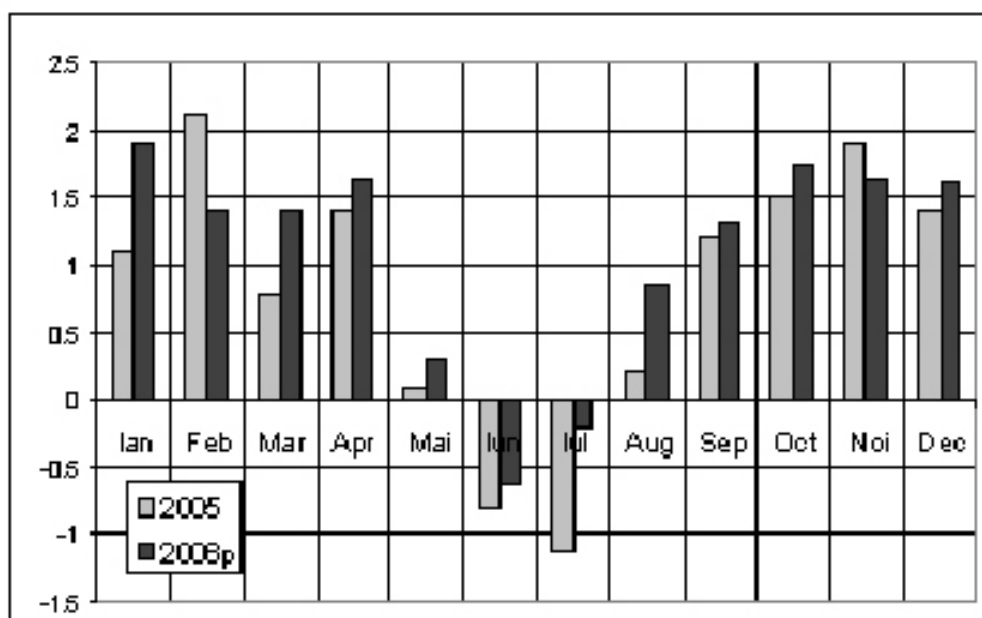
Prognoses

For 2006 we estimate an annual inflation rate of 13%.

For 2005 the NBM set the target to maintain the inflation rate within the limits of 8% and 10%, „Economist Intelligence Unit” estimated a 10-percent inflation rate for the current year, while the Ministry of Economy estimated 11%. During the first quarter of this year the cumulative inflation rate, as reported by DSS, constituted 4.8%. Thus, half of the limit set by the NBM was attained in the first quarter, and it seem that the prices will not stop at this level.

For 2006 we estimate an annual inflation rate of 13%, mainly determined by the following factors:

Diagram 3. Monthly Inflation Rates in 2005 and the Estimations for 2006



Source: DSS, ME estimations

The increase in the gas price is not yet fully reflected in the CPI.

1. The lack of stability on the agricultural market might cause fluctuations on the food market. This year the structure of cultures changed significantly because of the non-tariff barriers imposed by Russia for Moldovan agricultural products. The cancellation of these restrictions might unbalance the supply and demand of agricultural products on the local market.

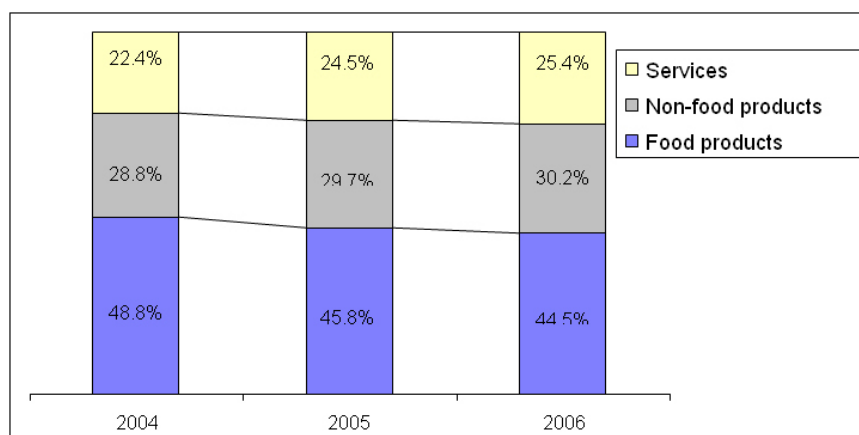
2. The increase in the gas prices partially proves the existence of an imported inflation.

The share of food products diminished to the favor of "services" component.

The Share of Components in 2006

In 2006 the DSS diminished significantly the share of "food products" in the calculation of inflation. This is positive, as it will diminish the dependence of the inflation rate on the excessive seasonal fluctuations of some food

products. The share of food products diminished to the favor of “services” component. We think this is an appropriate decision, as services have an increasing share in the households’ expenditures. Still, the share of “food products” component in the calculation of inflation rate is significant.



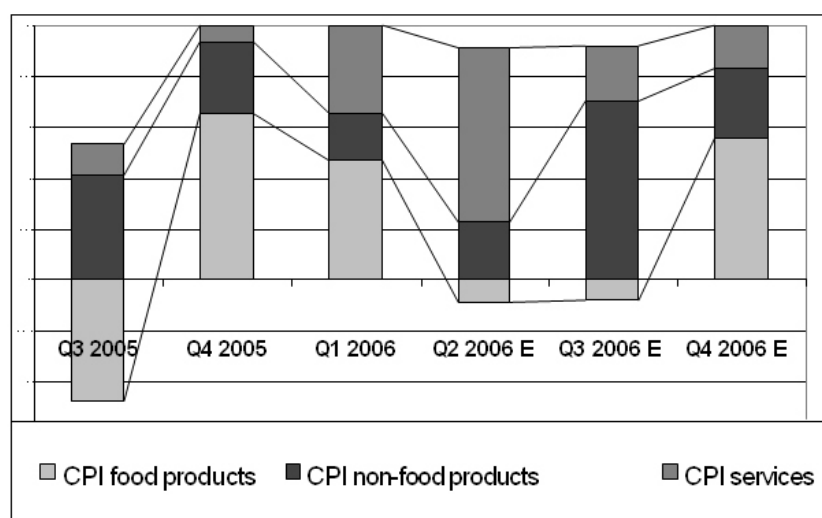
Source: ME calculations on the basis of DSS data

Contribution of CPI components in the calculation of the inflation rate; estimates for 2006

In the first quarter of this year the “service” component had a determinant impact on the inflation rate. This was mainly caused by the increase in the cost of public utilities by 11.2% in the first quarter, caused by the 37.5-per-cent increase in the gas price.

We believe that the “services” component will still have a significant impact on the inflation rate during the second quarter of 2006, as the increase in the gas price is not yet fully reflected in the CPI.

Diagram 2. CPI Structure in Terms of Food Products, Non-Food products and Services, Quarterly, Q3 2005- Q4 2006 estimated.



Source: ME calculation on the basis of DSS data, ME estimations

In the middle of the year the prices for food products will go down, but to a lower extent than during the same period of 2005.

We also estimate that the prices for one of the "food products" components will go down during the second and third quarters. However, in the middle of the year the decrease in the prices for food products will be lower than the price collapse registered during the same period¹¹ of the previous year.

In 2005 the non-tariff barriers, imposed by the Russian Federation on fresh products came as a surprise for local producers. The increased offer on the local market led to a collapse of the internal prices. However, this year the producers adjusted the volumes and structure of cultures, so that the food products prices will not fall down sharply.

The "non-food products" component seems to have a decisive impact on inflation during the third quarter of the current year, as the consumption of these products increases significantly during this period.

The petroleum price reached a new "world" record. The gas price is also on the upswing.

This April the price of one petroleum barrel exceeded the previous limit of \$71, registered in the summer of 2005, and reached \$74 per barrel.

Diagram 3. Evolution of the World Petroleum Price, \$ per barrel.



Source: New York Mercantile Exchange

At present, the gas price is regarded as under-evaluated in comparison with the petroleum price.

For 2006 we estimate an inflation rate of 13%.

The gasoline price in Moldova might increase by maximum 7%-10% this year.

This increase was mainly generated by the following factors:

1. The danger that USA will attack Iran, suspected of producing nuclear arms. At present, Iran is the fourth world exporter of petroleum. If USA decides to attack Iran, the petroleum supply will dramatically decrease during that period. Moreover, the armed attacks will have a medium-term impact, as they may destroy a number of oil wells (and the appropriate infrastructure), whose repair might last up to 6 months.
2. The US stocks of fuel (gasoline) diminished sharply last April. During the spring-summer period the consumption of fuel for transportation is the highest. Hence, the diminution of fuel stocks alarmed the stakeholders of energy markets.
3. The revolt of rebels from Nigeria. Nigeria is among the first ten petroleum producers. The frequent revolts decreased the petroleum extraction by 25%, thus diminishing the petroleum supply on the world market.

¹ We remind that the collapse of prices for agricultural products during the summer of 2005 caused a false feeling of deflation in the national economy, with a negative inflation rate during the summer months.

If the influence of the above three factors will drop, the petroleum price might fall down to \$65.

At present, the gas price is regarded as under-evaluated in comparison with the petroleum price. Thus, if the petroleum price will not fall under \$70 till this autumn, the gas price will definitely follow suit, with gas becoming the main substitute for petroleum.

Conclusions and Prognoses

As the trade balance deficit is increasing in Moldova in exponential terms, there is a high level of imported inflation in this country. Hence, in estimating the inflation rate we mainly focus on the impact of the world prices.

