About us

EXPERT-GRUP is an independent thin tank, legally registered as nongovernmental organization. EXPERT-GRUP specializes in economic research, evaluation of public policy, political analysis and consultancy and training services. Our mission is to provide pertinent analysis and expertise that would help our partners take right decisions in an ever-changing environment. While pursuing its institutional mission, EXPERT-GRUP generates positive externalities that contribute to general development of Republic of Moldova and enhance its international competitiveness on multiple areas.

Business and Economy Review is a project which aims at providing the public with analysis and forecast on economic trends, as well as on domestic politics and international relations issues which are relevant for economy and business. Targeted audience is composed of representatives of civil society, international organizations, business community, public administration and political elite domestically and abroad.

Coordinator of the issue: Valeriu Prohîtchi, expertgrup@gmail.com.

Contents

SUMMARY........................................................................................................................ ......................................... 3
MACROECONOMIC POLICY ............................................................................................................................... 4
FINANCIAL CLIMATE........................................................................................................................................ 5
REAL SECTOR..................................................................................................................................................... 6
FOREIGN TRADE............................................................................................................................................... 7
BUSINESS CLIMATE....................................................................................................................................... 8
PRICES ............................................................................................................................................................... 9
LABOR AND HOUSEHOLDS ............................................................................................................................ 10
COMMERCIAL PARTNERS............................................................................................................................... 11
FOREIGN RELATIONS.................................................................................................................................. 12
POLITICAL COMPETITION.............................................................................................................................. 14
STATISTICAL ANNEX ................................................................................................................................... 15
SUMMARY

Beating electoral drums...

In 2004 Moldovan economy posted several positive trends: GDP speeded up (real growth estimated at 6.5-7%); agricultural sector reverted to a growing path after its deep recession registered in 2003; inflation slowed down though not very significantly; exports increased in volume and diversified geographically. We perceived existence of risks which do not pose immediate threats to growth and financial stability however may create threats in middle perspective. Among these risks as most significant we nominate the reduction of the households’ consumption growth rate, industrial deceleration and swelling of the trade deficit. EXPERT-GRUP remarks also entirely negative developments such as increased volatility of the foreign exchange market and continuing migration of the labor.

In the course of the year the NBM found itself in a difficult situation of choosing between two bad alternatives: high inflation and excessive appreciation of the national currency against the US dollar. In the first half of the year NBM refrained from massive interventions on the foreign exchange market living more room for maneuvering in the subsequent six months. It the second half the risk of REER appreciation was obvious and it would worsen even more the insecure balance sheets of the exporters. NBM tried to neutralize its interventions by conducting monetary sterilization. Despite this, monetary aggregates run out of control and increased twice comparing to the targets included in the Monetary Policy for 2004. We believe that this policy environment, while not engendering directly inflation, nevertheless was propitious ground for prices increase which rose by 12.6% December-on-December. Inflation had a much worse impact on the poor strata since prices for the food increased by 13.3% while expenses for purchasing food hold 75% of the budgets of the poor households. Using administrative tools, the government managed to mitigate acceleration of prices.

Introducing compulsory health insurance was the most important reform in the realm of social policy. Unfortunately, the way of implementing the reform does not provide for its efficient functioning: the process is controlled monopolistically by a single state agency; transparency of the funds use is not guaranteed; the beneficiaries complain that different contributions provide the same insurance package.

With regard to the economic polices, developing the Economic Growth and Poverty Eradication Strategy Papers (EGPRSP) was a good achievement of the Government. Final document was supported by the international financial institutions and was passed as law by the Moldovan Parliament. EGPRSP represents the basis for the future relations with the World Bank and the International Monetary Fund. This fact leads us to the conclusion that over the next two years EGPRSP will delimit the space of feasible economic policies of the new government, regardless of its structure and political background.

In 2004 less encouraging were the political actions and administrative interventions which contradicted the liberal character of the EGPRSP. The Government was unable to privatize even 20% of the enterprises included in the Privatization Program. Moreover, the Government did not refrain from abusive interventions in the activity of the private firms; it interfered with the activity of the independent regulatory agencies (National Agency for Regulation of Telecommunications and Informatics and National Agency for Regulation of Energetic Sector); and created additional administrative obstacles to exports.

As the year 2004 is an electoral one, the incumbent Government used fully the budget for increasing social payments, in this way maximizing its chances to be reelected. In one year, the pension for age grew by 52%, other social allowances – by 20-40%, and the Government promised a new wave of increase after elections, on 1 April 2005. During the same period, the salaries for teachers and medical doctors grew almost twice. These socio-professional categories are politically active and influence to a large extent the social opinion and electoral option, especially in villages. On the other side, the SME sector did not benefit even of 1 million MDL which was allotted to the State Fund for Supporting the Small Business. A major regulatory reform was initiated but it is still unclear how
its implementation will carry on because there is a perceivably strong opposition of bureaucrats against the business liberalization. The reform will annihilate the “special funds” controlled by the governmental institutions with controlling and regulating responsibility.

