Summary

The Gross Domestic Product of Moldova grew in the first quarter of 2006 by 6.2%, and in the first half-year, according to our estimates, by 3.0-4.0%. The evolution of the economy during the first eight months of 2006 was marked by an industrial recession of 6.2% caused by the decrease in wine-making production by 46%. Agriculture underwent stagnation in the first half-year with the production increase of only 1.8%. Thus, services remain to be main driving force behind Moldova’s economic growth. Consumption still holds high rates due to the increase of real wages, remittances from abroad and the consumption credit. Higher revenues stimulated the increase of retail sales by 9.5% and services rendered to the population by 8.2%. In spite of the difficulties in the real sector, consumer’s confidence in the economy does not seem to have significantly changed in 2006. This fact indicates that consumption is determined by the factors that are not directly related to the real economy (emigration, subsistence agriculture and administrative increase of budgetary wages). Revenues into the national public budget, depending more on the consumption than on the evolution of production, have increased in real terms and were 6% higher in July 2006 than in the previous year. The financial sector has been greatly influenced by the decrease of the demand on the part of commercial banks for state securities, even if the interest rate grew from 1.8% in February to over 8% during the summer months.

In spite of stricter conditions imposed by commercial banks on the procedure of granting commercial credits, the latter have extended considerably, in particular being brought about by the remarkable growth of demand for the consumption credit. After the amending of the Law on the National Bank of Moldova, it is expected that the monetary authority will give absolute priority to price stability. Nevertheless, the Bank’s efforts might be in vain, due to the fact that global oil prices are still volatile and the inflow of emigrants’ remittances is strong. Prices increased by almost 8% in January-August, thus eliminating a considerable share of the nominal growth of salaries. The exchange rate has undergone a moderate nominal devaluation but it appreciated in real terms. This might exert a minor influence on exports that suffer more due to the external trade barriers and their low competitiveness, while the imports apace. The removal in due time of the trade barriers might be of use for Moldovan economy, since the main trade partners of Moldova are experiencing periods of remarkable economic revival. Resumption of exports would improve the situation on the labour force market, since many jobs have been shut down following the ban imposed by the Russian Federation on imports of alcoholic products.

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from Moldova, the unemployment rate reaching in the second quarter, according to our estimates, 7.5 – 8.0%.

**Production**

In January-March 2006 the GDP increased in real terms by 6.2%, comparing to 8.2% in 2005. The GDP growth occurred during the period when Russia had not yet imposed the barriers on wine imports from Moldova, and the effects of February’s increase of the price for natural gas did not manage to spread into the economy. Nevertheless, it is noticeable that the valued-added growth rates have slowed down for the third year in a row. It advanced by only 3.5% in the 1 quarter of 2006, comparing to 6.4% in 2005 and 7.1% in 2004. On the other hand, net taxes on the product and import have accelerated growing by 21.3% in 2006, comparing to 19.7% in 2005 and 0.2% in 2004. These changes display a qualitative worsening of the economic growth and point out the fact that a part of the GDP growth is merely an arithmetical result of the statistical methodology and not totally due to a “pure” growth of real economy.

In the first six months of this year, according to our estimates, the GDP has increased by only 3-4%. This is due to the commercial barriers imposed by the Russian Federation, which resulted in an unsatisfactory evolution of the industrial sector. It should be noticed, however, that in a number of industrial branches the recession is not directly related to the trade barriers imposed by the Russian Federation (production of vegetable oils and grease, manufacturing of machinery and equipment, rubber and plastic items, and glass). Increase of the price of imported natural gas has also exerted a negative, although more moderate, impact. This has mainly conditioned the increase of the production costs in the glass-making branch and reduction of its competitiveness.

In January-August 2006, the output of the industrial enterprises was 6.2% less than in 2005, reaching absolute historical lows in the period of economic growth 2000-2006. This reduction is especially due to the decline reported in the wine-making sector (-46%). This fact points out the real dimension of the risks that the entire sector is facing in the situation of insufficient diversification of commodity markets. It was impossible to compensate the recession in wine-making sector by considerable growth in other branches (such as manufacturing of carpets, footwear, cement and other building materials, electricity).