For 2006 we estimate an inflation rate of 13%. If last year the “food products” component registered the highest increase, then in 2006 the “services” component might have the highest increase in prices.

Last year we estimated the petroleum price at \$75 by the end of 2005. The current data don't differ much from the estimated ones, the price of one barrel reaching \$70.5 late last year. We estimate the price of \$67 per barrel for late next year.

If we compare the world realities with the local ones, we conclude that the gasoline price in Moldova might increase by maximum 7%-10% this year (taking into account the current exchange rate MDL/USD).

Households

During the next two years the share of households' savings will not exceed one fourth of the net global revenues.

According to the CEP estimations, in 2006 the share of wages will contribute in the extent of 56.5% to the increase in the households' revenues. The social benefits will also increase, firstly the pensions – by about 15.7% in 2006.

The inflows of foreign currency will continue to supplement the available revenues of households, recovering the Final Consumption with a 7-8 per cent growth rate in 2006-2007.

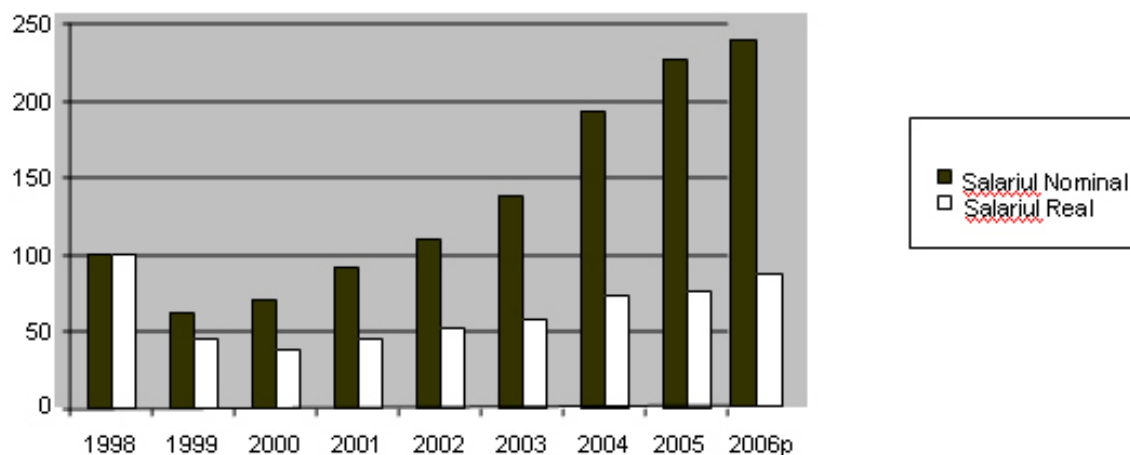
By the end of 2006 the people's purchasing power will increase by about 4 %.

In 2006 CEP estimates an increase in the retail trade by 6% and in the service sector – by some 10%. The households' business investments will still be insignificant.

People's Revenues

In 2006 the households' revenues will continue to increase both in nominal and real terms thanks to the augmentation of salaries, remittances from abroad and social benefits. The growth rate of households' revenues will be lower than during the previous years, thus decreasing the GDP growth rate. We estimate a diminution in the growth rate of the people's purchasing power, which will amount at 3.3% by the end of the year.

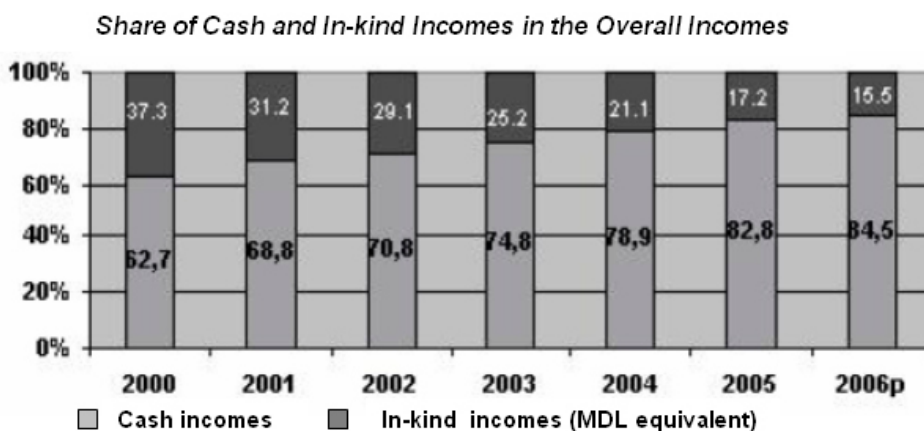
Evolution of Available Revenues in Nominal and Real Terms, USD



Source: DSS, CEP/IDIS estimates

The share of money revenues in the total available revenues of households will continue to increase this year, to the detriment of revenues in goods. CEP assumes that this year the unbalance, appeared during the previous years, will be maintained – in rural localities the revenues in goods will accounts for about 28%, while in urban localities – for 5%.

At the same time, the non-financial revenues, including those yielded by the owned lands, will not increase the savings share in 2006-2007 due to the low level of land transactions and insufficient development of the rural market (supply with agricultural, credit, and other inputs).

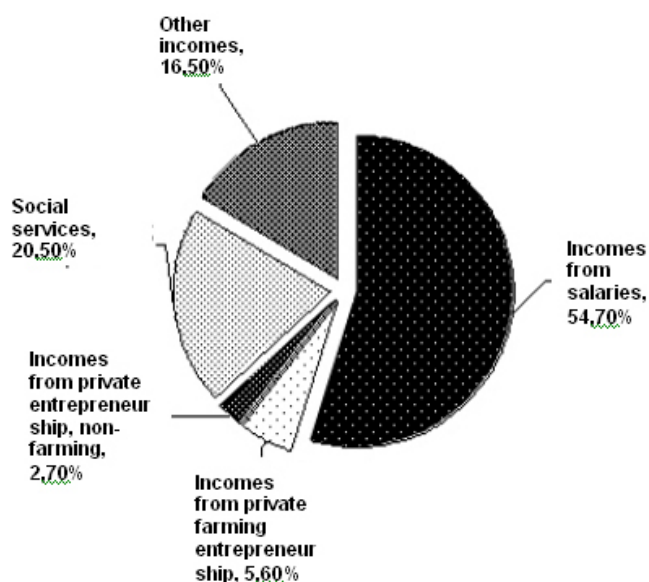


The non-financial revenues, including those yielded by the owned lands, will not increase the savings share.

Source: DSS, CEP prognoses

The share of real revenues from salaries will increase during the next two years, with a lower growth rate than the GDP. We base our assumptions on the fact that in 2005 the price increase was not caused by higher salaries, but the huge remittances from abroad. At the same time, in 2006-2007 the NBM and Government policies will be influenced by anti-inflation consideration, limiting the growth rate of salaries in the public sector¹¹

Structure of Available Money Revenues, 2005



Source: DSS

¹¹ 37% of all employees worked in the public sector in 2005.

Besides the improvement of the social benefits, the quick increase in the salaries of the most dynamic sectors of the real economy (constructions and services) will continuously impact the size of the salary during the next two years. According to CEP estimations, the share of remuneration will contribute in the extent of 56.5% to the increase in the households' revenues in 2006.

The huge inflow of currency from abroad is another important factor, which contributed to the real increase in the salary over the past few years.

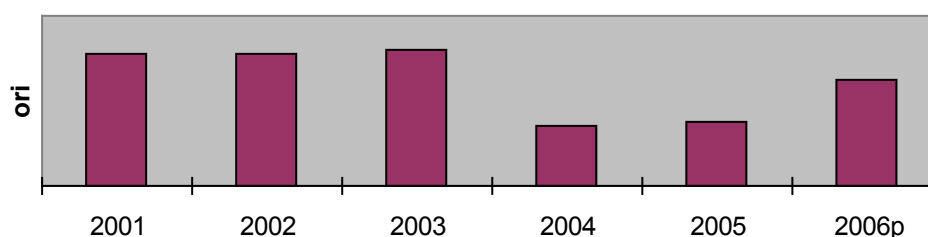
In the short and medium run the share of social benefits will continue to grow in the available revenues of households, firstly the pensions will be increased, reaching about 15.7% in late 2006.

Households' Consumption

According to official data in 2005 the retail trade increased by 4.7% if compared to the previous year, the paid services provided to people - by 9.3%. The CEP estimates for the respective period differ from the official data - we estimated an increase in the retail trade by 10% and in services - by 7%.

The difference between the official data and the CEP estimations can be explained as follows: in 2005 the growth rate of households' consumption stabilized – the same trend was preserved during the first semester of 2005. CEP believes it was generated by two main factors. Firstly, during that period the increase in CPI diminished the real revenues of people. At the same time, there appeared a trend for delayed demand, which lead to increased stocks in trade outlets – by 33% on October 1, 2005.

Growth Rate of Consumption Expenditures

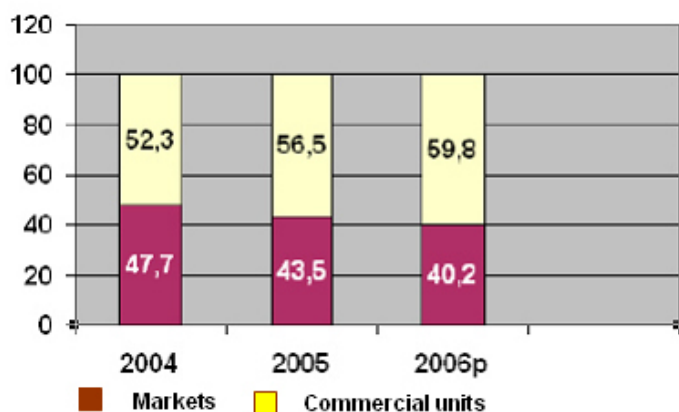


Source: DSS, CEP prognosis

The share of retail sales through supermarkets and stores will increase in 2006.