MACROECONOMIC POLICY

Fiscal burden alleviates, but inflation is still high

Fiscal policy
In 2004, the fiscal policy generally followed the strategic goals of the Medium-Term Expenditures Framework. The tax on corporate profit fell to 20% from 28% in 2001. For 2005 the rate of 18% was approved and there are good chances for it to be reduced down to 15% in 2006. In the same time conditions of taxation of personal income were relieved. Reduction of fiscal burden will lead broaden the fiscal base and increase the budget income from indirect taxes. We consider that in 2005 this income will rise to 22-23% of the consolidated budget.

The indirect taxes continue to be main governmental tool in gathering budget incomes so far, with an estimated weight of 65%. The main part of this budget line was gathered from VAT and excise taxes (57%). It can be expected that in 2006 the VAT rates will be cut by 1-2 percentage points, which will stimulate the households’ consumption and private business investment. At the same time, it is necessary to simplify the VAT system, and the state to respect adequately its obligations to repay VAT to the exporters.

Budgetary policy
In 2004 the consolidated budget was executed with a surplus of revenue over the expenditures of 178 million MDL which is around 0.4-0.6% of GDP. According to the Ministry of Finance data, the surplus was assigned to serve the external debt. For the 2005 the consolidated budget was approved with 7473.2 million MDL lei as revenue and 7724.2 million MDL as expenditure. EXPERT-GRUP considers that there are god premises to collect much more revenue than projected in the budget and this will allow the expenditure to rise.

Budgetary expansion will be mostly due to multiplication of the revenue collected from the VAT on import, excise taxes and income tax. The deficit is planned to be 251 million MDL (0.5-0.7% of GDP), which is a sum supportable by economy and will be covered from external sources.

For the first time in Moldova, the budget law for 2005 was presented together with the national public budget. Other good news is that the state budget brings in special and extra-budgetary funds and resources assigned for investment projects and financed from foreign loans and grants. Until 2005 these funds were missing in the state budget sheet and there was no the transparency in using this public finance.

EXPERT-GRUP considers that in 2005 the weight of the special revenue within the budget will fall because of the regulatory reform. The period 2005-2006 will be a difficult one, since the government is supposed to reimburse the debt contracted earlier from the NBM. This fact will impose to rationalize the budget expenditures.

---

1 Social impact of these changes seems to be negative with wealthiest citizens benefiting disproportionately too much from increase tax benefits and reduced tax rates.
Monetary policy

Developments of the foreign exchange market and of prices in 2004 made impossible for NBM to respect its monetary targets approved in the Monetary Policy for 2004. Foreign exchange supply on domestic market boosted as result of increasing workers’ remittances by 70% and of the currency from exports by 25%. In order to prevent an excessive appreciation of the national currency NBM engaged in the second half on the foreign exchange market and bought significant amounts of currency. By December 2004 its stock of foreign exchange reserves increased by 55%, reaching USD 470 million. Annual rate of inflation equaled 12.6% in comparison with 8-10% forecasted by the NBM.

In these conditions in November 2005 NBM amended its Monetary Policy. Target for the money base growth was raised from 23.1% to 41.2%, while for the M2 money aggregate – from 24.1% to 42%. Contrary to previous policy assumption the rate of bank reserves did not reduce, with the NBM arguing that inflationary risks rendered reduction impossible. We believe that reserves will not reduce in 2005 too, because the inflation will persist. Accumulation of hard currency reserves was the main channel for monetary expansion. EXPERT-GRUP considers this trend as a dangerous one, which may trigger new inflationary vaults. NBM’s sterilization operations were not efficient because of the short financial maturity of the financial tools it used.

In 2005 Monetary Policy of the NBM suffered substantial changes. For the first time, quotation from document, „the policy was elaborate in cooperation with the government of the Republic of Moldova as a component of the unitary economic policy of the state“. NBM and the Government signed also the „Strategy of the Government of Republic of Moldova and of the National Bank of Moldova regarding the development of the financial sector of Republic of Moldova in 2005-2010“. Besides the hypothetical advantages offered by the cooperation agreement, it also put at risk the NBM’s ability to formulate and conduct independently monetary policy.

FINANCIAL CLIMATE

Contradictory evolutions of the interest rates

In 2004 average interest rate for credits climbed to 20.94 starting from 19.3% in 2003. EXPERT-GRUP believes that this evolution was determined by continuous demand for bank credits from the part of households and businesses. Stock of credits swelled by 22.2% and reflects optimistic expectations arising from the economic growth over 2003-2004. However credit growth decelerated significantly compared to 2003 with a registered growth of 45.3%. Compressing credit is explained by an inertia component (starting point in 2004 higher than in 2003), but it was also influenced by higher real interest rate.