Agriculture evolved poorly with the output growing only 1.8% in the first six months. The growth is mainly due to the 1.9% increase of the livestock production. The first half of 2006 witnessed an alarming trend of decreasing profitability of agribusinesses, the entire sector reporting net losses. This shows vulnerability of the sector and the fact that the producers fail to gain large potential profits, which could be obtained in a country with exceptional agricultural traditions and agricultural resources, and that offers the possibility of obtaining (in greenhouses) several yearly harvests of high-value agricultural products.
Services represent the sector with the greatest contribution to the GDP and that offer also the highest profits. In the first quarter and, according to the preliminary estimates, in the second quarter of 2006, services continued to be the engine of growth. A very important contribution was made by such branches as constructions, telecommunications, transport and trade (although we are noticing a certain slowing down of the growth in the sector of construction and commerce).

As previously, it is remarkable that over 2/3 of the construction services are still rendered in Chisinau municipality. High demand for construction works is explained by the increase of demand for apartments, offices and other real estate. The market is to a great extent influenced by the demand from the families of emigrants wishing to satisfy their housing needs and from the part of the business people to carry out useful economic activities. A revival of the real estate market is being observed in certain towns that are close to the border with Romania, the expectation being that the price for real estate will go up after Romania’s accession to the EU and the relocation of new production objectives from Romania to Moldova. However, the real estate market is also significantly influenced by a speculative demand. Massive increase of prices for real estate in the conditions of the underdeveloped real economy sector is similar to blowing a soap bubble whose volume may grow considerably, but not infinitely.

The period of January-July 2006 witnessed an increase of the number of passengers travelling by air (15%), car (7.4%) and trains (10.3% comparing to the same period of 2005). However, the volume of transported goods has increased only in the case of the river and air transport that are not essential for the economic system. As for the rail and road transport of goods, both branches have dropped significantly by 8.1% and, respectively, 18.7%, thus, on the whole, determining a recession of the volume of services rendered by the transport sector. Poor evolutions of this sector come from the industrial recession and from the import barriers imposed by Russia and the international transport barriers imposed by the Transnistrean regime and, more recently, by Ukraine.

Telecommunications services seem to be suffering the least from the external shocks. Fixed and mobile telecommunications continued to expand remarkably in 2006. In 2005 the penetration rate of the mobile telephony (32.2%) exceeded that of fixed telephony (27.3%) and in 2006 the rapid growth of the mobile telephony continued. In July 2006 the total number of subscribers of the two mobile telephony operators exceeded 1.1 million.

Consumption

In August 2006, the Consumers’ Confidence Index remained negative (-30, 6) and stayed at the level reported in January 2006². A range of factors with opposite effect influences attitudes of the citizens as regards consumption in 2006. On the one hand, salaries and incomes remitted from abroad in January-August continued to grow, thus increasing population’s disposable income. Inflationary expectations that started intensifying in March have also determined some consumers to amass a greater part of their savings and current income in durable goods. This is particularly valid for the large cities. Another essential factor that has stimulated population

² For more information on the Consumers’ Confidence Index measured by Expert-Grup Analytical Centre see [www.expert-grup.org](http://www.expert-grup.org).
consumption is the bank credits for
collection. In spite of banks’ imposing harder
constrains for granting credit, it is still available
to a large number of citizens having good
financial
situation. Between June 2005 and June 2006, the
commercial banks have increased the resources
allocated to crediting the population
consumption by 2.5 times, while the total bank
credit increased by 43.6%. These factors have
improved the current consumption propensity
of certain households (though generally the society has negative predispositions for
consumption). In January-August, the volume of retail sales increased in real terms by 9.5%, and
the value of services rendered to the population – by 8.2% comparing to previous year.

On the other hand, the negative evolutions of the real sector and the shutting down of a large
number of jobs in the wine-making sector have reduced the tendency for consumption of
certain social strata. As a result, retail sales and services rendered to the population in 2006
tended to reduce the growth rates.