The market situation got right during the second quarter of 2005. This reveals the increase in the people's consumption rate that occurred at the end of the year. These developments were accompanied by the augmentation of the foreign currency inflow in the second quarter of 2005, which were used to fund the basic needs of the households, acquire real estate and repay the debts. In 2005 the Moldovan people made 56.5% of total procurements in supermarkets and shops. Respectively 43.5% of the products were sold at markets. In 2006 we estimate a continuous increase in trade outlets, given the current development in the construction field, characterized by unfinished constructions, buildings' repair for supermarkets, restaurants and store chains.

Structure of retail sales



Source: DSS, CEP estimates

According to DSS data, in 2005 the number of paid services provided by legal entities to people increased by 8.5%. That is why, last year the share of public utilities, passenger transportation, public nutrition and social services accounted for 90%. Chisinau and Balti municipalities accounted for 61% and 5.9% respectively of the total value of paid services provided to people. During the same period of time the private entrepreneurs increased by 12.8% the volume of services offered, in comparison with 2004.

According to the CEP prognosis for 2006, the expenditures for consumption goods and construction of dwelling places will have a major share in the additional revenues of households. These expenditures will be a strong short-term impulse that will increase the demand on the local market and facilitate the GDP growth by about 7-8% annually, during 2006-2007.

Migration was the main mechanism of fighting the poverty.

Households with Migrants

The inflows of foreign currency from abroad will remain an important supplement for the available revenues of households recovering the Final Consumption with a 7-8 percent growth rate in 2006-2007.

According to ILO data, there is a direct relationship between the migrant's contribution and the family's welfare. Moreover, the migration was the main mechanism of fighting the poverty for many people who couldn't afford the minimum costs with the revenues earned in the country. Migration is mainly spread among poor households rather than wealthy ones. It is mainly determined by the need to make ends meet – cover the main costs of existence, repay the debts and fund the consumption. The main reasons that foster migration doesn't refer to the lack of job opportunities, but rather to the desire to earn more money and enhance the standard of living.

The main reasons that foster migration doesn't refer to the lack of job opportunities, but rather to the desire to earn more money and enhance the standard of living.

According to the recent OECD data, the Moldovan Diaspora in the European countries – if compared to other Eastern European and CIS countries, has the highest level of education and professional skills, 37% of them having an "extremely high qualification". About 50% of migrants graduated from higher educational institutions or technical colleges, and other 23% graduated from lyceum. Only 10% of the migrants don't have any educational background.

Over 80% of the Moldovan migrants send the earned money back home and over 70% of them send more than half of their earnings. Over half of migrants send money home at least quarterly and 25% send them on a regular basis. It is expected that in 2006 about 20% of Moldovan people will be working abroad, either temporarily or permanently.

In 2006-2007 most of the Moldovan people will migrate to Russia (58% in 2004) and West European countries (30% in 2004). However, the share of Russia will decrease if the costs will increase. For example additional costs imposed by the introduction of a visa regime.

Fields of Employment of Moldovan Emigrants abroad

Activities	Share in the total number of interviewed migrants (214 ppl.)
Agricultural activities	6.9
Constructions, repair works	51.3
Employees in factories, plants, companies	7.2
Freelancers	10.9
Housekeeping, nursering	7.8
Trade	7.3
Services	7.3
Other	0.9
Didn't answer	0.4

Source: ILO, *Study of Transfers to Moldova from Abroad*, (January 2005)

Most of the men migrate to the CIS countries (Russia and Ukraine) and some European countries (Portugal, Germany), women mainly migrate to Italy, Spain, Turkey, Greece, and Cyprus.

Structure of Migrants by Age/Gender, %, in 2004

	Under 20 years	21-30 years	31-40 years	41-50 years	Over 51 years	Total
Male	5,5	37,3	28,3	23,5	5,4	100
Female	3,8	27,4	35,9	28,7	3,8	100
Total	4,9	34,0	30,9	25,2	4,9	100

Source: ILO, *Study of Transfers to Moldova from Abroad*, (January 2005)

The migration to Russia and CIS is mainly motivated by the low costs and lack of language barriers. However, the salaries earned in this country are 3-5 times lower than in Western countries.

Moldovan migrants earn the lowest average salary in Ukraine (\$245), Russia (\$372) and Turkey (\$417). The highest salaries are earned in Germany (\$1300), Israel (\$998), Italy (about \$934), Portugal (\$890), and France (\$781). Only one third of the money are transferred via legal channels, such as wire transfers, quick transfer or mail.

	Used at least once	Used mode frequently
Wire transfers	25.7	13.0
Quick transfers	28.8	19.5
Mail	4.4	1.9
Train conductor	12.6	7.1
Bus, cargo truck drivers	11.4	6.8
Personal	38.9	17.3
Via relatives, friends, acquaintances	29.1	11.7
In the parcel, together with other things	8.7	1.3
Others	9.4	0.9
Didn't answer		20.6

Over 40% of the migrants' transfers could be invested or placed with a bank.

Source: ILO, *Study of Transfers to Moldova from Abroad*, (January 2005)

The costs of money transfers from abroad are relatively high if compared to other services on the market, and impact mainly the poor migrants, who send small amounts to their families. The study on household consumption patterns, carried out by the Microfinance Alliance in 2004, reveal that the money remittances are mainly use to cover the household consumption. However, it doesn't yield any benefits for the overall economy. Only 7% of the transfers from abroad are invested in a business and maybe less than 5% out of the 21% reported savings are placed with a bank. Out of the latter, 22% of the money was used for "passive investments" such as procurement of a house or apartment or leasing of a car, or were used to fund such events as weddings, funerals, etc.

At the same time, after covering the basic needs and partially the human capital, about 43% of the funds transferred from abroad are available for investments or placements with a bank. However, the low trust in the banking system prevents people from saving a larger share of the money received from abroad.

CONCLUSIONS AND PROGNOSSES

- In 2006 -2007 the migration and inflow of remittances from abroad will have a significant macroeconomic impact, both increasing the household's consumption and diminishing the offer of labor force, which, in its turn, will put pressure over the local salaries.
- The remittance inflows will cover the trade balance deficit, which will continue to increase in 2006 and 2007. At the same time, they will put pressure on the exchange rate.
- The migration will foster inflationist pressures, will increase the tax revenues, especially via increased VAT on imported goods and will endanger the pension system.

Final Consumption

The economic growth in Moldova was mainly generated by the final consumption expenditures, stimulated by the inflow of foreign currency from migrants. According to our estimations, in 2006 the growth rate of the final consumption will diminish in comparison with the GDP growth. This can be explained by the legalization of the shadow sector.

Consumption reported to GDP, thousand MDL, current prices

	2001	2002	2003	2004	2005e	2006p
GDP	19052	22556	27619	31992	36200	40226
Final consumption	19263	23289	30450	33832	40700	48026
Households	16385	18493	24711	28576	34500	41698

Source: DSS, CEP estimates

According to our estimates, this trend will strengthen during the current year, that is, the final consumption growth rate will exceed the GDP growth rate, with household consumption having the highest share.

The trends of people's consumption preference – mainly of the expenditures of families with migrants – will be marked by an increase in the expenditures for the basic consumption needs, dwelling place and education, which, in their turn, will further foster the growth of services and trade. CEP estimates the retail trade to increase by about 6-8% in 2006, and the services provided to people – by 10%.

In 2006 the business investments will continue to have an insignificant share of the household expenditures, revealing the trend of remaining a stable and counter-cycle source of foreign currency in the short term.

LABOR FORCE MARKET

General Trends

In the Republic of Moldova the number of employed people diminished by over 200 thousand people during 2000-2005. The recent data reveal that the situation will get worse in 2006. This is caused by the reduction of the overall output in industry and service sector. The increase in the number of people employed in agriculture actually means lack of job opportunities in industry and service sector, or a deeper poverty.

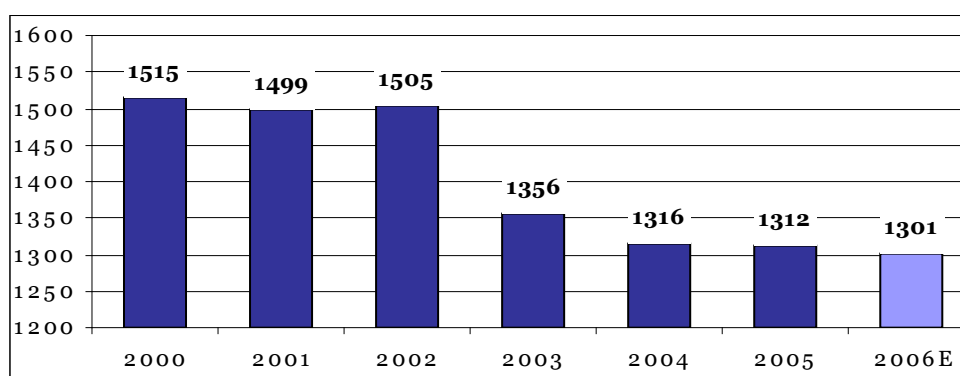
In the first quarter of 2006 the average salary increased by over 25% in comparison with the same period of the previous year on behalf of the increase in budgetary salaries. The diminution of the economic growth rate and cessation of wine exports to Russia makes us feel pessimistic regarding another salary increase during the current year.