Credit interest rate grew also because of the deponents demanding payments of higher interest on deposits (15.11% comparing to 12.55% in 2003). In an inflationary environment this demand is a normal one. Due to USD depreciation dollar deposits were not profitable while deposits and credits rates were under a permanent pressure of augmentation (by 1.83 and, respectively, 0.45 percentage points). On the supply side, another factor enabling interest growth was NBM increasing its base-rate by 0.5 points in September. EXPERT-GRUP anticipates a stabilization of the interest over the next two months.

In spite of the rising interest rates, return on assets and on equity of the bank system shrank by 1.0 and 3.6 percentage points. This evolution displayed a correlation with the reducing interest margin from 9% in 2003 to 8.5% in 2004. We consider that diminishing margin is an obvious trend given the economic growth of other productive sectors. In 2004 we saw also positive movement of systemic consolidation: normative capital of the bank sector increased sizably, banks attracted more resources while credits became in average longer.

On the treasury bonds market interest went from 15.1% in 2003 down to 11.9%. Main reason for this reduction was excess of liquidity in the bank sector with associated increased demand for TBs. This enabled the Ministry of Finance to reduce the interest. Implications are obvious: on one hand diminishing interest will...
drive commercial banks to look for other investment opportunities than TBs which are less risky, but also less profitable; on the other hand, smaller interest alleviates the financial pressure on budget when the time comes to repurchase the bonds.

REAL SECTOR

Confusing signals

In the first quarter of 2004 GDP posted a higher growth rate than in previous years (6.1%, comparing to 5.4% in Q’2003 and 4.8% in Q1’2002). But afterwards the GDP trajectory flattened significantly leading to a cumulative result of 6.5% in the first half of the year (6.4% and 6.5% in 2002 and, respectively, 2003). In the third quarter Moldovan economy performed even worse and cumulative GDP rate went down to 5.7%. However, according to our estimates in October-December GDP accelerated again and posted an annual rate situated in the area 6.5-7.0%. Annual increase happened as result of expansion with 9.4% of the value added in the services sector (mainly in constructions and telecommunications) which contributed 4.6 percentage points to GDP variation. Industry grew 9.3%, contributing with 1.7 points to GDP rate, while agriculture had a minor contribution of 0.4 points.

Growth in services sector was remarkable with constructions and telecommunication in role of leaders. In Q1-Q3’2004 total value of executed construction works was 36% higher than in 2003 and it accelerated comparing to 15% growth registered in 2003. Due to mobile communications and Internet services segment, telecommunication operators provided a volume of services which was 38% superior to previous year. Positive dynamics are explained by liberalization of telecommunications since January 2004. A more significant contribution of the services to general growth was impeded by sluggish activity in transport sector, especially of the rail-road transportation, due to Transnistria’s separatists blocking access to railroads of the region.

While in the first six months of 2004 industrial production grew in real terms, growth decelerated from 18.1% in 2003 to 13.1%. In the second half industry decelerated even more posting a cumulative annual growth of 6.4% (16.4% in 2003). Despite these negative developments, total industrial value added in the first half perk up by 11% (8.9% in 2003), while estimated growth for the second half equaled 9.34%.

In 2004 agricultural sector went along a higher trajectory comparing to 2003, even though it did not start the year at fast speed. The growth was assured by the crops sub-sector, while the livestock continued to be inefficient: the five quarters series of free fall ended only in Q3’2004, with the sub-sector cumulating an insignificant annual growth of 0.6%. Poultry was one of the few profitable branches. Major problems of the agriculture persisted over the year; penury of investment in infrastructure and production made agriculture uncompetitive and highly vulnerable to climate conditions and different pathologies. This structural weakness determined augmentation of the areas seeded with traditional crops (wheat, corn) which do not incorporate a high value added. Surface of areas seeded with technical cultures and vegetables enabling the farmers to receive high profits reduced drastically (by 18% and, respectively, 12%). In Q1-Q3’2004 livestock producers continued to rely on the strategy of slaughtering: headcount of cattle reduced by 14%, hogs – cu 11%, goats and sheep - 4%. Headcount of poultry apparently rose, but there are not yet detailed statistical data.

The sector faces serious structural problems, which may require decades for finding a solution and be very costly in human and social terms. Major structural weaknesses are the surplus of work force, dependency of the rural households on subsistence agricultural activity and lacking economic opportunities in non-agricultural sectors. These problems will not be solve unless an urbanization strategy is enacted which will help consolidating physical and social infrastructure in small Moldovan towns. EXPERT-GRUP considers the idea launched in 2003

---

2 Forecast of the EXPERT-GRUP on GDP rate for 2005-06 will be published in the next issues of the BER.
that small town should be cores of regional growth in Moldova is perfectly plausible.