Public Budget

In 2006, budgetary revenues grew rapidly as they depend more on the consumption than the
production. In January-July this year, the total revenues into the national public budget exceeded
9.22 billion lei, which is 20% more than the amount of revenue in January-July 2005. The
revenues allowed financing budgetary expenditures of about 9.19 billion lei. In August,
according to our estimates, the total revenues collected into the public budget reached 11.7
billion lei, out of which 6.5 billion represented the revenues of the state budget that increased by
17% comparing to January-August 2005.

Nevertheless, the budget of 2006 has suffered
from to a certain extent because of the negative
trends in the real economy (see BER nr.10). The reduction of exports of alcoholic products
to the Russian Federation caused the reduction of budgetary revenues from domestic VAT and
excises (the estimated amount being of about 200 million lei). Price increase of the natural gas
imported from the Russian Federation
determined the Government to review
budgetary expenditures related to the
compensation payments to the population and
budgetary institutions. On the other hand, the
increase of imports was much higher then the estimated level thus allowing the compensation of
losses for higher amount of VAT and excises levied at import. The short-term perspective of the budgetary situation also improved as result of signing the Memorandum on the economic and financial policy between the Government of the Republic of Moldova and the International Monetary Fund. According to the Memorandum, the Republic of Moldova commits to accelerate the implementation of structural reforms and to implement a careful macroeconomic policy. Having met these conditions, the Republic of Moldova will receive a credit amounting to $117 million for a term of 10 years with a grace period of 5.5 years and a 0.5% annual interest rate. Although the credit is granted to supplement the currency reserves of the NBM, it is obvious that the positive effects will spill over the budgetary sector too.

Certain statistical data and reports on the management of public finances published in July-August this year suggest that improving the public finances management would allow a significant increase of budgetary revenues and expenditures. We are referring to the assurance of a greater fiscal transparency, creation of harder budgetary constraints on state-owned enterprises and a better identification of priorities for public expenditures. It is also necessary to settle the issue of huge debts incurred by business entities to the national public budget (over 2 billion lei, according to the situation on 1 August 2006). The reviewing of the 2006 state budget and of some local budgets resulted in an allocation of extra-revenues for projects that are not identified as priority either by the Economic Growth and Poverty Reduction Paper (EGPRSP) or the European Union – Republic of Moldova Action Plan (the money was allocated for repairing of residences, hotels, monuments, memorials, stadium building etc.).

The Mid-Term Expenditures Framework 2007–2009, as well as the 2007 state budget draft were developed and published in July-August. It is expected that in the 2007 budget the revenues will increase by 13.5% comparing to 2006 and expenditures - by 19%. However, the budget project contains intrinsic risks, because it is based on the assumption that natural gas will be imported at a price of $160 per 1000m³. This assumption is not 100% realistic and makes the budget very sensitive to the possible new shocks. Several alternative draft budgets are necessary, as well as a better analysis of budget sensitivity to external and internal macroeconomic shocks.

**Finance and monetary issues**

In August, the interest rate for treasury bonds (TB) was 8.2%, reporting a minor decrease for the third month in a row. The first part of 2006 was marked by a constant and significant increase of interests on TB. This trend is explained by the reduction of the difference between supply and demand on the bonds. In January the demand exceeded supply 2.8 times (thus determining a 3.2% interest rate), while in May it was only 13% higher than supply. In August, demand exceeded supply by 24%. Lack of available bank liquidities for the acquisition of bonds and the fact that real interests for the bonds is negative explain the disinterest of commercial banks in TB. In 2006, the population, being influenced by the groundless rumours and negative expectations concerning the national currency, converted a considerable part of bank deposits nominated in lei into foreign currency deposits. The share of foreign currency deposits increased substantially from 38.9% in December 2005 to 46.6 in June 2006, while the agitation calmed...
down in August. The banks themselves seem to have a greater trust in the economy, which is proven by the decrease of the share of credits granted in foreign currency from 39.5% in July 2005 to 36.8% in July this year.