The increase in the number of people employed in agriculture actually means lack of job opportunities in industry and service sector, or a deeper poverty.

New dismissals were registered in early 2006

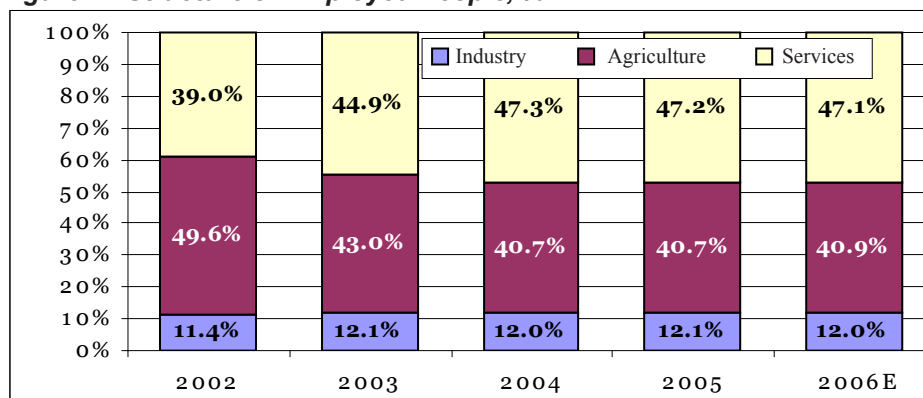
The number of employed people diminished by over 200 thousand people during 2000-2005. The recent data reveal that the situation will get worse in 2006, especially because of the unsure situation in industry and services.

Figure 1. Evolution of Employed People, thousand people



Source: Department of Statistics and Sociology of the RM, expert's estimations.

According to the data for the fourth quarter of 2005 and the preliminary estimations for the first quarter of the current year, the number of employees in industry and service sector will go down by 2%. The diminution in the overall industrial and service output since the beginning of the year confirms our suppositions. Moreover, the decrease in the expected economic growth rate will generate even more dismissals.

Figure 2. Structure of Employed People, %

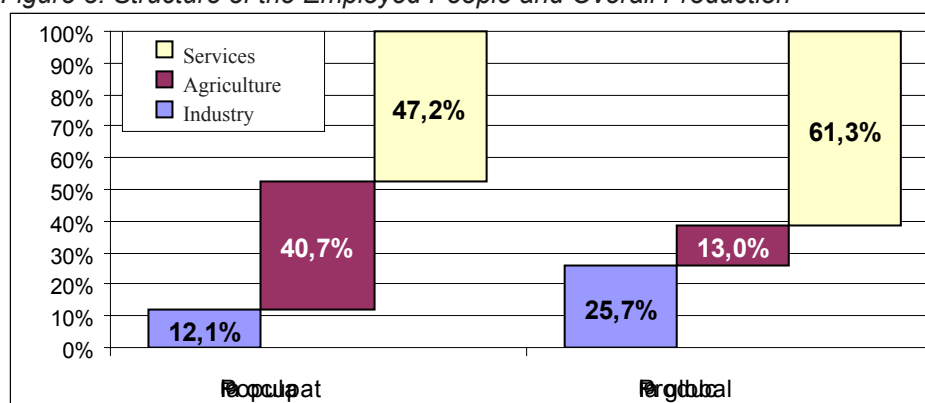
Source: Department of Statistics and Sociology of the RM, expert's estimations.

41% of the agricultural population yield only 13% of the country's overall production.

The department of Statistics and Sociology of the RM estimates an increase in the number of people employed in agriculture and a respective diminution in the number of people employed in industry and service sector, though there aren't any real factors to condition the increase in agricultural population.

We believe that the increase in the number of people employed in agriculture is not a relevant trend for the labor market, as the agricultural field is not economically attractive, being a subsistence, rather than a performance activity.

The low relevancy of agriculture is proved by the fact that the 41% of people employed in this field (the agricultural population) yield only 13% of the country's overall production, so that a change of 2-3% in the agricultural population will have an insignificant impact on the overall production and GDP.

Figure 3. Structure of the Employed People and Overall Production

Source: Department of Statistics and Sociology of the RM, expert's estimations

The industry and service sectors have opposite trends; hence the reduction of the number of people employed in these sectors impacts significantly the overall production and GDP.

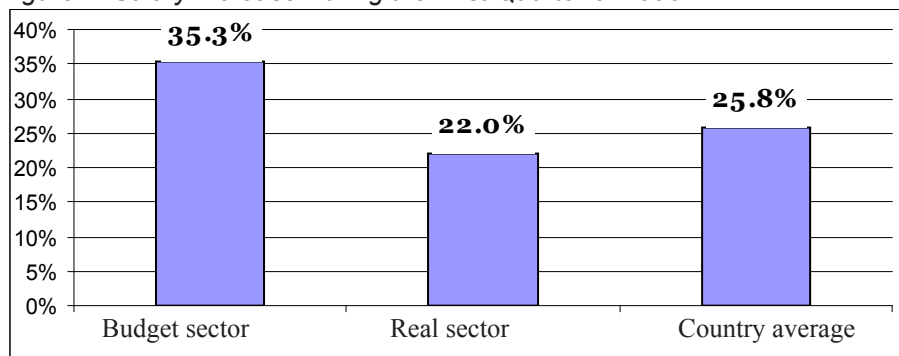
During the first quarter of 2006 the average salary increased by over 25%

During the first quarter of 2006 the average salary exceeded MDL 1450, or by 25% higher if compared to the same period of the previous year.

This increase was determined by the augmentation of the budgetary salaries. However, the decrease of the economic growth rate makes us feel pessimistic about any further increase in the salary during the current year. Moreover, the higher gas prices and cessation of the wine exports to Russia will negatively impact the salary levels. Thus, we believe that the salary growth rate will drop down to 16-18% annually during the next years.

Cessation of wine exports to Russia and increase in gas prices will diminish the salary growth rates.

Figure 4. Salary Increase During the First Quarter of 2006.



Source: Department of Statistics and Sociology of the RM, expert's estimations.

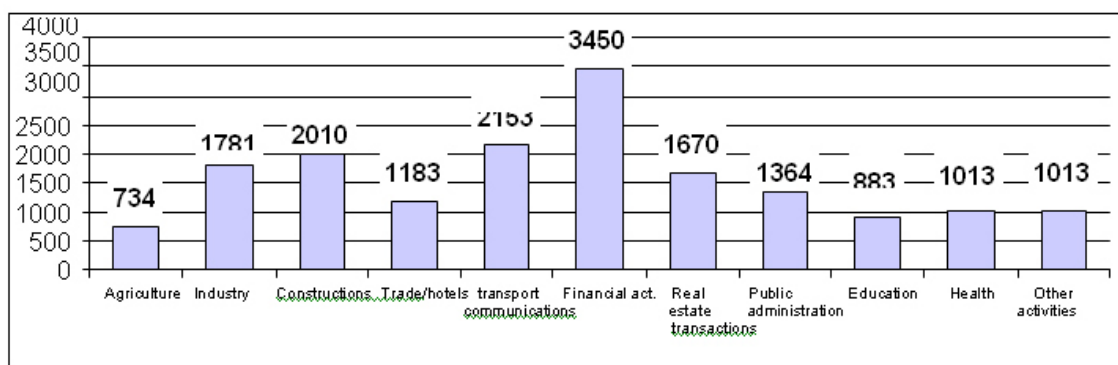
The salaries of about 70% employees are under the medium level

The recent salary increases were mainly generated by the augmentation of the budgetary salaries. Though the increase was sizeable, they didn't raise the salaries from the education, health and social assistance fields above the minimum consumption basket.

Thus, the salaries of most people are under the medium level, revealing the huge difference between salaries in different sectors.

For example, an employee from the banking sector earns 5 times more than an employee from the agricultural sector and 4 times more than an employee from the educational sector.

An employee from the banking sector earns 4 times more than an employee from the educational sector.

Figure 5. Monthly salary; MDL, 2005

Source: Department of Statistics and Sociology of the RM..

Though some differences are objective (determined by different productivity and educational levels, etc.), the cases of the education and health fields are not grounded. The education and health employees are among the best trained people, and have a huge impact on the social welfare.

● THE EDUCATIONAL SECTOR GETS ONLY RESIDUAL FUNDS

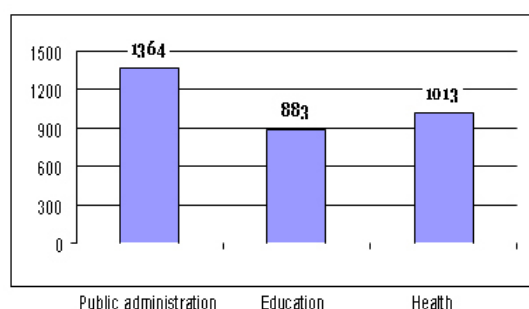
The education funding policy, and implicitly the remuneration in this field, depends to a great extent on the public authorities' capacity to raise funds, and the expenditures for remuneration seem to depend on the funds left after all other Government expenditures have been done. Thus, teachers form the most underprivileged category of budgetary workers with the lowest salaries, though over 50% of them have higher education. Teachers' salaries are by 55% lower than the salaries of public servants.

Though the Law on Remuneration in the Public Sector, discussed and approved by the Moldovan Parliament in December 2005, provides for salary augmentation, it fails to reflect the current realities and assure an appropriate level of living.

Most budgetary employees are literally working free of charge, because their remuneration covers only a part of their workload.

The main drawback of the Law on Remuneration in the Public Sector is the failure to assure equal salaries for budgetary and non-budgetary employees, including for different categories of budgetary workers.

The suggested remuneration system is discriminatory in relation to young people, who, in line with this law, will have a monthly salary under the minimum consumption basket (MDL 1200). In addition, the new system provides for salary increases based on seniority, qualification, etc., accepting gaps of over 200% for people performing the same type of activities (for example, between a young teacher and a teacher with a 30-year seniority and a high qualification level).

Figure 5. Monthly Salary, MDL, 2005

Source: Department of Statistics and Sociology of the RM.

Figure 6. Increase in the Monthly Salaries, as per the Law on Remuneration in the Public Sector.

Source: CEP/IDIS estimations

The remuneration issues should be settled by the respective trade unions that, unfortunately, cannot negotiate efficiently with the Government.

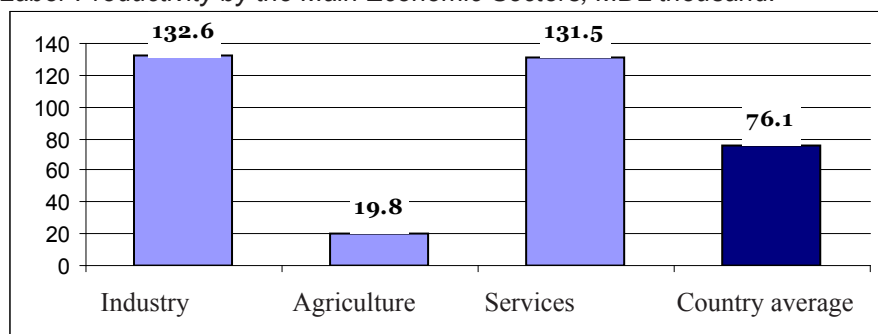
Agriculture is 6.5 times less productive than the industry

The are low salaries in the agriculture because of the inefficiency of this sector. Naturally, agriculture is a less productive sector and this is a disadvantage of agriculture workers. On the average, an agriculture worker earns MDL 20 thousand which must cover the operating costs, salaries and profits. Under these conditions, the large share of people involved in agriculture means nothing else but poverty and struggle for survival.

An agriculture worker earns MDL 20 thousand, which must cover the operating costs, salaries and profits

Figure nr. 7.

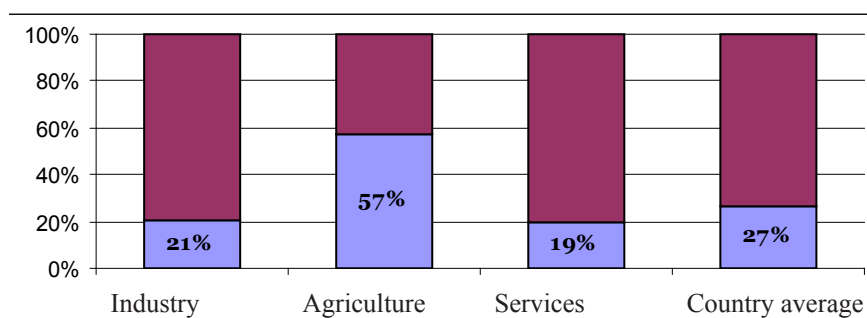
Labor Productivity by the Main Economic Sectors, MDL thousand.



Source: Department of Statistics and Sociology of the RM, expert's estimations.

It is impossible to raise salaries unless the labor productivity is enhanced. At present 57% of the agriculture revenues are used for remuneration. In the industry and service sectors 20% of the revenues are use for remuneration, thus offering the possibility to set some reserve for salary augmentation. However, such an increase might impact negatively the profitability, which is inadmissible for managers.

Figure. 8. The Share of Expenditures for Remuneration in the Overall Production, %



Source: Department of Statistics and Sociology of the RM, expert's estimations.

TRANSNISTRIA

General Trends

The development of Transnistria is more and more dependent on political factors. Sometimes it is even impossible to think of other measures less inappropriate in economic terms, but perfect in political terms, than the ones used by the break-away regime.

The Tiraspol authorities follow a vague policy on public property administration. The inefficient state administration and misunderstanding of their own decisions is clearly revealed by the requisition of a quota of the property of Moldovan Railways (the part acquired without the consent of Moldovan authorities). The local authorities took control over these assets without any legal grounding or estimation of the maintaining costs, with a single purpose to challenge the Moldovan authorities. Thus, they created an uncomfortable situation for “guarantors”, an absurd economic state and an unclear situation in terms of the possible consequences if Moldovan authorities decided to recover their property by force.

As a consequence, the railway portion on the right bank of the Nistru river yielded for the Republic of Moldova over \$4 million net profits in 2004, while the portion stolen by the Transnistrian militia generated losses of over \$0.5 million. This confirms the prevalence of military reasoning and a desire to intimidate the Chisinau authorities, to the detriment of the economic interests of the break-away regime.

Industry

The industrial output in 2005 reached \$700 million, remaining at the same level as in 2004. The Transnistrian industry is dominated by the iron sector, electricity production and light industry (about 80% of the total industrial output). During the reported period the iron production increased by about 4%, while the electricity production decreased by 2%. The negative trends in the food industry (-7%) reveal the dependence on imported products, but the recent privatization could minimize the negative consequences of the situation appeared in late 2005. The Russian investors and local oligarchs have a crucial role in the economic development of the Transnistrian region. This is also revealed by the speed up of the privatization rhythm. It is worth mentioning that the Republic of Moldova has repeatedly announced that it will not recognize the privatizations carried out by the break-away regime. For such a privatization to be approved, the economic units must register in Chisinau, pursuant to the national law of Moldova.

● “ECONOMIC BLOCKADE”

The economic standing of the region greatly depends on the financial successes of a number of industrial “giants”. But, it is important to understand that their activity targets to external markets. Respectively, when the cooperation between Ukraine and Moldova improved and the new Moldovan customs law started to operate on the Transnistrian segment, these companies incurred great export-

related problems on the external arena, and increased social dissatisfaction on the local arena. The local businesses started to look for solutions, excluding the political ones. The wisest thing to do was to register their companies with the Moldovan jurisdiction, which was already done

The exports of the Transnistrian region didn't change much during the second half of 2005. If they had such problems, their economy would have collapsed immediately after the blockade of the external economic relations, even on a short term. At the same time, the economic units registered in Chisinau have a continuous growth. We can surely say that most large companies of regional importance started to operate within the legal framework of the Republic of Moldova. We can assume that the tensions appeared in early March were part of the intimidation campaign, launched by the Transnistrian authorities just before the Ukrainian elections and also aimed at identifying the gaps of the existing customs system. Once understood the game rules, the Transnistrian business resorted to the old practices of illegal exports from the viewpoint of Chisinau and possible tacitly from the viewpoint of Kiev.

At the same time, we mention a number of positive trends of the countries iron and steel industry. The production of rolled metal diminished in 2006 as a result of the new customs regime. But the management of Rabnita tries to minimize the negative consequences. The modernization of the production cycle will help them increase the sales in the future. The situation of the electricity sector is not very optimistic. The recent events have brought a pessimistic note regarding the future of this sector, at least in the short run. This will be the case if the political reasoning will override the economic relationships. It is worth mentioning that the diminution in the electricity production was caused by the cessation of electricity deliveries to Moldova, and the new offer is too expensive. The Moldovan authorities and Transnistria-based electricity producers are still negotiating.

● MOLDGRES – POSSIBLE SOLUTION FOR BOTH PARTIES?

MoldGRES is relevant for the assessment of the Transnistrian industry. At the first glance, we have a high potential for a mutually advantageous cooperation. However, the relationships between the legal owner, electricity consumers and local authorities is very complex. At present the stakeholders try to pursue only their own strategic interests...

Finally, they started negotiating the possibilities to export electricity to Romania and Balkans. If

this succeeds, Moldova will have a chance to earn additional revenues and enjoy lower prices for electricity. This will also enhance the energy security of Moldova. After numerous months of insecurity and blaming the company's owner will invest in the upgrading of the production capacity. We hope a mutually benefic solution will be identified.

A positive trend in the evolution of the privatization process in Transnistria is the appearance of strategic investors, ready to invest without expecting any immediate profits, in spite of the policy of the Transnistrian authorities on the development of investment programs for the privatized companies. The political instability of this region is the main drawback – that is why most of the foreign investors are either risky people or the state business of the Russian Federation.

***Investițiile
în sectorul
serviciilor sunt
crescând.***

Agriculture

The agriculture of this region is in a bad state, and it worsened even more during 2005. In this case stagnation would be a good trend. The projects that are being implemented in the Republic of Moldova can be regarded as fairytales by the Transnistrian region. At present most food products are imported from Ukraine, and there are little chances for improvement in 2006. The Tiraspol

authorities have recently announced the introduction of a new agriculture development policy, but it didn't yield any positive results yet.

Monetary market

The banking sector of Transistria continues to develop. The bank assets are on the upswing both thanks to crediting activities and identification of new investment possibilities. The banking sector is quite efficient. The only negative problems that impacts negatively the profitability rate is the high growth rate of assets, if compared to the profitability rate. At present there are 8 commercial banks in this region, in comparison with 9 commercial banks in mid 2005. The commercial banks intensified their activity in corporative investments. Banks search for new risk diversification methods and select a good instrument for such an instable political environment as the Transistrian one.

Trade

In 2005 the trade balance deficit reached \$ 270 million, registering a negative trend in comparison with 2004. The export/import ratio is similar to the Moldovan one – the imports (+8%) grow quicker than the exports (+12.8). In late 2005 the export coverage level was 68%.