Bank interests in 2006 vary in a much narrower corridor and are somewhat lower than in 2003-2005. In August, the average interest on credits was 17.5%, comparing to 17.9% in January 2006. A trend of market concentration is being noticed in the banking system: in July 2006 the total normative capital of the first five banks represented 59.1% of the total banking system, comparing to 56.7% in July 2005. On the other hand, small and medium banks are also adopting more aggressive market strategies, which allowed them to increase their share in the total assets of the banking system. According to the estimates, in August there might also be a slight increase of their share in the total normative capital as a result of certain foreign investment in the capital of the banks that are not part of „G5”.

The commercial credit reported a significant growth. In August this year it was approximately 40% higher than in August 2005. This progress shows that commercial banks have somewhat weaker inflationary expectations than the general public. On the other hand, banks are subjected to certain governmental pressure in order to reduce their interests. The necessity of governmental interference is doubtful, since not even the NBM has substantially changed its monetary policy, keeping in the first eight months its base interest rate at 12.5%. On the contrary, taking into account the fact that in June 2006 the NBM’s main objective was stipulated by the law as the one of “ensuring and maintaining price stability”⁴, it is to expect that by the end of this year the base rate of the NBM will increase in order to reduce the inflationary pressures in the economy. In addition, the amended law will impose on the Government a harder fiscal discipline, due to the fact that it prohibits expressly the NBM from offering to the state loans or guaranties in any form.

In 2006 persisted trends of nominal depreciation of the national currency in respect to the US dollar from 12.92 MDL/USD in January to 13.32 MDL/USD in August. However, the real effective exchange rate, on the contrary, slightly appreciated. Disregarding some speculative fears, the nominal rate of Moldovan Leu was influenced to the greatest extent by fundamental factors, both on the side of the demand (resulting from dramatic increase of imports), and of supply (reduction of currency inflows from export). The deficit of currency derived from export was compensated to a large extent by remittances sent by emigrants. The National Bank of Moldova has substantially reduced its presence on the foreign exchange market. In January-July 2005 the NBM carried out net acquisitions of foreign currency amounting to $117 million, while in January-July 2006 – in the volume of only $15 million. Simultaneously, the official currency

... as a result of the reduction of available bank liquidities, interest rate for S has increased

Sources: NBM
reserves grew from $599 million to $639 million, but the coverage of imports by reserves decreased. On the international markets the Euro displayed a remarkable tendency of appreciation against the US dollar (from $1.21 USD/EUR in January to 1.28 in August), which also lead to the rise in the price of the European currency on the Moldovan forex market from 15.62 MDL/EUR in January to 17.06 MDL/EUR in August.

Foreign Trade

In January-July 2006, the trade deficit of the Republic of Moldova continued to soar reaching $844.7 million, thus representing a 40.3% increase comparing to the same period of the previous year.

Deficit increase occurred as a result of reducing the volume of exports (-9.4% comparing to the same period of 2005) and maintaining the tendency of expanding the volume of imports (15.5%). From a domestic perspective, this dynamic was determined by the low international competitiveness of Moldovan exports and the consolidation of the internal consumption fuelled by the increase of remittances sent by Moldovan emigrants. At the same time, comparing to 2005, several new trends are being noticed in the evolution of foreign trade. The latter was subject to several external shocks: 1) embargo imposed in March 2006 by the Russian Federation authorities on the imports of alcoholic production from the Republic of Moldova (we would like to remind that restrictions on vegetable products were introduced already in 2005) and; 2) increase of prices for energy resources, first of all for the natural gas (the first increase of the tariffs was announced by the Gazprom in January 2006, and the second - in June 2006).

We would like to mention that as a result of the restrictions introduced by the Russian Federation the structure of exports suffered several significant changes both regarding geographic direction and the range of exported goods. The exports to the CIS countries collapsed by 20.3% mainly because of decline in the volume of exports to the Russian market by 42.9%. Due to these reasons, the volume of exports of agricultural and food production (the main category of exported goods) has drastically decreased by 11.5%. We would like to emphasise that the reduction of the share of foodstuff in the structure of exports in no way means the consolidation of the products that are internationally more competitive and does not signify any qualitative improvement of Moldovan exports. The volume of exports to Central and Eastern European markets experienced a considerable growth (+25.6%), first, to Romania and Bulgaria; however, the volume of exports to the European Union remained practically unchanged (+0.4%). The stagnation of exports to

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the EU that has already lasted several months reveals the limited impact of the new system of trade preferences GSP+ granted to Moldova by the European Union in December 2005.