The geography of exports has changed dramatically – the share of EU countries decreased by 35%. The CIS countries became the main sales market (over 50%), with Russia and the principal "customer". In spite of the rigid EU position regarding the Transistrian exports, the Central and Eastern Europe is becoming a promising market for Transistrian goods. They mainly export iron, textile and mineral products.

The CIS countries account for over 60% of the imports, EU – about 23%. They mainly import non-precious metals (30%), food products (22%) and electricity (21%). The foreign trade has a decisive role for the survival of the Transistrian economy and the Tiraspol authorities should have a more flexible approach to export/import-related issues. The development of this branch of the regional economy depends on the political will of the local authorities. The Republic of Moldova is ready to implement with the support of Ukraine the new customs control techniques in the first two months of 2006 with the aim to improve the customs control. These activities might impact negatively the exports of the Transistrian region and, as a consequence, might have a devastator influence on the region's economic development. The soundness of Moldovan and local authorities could enhance the situation and help quickly settle this situation.

INTERNATIONAL

General trends

The last year the main issue discussed that could seriously damage global economic environment was oil prices. But recent tendencies had shown up that majority of the countries faced the situation quite normal.

Globalization processes intensely promoted and developed in the world allow countries to benefit from it not in decades as it was in the second part of XX century, but in years. That is a great phenomenon and recent development had shown that on contemporary level of development global economy can quickly adopt to economic realities. Inflationary issues generally remained under full control in majority of the countries.

US still remains the main economic power, but tremendously increasing trade deficit and current operations account deficit can really harmful influence economic situation in the country.

Emerging Asia is one of the areas with high growth rates: in spite of oil prices increase, internal demand continues to grow as well as export activity enlargement.

Chinese economy continues growth tendencies, although net trade contribution to GDP growth decreased. There is a stable growth of domestic market and we can observe an interesting situation, when Western countries, in spite of quite rigid conditions regarding foreign investments in China are fighting for the right to be the first on this promising market...

***By the end of 2005
global economy
continued to
develop at a
relatively robust
pace.***

CIS

Even though high oil prices continue to support economic activity in Russia, the robust expansion is progressively being driven by domestic demand.

USA

Year 2005 US economy finished with the result of 3,5% comparing to 4,2% in 2004. Low growth indicators of US economy in Q'4 are mainly influenced by decreasing private consumption level and high prices on oil. If oil prices in the near future will continue to grow, global economy and American economy in particular can fail to increase their economic growth rates.

***USA- dangerous
situation with
external debt...***

Export and import continued to grow, but net export decreased by 2,6% comparing to the results of previous year. In 2005 America is still presents "records": foreign trade deficit by the end of 2005 achieved USD 726 billions, current operations account's deficit achieved 7% of GDP (current operations account deficit in amount of 5-6% of GDP is considered to be critical for national currency stability).

But we consider decrease of economic growth of American economy as temporary phenomenon and the 1st quarter of 2006 will change the situation.

In spite of increase of prices on energy resources and hurricanes consequences economic activity in the US remains stable.

In the next 2 years we consider decrease of US economy growth rate that will constitute 3,2% in 2006 and less than 3% in 2007.

European Union

***Bright future
perspectives
of EU in the
medium run...***

GDP growth of Eurozone achieved 1,3% in 2005 is rather low comparing to results of 2004 - 2,1% of economic growth, but in the next few years we consider increase of this indicator to become a reality. We should not think about "tremendous growth", but that is already a good start after some stagnation period occurred in Western European countries and 1,5% growth in 2006 is really attainable.

All these forecasts can be achieved due to positive conjuncture on global market and good tendencies in world economy's development that are part of the main factors influencing economic environment in Eurozone.

In addition we can talk about intensification of export operations of Eurozone due to weakening of Euro comparing to US dollar.

But the main factor, influencing European economic reality is sustainable internal demand level increase that parallel to stable and comparatively low inflation level premises that economic future of Eurozone is stable enough in the short and medium run.

Central and Eastern Europe

Macroeconomic tendencies in the region remain stable despite mixed external environment. There are observed strengthening employment in parallel to output growth, especially in Baltic countries, where output reached 8% of growth in 2005. We have to mention strong export growth in most of the countries from the region, but due to comparable increase in imports' level, trade deficit remains one of the issues to be solved.

Due to expansion of "live in credit" notion and rapid wages increase, we can talk about private consumption boom in the region, especially in Baltic area. Rapid growth on energy resources, internal demand and loan usage increase and some structural factors negatively influence inflation control and possible adoption of Euro as a national currency in the near future.

In the states, joined European Union in 2004, the economic situation is rather good with both domestic demand and net exports contributing significantly to growth. Economic activity was buoyant in some central European economies, especially in Slovakia. Baltic countries demonstrate a very dynamic development during recent years.

CIS

CIS-countries ended 2005 with rather good results. Although not all countries benefit of international commodities markets conjuncture.

Russia

Russia achieved 6,4% of GDP growth in 2005 and thanks to increase of state (incl. national projects) and private investments increase allows us to predict almost 6% of GDP growth in 2006.

Continuous economic growth of Russia is mainly sustained by high prices on natural gas and oil on international markets. But the situation will not last forever and the government has to think about structural reforms that will allow increase industrial output growth (+4% in 2005 comparing to 6% in 2004). There are observed positive tendencies of fixed investments growth. In addition the government has to be worried about tremendous import growth in 2005 (+28%).

2005 for Russia was quite a good year – inflation reached level of 11% comparing to 11,5 – 12% forecasted by the experts. But it is clear that “record” is achieved thanks to intervention policy of the state authorities and price regulation in some strategic areas. Although even in this situation the government is not satisfied by the results.

Ukraine

The country is still in a fever because of political games – politics are trying to “ensure” economic independency of the country from Russia, but still cannot succeed in it...

Recent tendencies of Ukrainian economy's cannot be considered as good ones. In Quarter IV of 2005 we can talk about GDP growth decrease. The main factors influencing economic situation in the country – accelerated decrease of internal demand (almost -8%)

Political instability in the country also plays a negative role – potential investors and even businessmen are waiting for Parliamentary elections that will take place in March, 2006. Everybody is wondering whether the 2nd “re-nationalization wave” is going to happen... In addition problems related to Russian supply of natural gas is an important issue the government is “not in a hurry” to find a solution. But we have to keep in mind that Ukrainian economy depends a lot on gas supply and is volatile to the changes in gas prices that obviously will be modified by the end of the year. And it can lead to problems related to decreasing competitiveness of Ukrainian goods on international commodities markets... According to Ukrainian economists calculations Ukrainian industries will require more than 2 years for adaptation for new gas prices...

***Real GDP
growth in
Ukraine by the
end of 2005
even did not
reached the
level of 3%.***

● “UKRAINIAN” GAS...

The problems Ukraine faced in the beginning of 2006 clearly identified high dependency of Ukrainian economy on supply of Russian energy resources, but at the same time discovered policy of European Union regarding support of Ukraine in relations with Russia. European Union clearly stated that it will not “in any case” support actions of Ukrainian government, especially if these actions can negatively influence economic interest of EU.

Now in Ukraine there began discussions about ways of decrease of their economy’s dependency on Russian supply of energy resources. One of the “ways out” is considered development of energy-saving

technologies, but it will take time to be implemented, so nowadays Ukraine can only physically decrease consumption of energy resources decreasing at the same time production.

And, finally, we have to mention that Ukraine’s industries are really sensible to gas prices fluctuations that finally can negatively influence export expectations. And Turkmen gas is not a way out in this inconvenient situation.

STATISTICAL ANNEXES

Table 1. GDP by Users, MDL million, current prices

Year	1999	2000	2001	2002	2003	2004	2005	2006p
GDP	12322	16020	19052	22566	27619	32032	36755	4022p
End consumption	11090	16503	19263	23289	29706	33298	39846	48026
households	9137	14031	16385	18493	24417	28125	33650	41698
public authorities	1888	2348	2736	4600	5072	5504	5951	6450
private administrations	65	124	142	196	216	235	245	285
Gross capital formation	2820	3836	4436	4886	5916	8443	10951	11270
gross fixes assets formation	2272	2472	3190	3682	4668	6787	8954	10410
change in stocks	548	1364	1246	1204	1248	1141	1997	1350
Net exports of goods and services	-1588	-4319	-4647	-5619	-8325	-9936	-14042	-19070
exports of goods and services	6446	7946	9536	11834	14487	16398	19526	21010
imports of goods and services	8036	12265	14183	17453	22812	25107	33568	40080
Memo: GDP in million USD, rsma	1171	1288	1481	1663	2007	2520	2895	3094.3

Table 2. GDP Structure by Users, %

Year	1999	2000	2001	2002	2003	2004	2005	2006p
GDP	100	100	100	100	100	100	100	100
End consumption	90.0	103.0	101.1	103.3	108.8	103.9	108.4	119.4
households	74.2	87.6	86.0	82.0	89.5	87.8	91.6	103.4
public authorities	15.3	14.7	14.4	20.3	18.4	17.2	16.4	16.0
private administrations	0.5	0.8	0.7	1.0	1.0	0.7	0.7	0.7
Gross capital formation	22.9	23.9	23.3	21.7	21.7	26.4	29.8	28.0
gross fixes assets formation	18.4	15.4	16.7	16.3	17.1	21.2	24.4	25.8
change in stocks	4.4	8.5	6.5	5.3	4.6	5.2	5.4	3.3
Net exports of goods and services	-12.9	-27.0	-24.4	-24.9	-30.5	-30.3	-38.2	-47.4
exports of goods and services	52.3	49.6	50.1	52.4	53.1	51.2	53.1	52.2
imports of goods and services	65.2	76.6	74.4	77.3	83.6	81.5	91.3	99.6