Estimates of the EXPERT-GRUP regarding the evolution of foreign trade of the Republic of Moldova in the second half of 2006 are not optimistic. All adverse factors affecting our trade balance will persist. Prices for oil and other energy resources will continue to ride high, and the final price for natural gas may be even higher than the current level (hoping that a final price will be stipulated in a long-term contract). Relations with the Russian Federation will most probably not be quite “cordial” in the future. Thus, there is little hope that our exports to Russian market will experience an extraordinary revival. At the same time, the process of economic reforms in Moldova shows signs of stagnation observed by our Western partners. This does not predict an impressive growth of the real economic sector and a qualitative improvement of Moldovan exports.

Global Oil Market

The price for oil was volatile during 2006, with a general trend of growth. At the end of August the price for a barrel of West Texas Intermediate oil was about $70. The great volatility of oil prices was mostly determined by the considerable growth of global demand (firstly in China, India and the United States), increasing geopolitical instability in the Middle East (Iran’s „nuclear file” and hostilities in Lebanon) and new attacks on the oil extraction facilities in Nigeria (where the extracted volume dropped by 17% in January-July 2006). Most experts are anticipating a moderate growth of oil price until the end of 2006.\(^5\)

Moldova’s Trade Partners

Recent evolutions in the economies of the chief trade partners are favourable for the expansion of Moldovan exports. Population incomes and output in these countries are continuously growing and if there had not been any non-tariff barriers imposed by the Russian Federation in 2005-2006 and tariff barriers within the European customs policy Moldovan exports would have experienced a certain growth.

In Russia the economy is booming. In July 2006 the economy posted a 7.4% growth comparing to the same period of 2005. Behind this trend is the constant consolidation of external demand, as well as the acceleration of the internal demand for consumption and investment goods. In January-July 2006 the investment increased by 10.8% comparing to the same period of the previous year. At the same time, industrial output grew by 4.2%. The income of population increased by 11.4% (in real terms) comparing to the same period of 2005. Simultaneously, the growth of incomes of population and enterprises was supported by export consolidation (31%), foremost of energy resources. In January-July 2006, an inflation of 6.9% was reported, which

\(^5\) Sources: The Economist; Business Week; Global Insight Inc.; International Energy Agency Oil Market Report; International Monetary Fund.
was somewhat smaller than in 2005. At the same time, the consolidation of the Russian rouble encourages the expansion of imports and increases the competitive pressure on the Russian producers⁶.

In Ukraine the first half of this year was marked by the consolidation of economic growth, even in spite of protracted political uncertainties due to the formation of the executive and governmental coalition. After a weak growth of 4.1% in January-June 2005, it grew up to 5% in the same period of 2006. The consolidation of domestic demand supported by the increase of disposable real income and stronger consumption propensivity are behind this growth. Thus, the average real wage increased in January-June 2006 by 22.9% comparing to the same period of 2005. At the same time, the trade balance deteriorated significantly due to the acceleration of imports and decline of exports. Export shrunk by 8.9% in the given period, first because of the reduction of exports of common metals and items made of them, but also of agricultural and food production. At the same time, imports have increased by 24.4%. Deterioration of the trade deficit is chiefly caused by the unfavourable situation on the metal market from the first half of this year and the interdictions imposed by the Russian Federation on the import of several categories of agricultural and food products⁷.

During Q2’2006 the economic situation in the European Union improved. In comparison with the previous quarter, GDP of the European Union increased by 0,9%, and, particularly, in Italy (main trade partner of the Republic of Moldova in the EU) by 0,5%. The acceleration of exports (+1.3%) and private consumption expenditures (+0.3%) were the main causes of invigoration of EU’s economic activity. Simultaneously, retail sales experienced an expansion of 2.5% in the period of January-July 2006, thus reflecting the consolidation of internal consumption. The economic growth also translated into the reduction of unemployment up to 7.8% in July 2006, comparing to 8.6% a year ago. Positive tendencies that are at the basis of reinvigoration of economic activity of the European Union will also consolidate in the second half of 2006.