Sources: DSS, ME estimates and prognoses

Table 3. Annual Change in the GDP Components by Users, %

Year	1999	2000	2001	2002	2003	2004	2005	2006p
End consumption	-15.8	17.2	4.4	9.7	15.4	2.0	9.5	18
households	-8.2	20.7	6.1	5.9	18.5	6.2	10.1	20.1
public authorities	-38.3	-1.2	-6.2	30.3	-0.5	1.5	8.1	8.4
private administrations	-37.9	48.4	1.5	52.4	-4.6	1.0	6.38	14
Gross capital formation	-19.8	11.9	5.2	1.1	13.5	10.5	11.0	15
gross fixes assets formation	-23.1	-8.7	17.3	5.7	18.6	8.2	10.2	22.4
change in stocks	-0.7	97.6	16.8	-10.9	-5.3	-7.0	13.9	3.8
Net exports of goods and services	-65.9	124.6	-1.5	9.1	37.7	32.2	43.9	33.3
exports of goods and services	3.1	9.5	17.2	19.0	18.9	11.0	17.6	10
imports of goods and services	-22.6	32.3	10.6	15.7	25.0	3.6	18.1	20

Sources: DSS, ME estimates and prognoses

Table 4. Contribution of Utilization Components to the Real Change in the GDP, %

Year	1999	2000	2001	2002	2003	2004	2005	2006p
End 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 authorities	-9.4	-0.2	-0.9	4.4	-0.1	0.3	0.31	0.55
private administrations	-0.3	0.2	0.0	0.4	0.0	0.0	0.01	0.05
Gross capital formation	-5.1	2.7	1.2	0.2	1.9	1.4	3.36	2.44
gross fixes assets formation	-5.1	-1.6	2.7	1.0	2.2	1.7	3.11	3.63
change 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
GDP variation	-3.4	2.1	6.1	7.8	6.3	8.0	6.3	5.7

Sources: DSS, ME estimates and prognoses

Table 5. GDP by Types of Activities, million MDL, current prices

Year	1999	2000	2001	2002	2003	2004	2005
Value added	10999	14022	16773	19689	23523	27353	30745
Agriculture, hunting, forestry, and fish-breeding	3062	4066	4261	4730	5062	5633	5241
Industry	1637	2307	3041	3402	4859	5469	6244
Electricity, gas and water supply	456	308	523	499	504	566	570
Constructions	409	433	584	665	812	1102	1284
Wholesale and retail trade	1885	2003	2287	2488	2967	3384	3895
Transportation, storage and communication	1013	1528	1974	2255	2977	3780	4441
Other activities	2537	3379	4103	5651	7493	8880	10362
Net taxes on product and import	1323	1998	2278	2867	4096	4514	6010
GDP	12322	16020	19052	22566	27619	32032	36755

Sources: DSS, ME estimates, calculations, and prognoses

Table 6. Industrial Output, million MDL, current prices

Year	1999	2000	2001	2002	2003	2004	2005	2006p
Total per industry	7191	8168	10428	12624	15963	17591	21124	25063
Extracting industry	56	62	74	101	128	211	273	287
Processing industry	5002	6755	8452	10550	13776	15234	18434	16944
Electricity, gas and water supply	2133	1351	1902	1973	2059	2146	2421	2040

Sources: DSS, ME estimates and prognoses

Table 7. Gross Agricultural Product, million MDL

	Total	Annual real change, %	Vegetal products	Annual real change, %	Animal products	Annual real change, %	Services	Annual real change, %
1999	8184	-8.4	5401	-11.7	2783	-3.5	n/a	n/a
2000	8268	-3.3	5790	-1.0	2202	-7.8	276	n/a
2001	8646	6.4	5727	8.8	2655	1.2	264	-4.3
2002	9474	3.4	6298	2.5	2870	5.7	306	15.9
2003	10354	-3.6	7086	-7.3	2937	-4.9	331	8.1
2004	11819	20.8	7900	29.3	3524	4.0	395	19.3.
2005p	11937	1.0	7321	-2.1	4216	8.6	400	1.3

Sources: DSS, ME estimates and prognoses

Table 8. The Agricultural Products

Period	Cereals and leguminous, beans, thousand tons	Grapes, thousand tons	Fruits and berries, thousand tons	Vegetables, thousand tons	Meat, livestock weight, thousand tons	Eggs, million	Milk, thousand 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	614	327	397	120	671	604
2003	1613	667	617	361	118	620	593
2004	2994	689	430	315	119	668	628
2005	2828	517	384	389	126	759	658
2006p	2200	520	460	420	118	770	680

Sources: DSS, ME estimates and prognoses

Table 9. Consolidated Budget, Public Debts and Electricity Arrears, % of the GDP

Year	1999	2000	2001	2002	2003	2004	2005
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
Profit tax for corporations	1.9	1.7	1.8	1.9	1.7	1.8	1.8
Income tax for individuals	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
Tax 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
Revenues from capital operations	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 expenditures	28.4	26.6	22.7	23.0	22.6	23.1	23.4
Economy	2.5	2.3	1.7	1.8	1.9	2.1	2.3
Foreign economic 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	3.9	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 authorities	4.3	4.1	4.0	4.7	3.8	4.3	4.2
Debt serving	7.0	6.4	4.2	2.2	2.1	2.1	1.8
Capital investments	0.9	1.1	1.1	1.1	0.3	0.9	1.1
Others	1.9	1.0	1.1	0.9	4.3	3.5	2.3
Budgetary balance	-3.2	-1.0	0.0	-0.5	1.6	1.1	0.5
Internal public debts	15.5	12.6	12.6	12.5	10.7	11.2	11.1
External public debt and private debt, guaranteed by the Government	65.9	79.3	64.5	59.4	51.5	42.9	24.9
Energy arrears	35.5	24.6	19.4	18.1	15.9	10.9	9.1

Sources: DSS, ME estimates and calculations

Table 10. Monetary Indicators, End of the Period

	Circulating money		Banks' reserves		Monetary base		Aggregate M2		Aggregate M3		Multipliers		Currency reserves of the NBM, million USD	USD/MDL, period average
	Million MDL	In-crease %	Million MDL	In-crease %	Million MDL	Increase %	Million MDL	Increase %	Million MDL	Increase %	M2	M3		
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	97	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	37	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	4687.4	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	1293.1	-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	23.00	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	5004	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	9692.0	14.9	13345.7	10.3	1.6	2.2	482.6	12.6
Q3'05	4350.0	11.7	2559.6	21.8	6909.6	15.2	10505.9	8.4	14932.7	11.9	1.5	2.2	582.1	12.6
Q4'05	4571.2	5.1	2761.9	7.9	7333.1	6.1	11125.5	5.9	15826.8	6.0	1.5	2.2	597.4	12.7
Q1'06	4541.2	-0.7	2451.1	-11.3	6992.3	-4.6	1150.5	-0.7	16299.6	3.0	1.6	2.3	587.7	12.9
Q2'06p	4850.0	6.8	2830.0	15.5	7680.0	9.8	12800.0	15.8	17400.0	6.8	1.7	2.3	613.0	13.1
Q3'06p	5280.0	8.9	3210.0	13.4	8490.0	10.5	13900.0	8.6	19300.0	10.9	1.6	2.3	660.0	13.0
Q4'06p	5500.0	4.2	3360.0	4.7	8860.0	4.4	14250.0	2.5	19900.0	3.1	1.6	2.2	670.0	12.9

Sources: NBM, ME calculations and prognoses

Table 11. Credit Indicators, Million MDL, End of the Period, unless indicated something else

	Savings accounts in MDL	Average interest rate for savings accounts in MDL, %	Savings accounts in foreign currency	Average interest rate for savings accounts in foreign currency, %	NBM credits granted to the Government	NBM credits granted to commercial banks	NBM re-financing rate, %	Credits granted by commercial banks into the economy	Interest rate for credits in MDL, %	Interest rate for credits in foreign currency, %
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	20.0	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	95.4	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	2800.0	54.2	12.5	8976.9	18.7	11.0
Q4'05	3792.3	11.5	2800.0	5.1	2800.0	62.5	12.5	9990.5	17.8	10.9
Q1'06	4057.8	11.3	3463.7	5.0	2611.0	65	12.5	10761.6	18.3	11.0
Q2'06p	4350.0	11.5	3400.0	5.2	2700.0	65	12.5	11205.0	18.5	10.8
Q3'06p	4600.0	11.8	3550.0	5.4	2700.0	65	13.0	12100.0	18.8	10.9
Q4'06p	5200.0	12.5	3620.0	5.3	2700.0	70	13.5	12900.0	19.1	10.9

Sources: NBM, ME estimates and calculations

Table 12. Salaries

	Monthly nominal salary, MDL (period average)	Real increase in comparison with the previous quarter, %, adjusted by seasons	Real increase, Q4'96 = 100%	Minimum monthly consumption budget, MDL, period average	The average nominal salary to minimum monthly consumption budget ratio, %
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	1645	74.7
Q2'05	1292.0	14.2	76.1	1590	81.3
Q3'05	1336.3	-0.1	76.0	1646	81.2
Q4'05	1532.7	8.7	91.3	1736	88.3
Q1'06e	1450.0	-9.5	73.2	1806	80.3
Q2'06p	1485.8	0.5	74.0	1842	80.7
Q3'06p	1530.1	1.0	75.7	1879	81.5

Sources: DSS, ME calculations and prognoses

Table 13. Structure of Employed People, thousand people

	2000	2001	2002	2003	2004	2005	2006p
Total people	3639	3631	3623	3612	3386	3383	3379
People over 15 years	2778	2807	2840	2868	2881	2899	2910
People employed in the economy	1515	1499	1505	1356	1316	1312	1301
Unemployed people	140	118	110	117	116	104	102
Non-active people	1123	1190	1225	1395	1449	1483	1507
Employment rate	0.55	0.53	0.53	0.47	0.46	0.45	0.45
Economic dependency rate	1.40	1.42	1.41	1.66	1.57	1.58	1.60

Sources: DSS, ME estimates and prognoses

Table 14. Inflation Rate, %

Period	Ian	Feb	Mar	Apr	Mai	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Related to previous December	Annual average
1997	1.9	1.4	1.0	0.8	0.6	2.0	-1.0	-0.8	1.2	0.9	1.1	1.5	11.2	12.0
1998	1.3	0.4	-0.1	0.7	0.2	-1.1	-1.4	-0.6	0.2	1.4	8.6	7.8	18.3	8.0
1999	5.4	1.5	0.6	2.0	4.1	7.2	2.5	0.7	1.7	2.1	4.3	5.0	43.7	39.0
2000	2.9	1.3	0.1	1.6	1.4	4.4	0.7	0.8	1.4	1.0	0.8	0.8	18.4	31.0
2001	1.2	0.3	0.3	1.5	0.5	-3.5	-1.7	-0.5	0.9	1.3	1.9	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	1.0	1.3	0.4	1.6	2.1	1.1	0.7	15.7	11.6
2004	1.5	0.9	1.6	0.9	0.5	0.1	0.3	0.5	1.0	2.2	1.8	1.6	12.5	12.4
2005	1.1	2.1	0.8	1.4	0.1	-0.8	-1.1	0.2	1.2	1.5	1.9	1.4	10.0	11.9
2006p	1.9	1.4	1.4	1.6	0.3	0.6	-0.2	0.9	1.3	1.7	1.6	1.6	12.9	12.9

Sources: DSS, NBM, ME prognoses

Table 15. Balance of Payment and Net Investment Position, Million USD

	1999	2000	2001	2002	2003	2004	2005	2006p
Current account	-46.99	-120.92	-108.05	-103.12	-42.09	-113	-285.0	
Balance of Trade in Merchandise	-134.7	-306.62	-312.92	-378.25	-622.3	-758.3	-1190.8	1377.9
Exports FOB	474.84	476.58	569.43	659.8	806.3	995.2	1104.4	1328.4
Imports FOB	-609.54	-783.2	-882.35	-1038.1	-1428.6	-1753.5	-2295.2	-2706.3
Service Balance	-32.05	-43.13	-48.75	-38.8	-39.47	-54.8	-20.2	-66
Revenues, including	33.99	72.25	100.78	159.27	215.04	336.5	358.8	510
Remuneration	90.05	126.24	183.67	239.05	278	480	476.8	
Current transfers	85.77	156.58	152.84	154.64	304.64	363.6	567.3	
Capital and financial account (excluding net modification in NBM reserves)	121.27	169.46	80.32	86.35	67.29	143.45	172.9	
Capital account	116.61	-11.97	-20.66	-15.32	-12.81	-5.35	-3.8	
Direct investments	37.83	135.99	146.05	116.18	58.37	147.92	225.5	
Portfolio investments	-140.06	117.03	-32	-27.48	-21.21	-10.41	-7.0	
Other investments	106.89	-71.59	-13.08	12.98	42.94	11.29	8.4	
Net modification in NBM 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	192.1	
Net Investment Position	-1364.41	-1473.31	-1435.8	-1649.66	-1694.5	-1637	-1665.7	

Sources: DSS, ME estimates and prognoses

Table 16. GDP Growth in the Main Partner Countries

	1998	1999	2000	2001	2002	2003	2004	2005e	2006p	Share in Moldovan exports, %	Share in the world output, %
Russia	-4.9	5.4	9.0	5.0	4.3	7.3	6.1	6.4	5.8	35.8	2.7
Euro zone:	2.9	2.8	3.5	1.5	0.9	0.5	1.9	1.3	1.5	30.1	15.7
Italy	1.8	1.7	3.1	1.8	0.4	0.4	1.2	0.1	0.8	13.9	3.0
Germany	2.0	2.0	2.9	0.8	0.2	-0.1	1.7	0.9	1.2	7.3	4.4
France	3.5	3.2	4.2	2.1	1.2	0.5	2.4	1.4	1.6	1.1	3.2
Romania	-4.8	-1.2	2.1	5.7	4.9	4.5	8.0	4.1	4.6	10.0	0
Ukraine	-1.9	-0.2	5.9	9.2	5.2	9.4	12.0	2.8	3.8	6.6	0
Belarus	8.4	3.4	5.8	4.7	4.7	6.9	11.0	9.2	7.8	6.0	0
USA	4.3	4.1	3.8	0.3	2.4	3.0	4.4	3.5	3.2	4.3	21.1
Hungary	4.9	4.2	5.2	3.8	3.3	2.9	3.9	4.1	3.8	1.5	0

Sources: IMF, ME estimates and prognoses

Table 17. Moldovan Imports by the Country of Origin, million USD, current prices

	1998	1999	2000	2001	2002	2003	2004	2005
CIS	440.2	221.9	252.7	334.5	434.8	593.4	764.8	915.9
Russia	233.0	118.8	104.6	136.3	168.6	183	212.3	273.6
Ukraine	151.6	78	112.4	164.2	225.3	309.3	436.3	491.4
Belarus	50.6	21.3	32.7	38.7	39.1	50.6	64.3	84.5
Other	5.0	3.8	3.0	4.7	1.8	50.5	51.9	66.4
EU	281.2	156.6	209.3	249.0	290.6	505.8	581.1	752.3
Germany	91.9	66.2	85.4	93.6	101.3	135.6	150.2	190.9
Italy	65.1	34.2	45.1	61.1	82.8	108.7	131.6	152.3
Other	124.2	56.2	78.8	94.3	106.6	252.5	299.3	409.1
CEE	214.8	143.1	205.2	190.6	256.1	133.5	199.1	292.4
Romania	112.9	90.1	129.3	107.1	126.2	98.2	164.1	257.4
Bulgaria	29.3	9.7	14.4	23.5	28.9	30.1	29.6	29.0
Other	72.6	43.3	61.6	60.0	101.0	20.0	5.4	6.0
Other countries	87.5	51.5	107.8	123.1	121.7	4.8	223.5	351.2
Total	1023.7	573.1	777.4	897.2	1103.1	1402.8	1768.5	2311.8

Note: * - prices of 2003

Sources: NBM, DSS, ME prognoses

Table 18. Moldovan Exports by the Country of Destination, million USD, current prices

	1998	1999	2000	2001	2002	2003	2004	2005
CIS	429.1	256.3	279.7	348.0	368.8	423.8	502.4	551.2
Russia	336.8	191.8	212.5	249.9	251.7	308.4	353.3	347.5
Ukraine	48.7	35.2	36.5	62.0	64.9	56.2	64.8	99.7
Belarus	31.8	21.7	21.8	30.2	39.6	41.1	58.7	71.2
Other	11.8	7.6	8.9	5.9	12.6	18.1	25.6	32.8
EU	82.9	98.4	103.3	122.3	172.9	211.0	296.3	324.3
Germany	23.9	36.9	36.3	41.1	52.6	56.2	71.3	47.4
Italy	22.3	25.9	36.6	47.7	64.4	82.4	136.4	133.6
Other	36.7	35.6	30.4	33.6	56.0	72.4	88.6	143.3
CEE	80.5	82.8	65.1	62.0	96.1	98.1	105.7	121.4
Romania	60.8	42.1	39.1	40.2	59.7	90.2	98.9	111.7
Bulgaria	2.8	5.4	3.2	3.8	2.5	6.2	5.5	7.6
Other	16.9	35.3	22.9	18.0	33.0	1.7	1.3	2.1
Other countries	39.6	24.8	25.9	37.8	72.8	57.1	80.8	94.4
Total	631.1	462.3	471.5	570.2	710.6	790.0	985.2	1091.3

Sources: NBM, DSS, ME prognoses

Table 19. Retail Trade, Services and Construction of Private Houses, million MDL, unless indicated something else

	Retail trade	Real annual increase, %	Services provided to people	Real annual increase, %	Investments in construction of private houses
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	612	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
2004	16575.8	5.6	6970.4	5.3	150
2005	19368.2	4.7	8194.2	9.3	180

Sources: DSS, ME estimates and prognoses

Table 20. Available Nominal Revenues and Household's Consumption Expenditures, million MDL

	1999	2000	2001	2002	2003	2004	2005e
Available revenues	5833	8105	10492	13961	18285	23838	28913
salaries	2065	3023	3966	5166	6820	9003	12237
from agricultural activities	2245	2796	3347	4147	5284	6410	6945
from personal activities	193	243	283	363	713	1098	1320
from properties	23	16	31	14	110	157	210
social benefits	484	778	1144	1969	2560	3379	4075
other benefits	23	32	42	42	18	22	38
other current transfers	799	1216	1679	2234	2779	3669	4088
Consumption expenditures	6144	8380	10831	14144	18610	24156	30150

Sources: DSS, ME estimates and prognoses