Statistical data demonstrate that in Romania the economy maintained an ascending trajectory with the a 7.4% rate of economic growth for January-June 2006 comparing to the same period of the previous year. The consolidation of increase was greatly determined by the expansion of the sectors of construction (+16.5%), services (+7,2%) and industry (+6,5%). Negative evolutions were reported only in agriculture (-0,4%). The increase was also greatly supported by massive expansion of private consumption (+11.8%) accompanied by the increase of retail trade by 21.5%. Economic growth has also contributed to the multiplication of economic opportunities for the population. Thus, the unemployment rate decreased in July 2006 to 5.1%, comparing to 5.6% in July 2005. In January - July 2006 the value of exports increased by 16.7%, the share of exports to the EU countries constituting 67,3%. However, the value of imports from this period increased even more, by 25.1% comparing to the previous year. Surveys of economic conjuncture for the next quarter forecast the maintenance of the tendency of growth of the production volume in industry, retail commerce, construction and services. Generally, the

⁶ Sources: Ministry of the Economic Development and Commerce of the Russian Federation; The Economist; Business Week; International Monetary Fund.

⁷ State Committee for Statistics of Ukraine; International Centre for Political Studies (Kiev, Ukraine); International Monetary Fund; The Economist.
economic situation in Q3’2006 is expected to be favourable. The decision on the date of Romania’s accession to the EU will be taken in October 2006 (main fields of concern are fight against corruption, security of borders and sanitary-veterinary sector; in addition, certain risks are entailed in the discords within the coalition government). A “yes” from the EU for Romania’s accession on 1 January 2007 would certainly consolidate the economic growth in Romania and have positive economic implications on Moldova.

**Prices**

The first eight months of 2006 were characterised by very high inflationist pressures and expectations. In January-August 2005 prices increased by 3.8%, while in January-August 2006 – by 8.0%. The most marked rises in prices occurred in the category of services rendered to the population, where the tariffs had an average growth of 18.1%. After the rise in prices by 8.7% for food products in January-May, the summer period witnessed a fall in prices for the same products. The average prices came back to the level of January 2006. Non-food items prices rose by 9.6%, mainly due to the rise in prices of medicines and fuel. The Index of Inflationist Expectations, gauged by the EXPERT-GRUP, worsened from -59.8 in January 2006 to -65.3 in August 2006.

In August 2006, prices rose by 0.8%. The greatest influence on the rise in prices was exerted by the rise in prices for utilities by 9.3% comparing to July, for public transportation – by 8.7%, fuel – by 5.3% and dairy and meat products – by 1.2%. Vegetables, potatoes and fruits cheapened comparing to July. However, in spite of the seasonal reduction of prices, such essential products for consumption in poor households as potatoes and fruits are 30% and 75% more expensive than in the previous year.

Factors that determined the rise in prices in the first eight months of 2006 are mainly of administrative sort. In particular, the price for natural gas supplied through the main pipelines was raised twice - in February and July 2006. Tariffs for city and intercity public transportation were administratively increased.

**Labour market**

In spite of economic problems in the real sector in the first eight months of this year, salaries in Moldovan economy continued to grow. In July 2006, the average monthly salary was 17.5% higher in real terms than in July. Estimates demonstrate that in August the real salary increased as well, but at a somewhat slower pace, by 14-15%. In $US dollars, the salary increased from $107 in August 2005 to $130 in August this year.

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8 Sources: National Institute of Statistics of Romania; International Monetary Fund; CreditAnstalt Bank; Financial Week; The Economist.

9 For more details on the methodology used by the Expert-Grup Analytical Centre to measure inflationist anticipations and other indices of economic confidence see la www.expert-grup.org.
The progress is greatly due to several administrative factors. The increase of the level of salary payment was greatly determined by the dynamics of salaries in the budgetary sphere. In the first seven months of this year budgetary salaries had a 24% increase in real expression, being the most massive increase of the budgetary salaries during a single half of the year ever reported in the Republic of Moldova. This dynamics resulted from implementation of 6 governmental decisions on the pay rise in the budgetary sector, which have significantly accelerated the tendency of convergence of budgetary salaries to those paid in the real sector of economy. At the same time, favourable prerequisites for a long-term pay rise also emerge as a result of approving a new law on salary payment in the budgetary sector\(^{10}\).

For the moment, the new salary law creates advantages especially for the public administration sector where the salaries increased strongly in January – July 2006 (53% in real expression). In comparison with the civil servants, the employees from other budgetary subsectors enjoyed more moderate pay rises: work pay increased by 15% in the field of healthcare, whereas in education – by only 7.8%. At the administrative level, other tools that allowed substantial salary increase was the rise of salaries of civil servants for permanent access to classified state information\(^{11}\). Is the 20-30% pay rise the most adequate measure to ensure the protection of state secrets?

In the real sector, evolutions were much more modest than in the budgetary one. Comparing to January this year, the average real salary in July was only 4.4% higher. The average salary paid in agriculture does not reach even a half of the average in the economy. The continuous decrease of the employees in this sector according to official data is by no means accidental: in the first quarter of the year the personnel employed in agriculture decreased by 11.5%\(^{12}\). At the same time, not all the incomes received by the citizens employed in agriculture are adequately accounted for (according to the national statistics approximately 50% of the incomes of rural households are received in kind). In industry, the real salary increased by mere 3% in the first seven months, thus being apparent a significant decline (14%) of salaries in the wine-making branch, which is experiencing recession. According to unofficial reports, this sector is experiencing a massive shedding of personnel that is searching for work in other sectors, trying to start small businesses or is considering possibilities for emigration. Negative tendencies in the wine-making branch were compensated to a certain extent by the increase of salaries in construction.

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\(^{11}\) It is curious that, though the decision on establishing pay rise for permanent access to state secret was adopted on 1 August 2006 (Decision of Government nr. 863), the given rises are being retroactively applied starting from 1 December 2005.

Despite all these increases, the official salaries in the Republic of Moldova are incomparably low in relation to the European average level. The given difference is the result of many factors: low work productivity, high share of shadow economy, deficient mechanism of price setting in the budgetary sphere. However, in addition to these objective factors, there are also the subjective ones that determine unfairly low salaries in certain branches and activities.

The analysis of the average salary according to the form of property denotes that local private companies continue to pay the lowest salaries – 80% of the average in the economy or twice lower than the companies with foreign capital. These differences speak of two essential aspects: first, local private companies are much more inferior in managerial performance compared to the ones with foreign capital; second, local private companies have a high share of “black” salaries.

According to our estimates, in the first quarter the unemployment rate constituted 8.1-8.3% comparing to 9.6% in 2005. As a result of seasonal factors, in the second quarter the unemployment dropped to 7.5-7.8%, which is more than in 2005 (6.6). The difference chiefly resulted from massive labour shedding in the wine-making sector in the second quarter of this year.
## Republic of Moldova: basic economic indicators

### REAL ECONOMY

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<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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<tr>
<td>GDP, real growth, %</td>
<td>6.6</td>
<td>7.4</td>
<td>7.1</td>
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<td>GDP per capita, USD, market exchange rate</td>
<td>548.0</td>
<td>720.0</td>
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<td>Industrial production, real growth, %</td>
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<td>6.2</td>
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<td>Agricultural production, real growth, %</td>
<td>-13.6</td>
<td>20.8</td>
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<tr>
<td>Fixed capital investment rate, % of GDP</td>
<td>18.6</td>
<td>21.2</td>
<td>24.4</td>
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### PUBLIC FINANCE

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<td>General government revenue, millions MDL</td>
<td>cumul.</td>
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<td>General government expenditure, millions MDL</td>
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<td>2004</td>
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<td>Public budget balance of payments, % din PIB</td>
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<td>-2.1</td>
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<tr>
<td>Public and publicly guaranteed foreign debt, % of GDP</td>
<td>cumul.</td>
<td>9147</td>
<td>11252</td>
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<td>Domestic public debt, % of GDP</td>
<td>10.6</td>
<td>11.6</td>
<td>10.3</td>
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### FINANCIAL MARKETS

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<th>2004</th>
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<td>Bank credit interest rate MOL, (%)</td>
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<td>20.9</td>
<td>18.9</td>
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<td>NBM base rate, (%)</td>
<td>14.0</td>
<td>14.5</td>
<td>12.5</td>
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<td>TB interest rate, (%)</td>
<td>15.1</td>
<td>11.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Exchange rate MOL/USD, end of period</td>
<td>M</td>
<td>12.9</td>
<td>12.9</td>
</tr>
<tr>
<td>Exchange rate MOL/EUR, end of period</td>
<td>M</td>
<td>15.6</td>
<td>15.38</td>
</tr>
</tbody>
</table>

### FOREIGN SECTOR

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports, FOB, millions USD</td>
<td>1059</td>
<td>1349</td>
<td>1528</td>
</tr>
<tr>
<td>Imports, FOB, millions USD</td>
<td>1728</td>
<td>2122</td>
<td>2739</td>
</tr>
<tr>
<td>Trade deficit, % of GDP</td>
<td>-32.0</td>
<td>-30.1</td>
<td>-42.3</td>
</tr>
<tr>
<td>Labour remittances, millions USD, net</td>
<td>440</td>
<td>660</td>
<td>867</td>
</tr>
<tr>
<td>Foreign direct investments, millions USD, net</td>
<td>78</td>
<td>151</td>
<td>225</td>
</tr>
<tr>
<td>Oil price, WTI, USD/barrel, c</td>
<td>30.0c</td>
<td>40.9c</td>
<td>57.5c</td>
</tr>
</tbody>
</table>

### MONETARY

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money supply, growth rate, %</td>
<td>20.9</td>
<td>36.8</td>
<td>24.4</td>
</tr>
<tr>
<td>Monetary aggregate M2, growth rate, %</td>
<td>25.9</td>
<td>46.9</td>
<td>37.9</td>
</tr>
<tr>
<td>Foreign Reserves, millions USD</td>
<td>302.3</td>
<td>470.2</td>
<td>600.0</td>
</tr>
<tr>
<td>Commercial Loans, growth rate, %</td>
<td>44.4</td>
<td>22.2</td>
<td>35.0</td>
</tr>
</tbody>
</table>

### CONSUMPTION

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer price inflation index</td>
<td>115.7</td>
<td>112.5</td>
<td>110.0</td>
</tr>
<tr>
<td>Retail trade, real growth, %</td>
<td>18.2</td>
<td>5.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Services rendered to population, real growth, %</td>
<td>13.3</td>
<td>5.3</td>
<td>9.3</td>
</tr>
<tr>
<td>Consumer confidence index</td>
<td>M</td>
<td>-30.6</td>
<td>-30.6</td>
</tr>
<tr>
<td>Average salary per economy, USD</td>
<td>64.8</td>
<td>89.1</td>
<td>105</td>
</tr>
<tr>
<td>Real wage growth, %</td>
<td>15.4</td>
<td>10.1</td>
<td>6.8</td>
</tr>
<tr>
<td>Unemployment rate, % (ILO)</td>
<td>7.9</td>
<td>8.1</td>
<td>7.3</td>
</tr>
</tbody>
</table>

### Notes

- M1 – January, M2 – February etc.; M – monthly; M/M – current year month comparing to the respective month of previous year;
- Q1 – first quarter, Q2 – second quarter, etc.; Q – quarterly; Q/Q – current year quarter comparing to the respective quarter of previous year;
- H1 – first half of a year;
- cumul. – cumulative since January; “-” – non-applicable or incomparable data; e – estimates by EXPERT-GRUP; c – calculations by EXPERT-GRUP.

Sources: NBS, MF, NBM, EG, The Economist.