FOREIGN TRADE

Heading westward?

Foreign trade intensified sizably in 2004. EXPERT-GRUP estimates total volume of foreign trade to be of 2.8 billion USD, 27.9% more than in 2003. These dynamics continue the accelerating growth of trade over the past few years. Trade growth materialized through quicker expansion of imports keeping trade deficit high (7.5% of GDP). In the current account, work remittances mitigated significantly the negative impact of the trade deficit.

Because of the real increase in trade with individual EU members and also due admission of the 8 CEE countries to EU, Moldovan trade suffered significant structural changes. Starting with 2004 Moldovan trade with new EU members is reflected in the "EU" chapter of its trade balance, while "CEE" chapter contracted correspondently. Share of EU in total exports rose from a 23% in 2003 to 30%, while CEE’s share shrunk from 15.6% to 10.8%.

In 2004 total exports posted a 25.3% growth to 990 million USD while revealing a slight diversification on countries geographical profile. Reducing share of exports to Russia and Ukraine is particularly remarkable, because it reduces relative dependence on eastern unstable markets. In the same time, exports to Russia and CIS increased in absolute value. This development proves that structural trade diversification at par with consolidation of positions on individual markets is not only desirable, but also a feasible option for Moldova.

The spectacular expansion of Moldovan exports was determined mainly by the sudden 60% increase of exports to EU. A quarter of this figure is due to inclusion of the new EU members in the "EU" chapter, while the rest is due to exports to the "old EU", mainly to Germany (29% growth) and Italy (65%). EXPERT-GRUP considers that this evolution is a normal long-term trend. It is explained by the gravitational trade model which shows that in the course of several years Moldovan export to EU should surmount exports to CIS.

In 2004 some positive while slow changes occurred in the product profile of exports. The concentration degree of exports went from 0.35 in 2003 down to 0.33 in 2004. Food category, textiles and vegetal products continued to dominate the trade flows with 35.5%, 17.4% and, respectively, 11.3% of total. Exports of grains contracted dramatically as result of unfavorable external markets and because of administrative barriers enacted by Moldovan government. Exports to CIS are dominated by food and drinks (61.4%). Such a high share is a major risk taking into account the fact that CIS is the main outlet for these Moldovan products (89% of total). On Russian market the wines are the main article of trade. While sold quantity increases steadily, Moldovan share on Russian market is getting smaller due to fierce competition from the part of wines from Chile, Argentine and South Africa. We believe that this trend is not reversible at least for a 3-5 year period. Only after developing new productive and marketing capacities will Moldovan wine makers restore lost positions.

3 Moldovan trade with Cyprus and Malta is very small and relocation of these countries does not affect significantly the structure of trade balance with “Other countries”.

4 Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Serbia and Montenegro, Macedonia and Romania.

5 We have used the Herfindahl exports concentration index: \( H = \sqrt{\sum \left( \frac{x_i}{X} \right)^2} \), where \( x_i \) - value of exports of the \( i \)-th product, \( X \) – value of total exports. We disaggregated trade data down to 3 figure sections of the Moldovan Catalogue of Goods. Theoretically the Herfindahl index includes in the interval 0-1 with higher values indicating more concentration of exports.

6 Moldovan Government adopted on August 26, 2004 the Decision 834 which recommends bakeries to set up stocks of wheat sufficient until the harvest in 2005. More important, Decision provides that exporters of wheat, barley, mix of wheat and barley and flour have to register export contracts at Universal Goods Exchange of Moldova.
Imports increased by 29.4% rising to USD 1.82 billion. This growth developed mainly due to imports of fuel and mineral oils which contributed 5.7 percentage points to total variation. Surge of this imports reflect the objective needs of a growing economy. Imports of leather, cars, plastic materials, machines and equipment and metals correlated with the rising production in industrial branches and services. As result of accumulating stocks from previous years, introducing additional tariff trade barriers and good harvest in 2004, sugar and grain imports reduced drastically by 62% and, respectively, 78%. Unlike exports, Moldovan imports are more diversified geographically. Top ten countries hold a joint share of 77.8% of total imports. Discrepancy between CIS and EU reduces steadily and in 2004 they gathered 42.4% and, respectively, 33.9% of imports.

**BUSINESS CLIMATE**

*Positive but sluggish changes*

In 2004 business community welcomed reduction of personal and corporate income tax and of contributions to social insurance fund. On the hand, a new quasi-fiscal obligation emerged as result of introducing compulsory health insurance for which employers are supposed to pay 2% of the wage bill. Most of the business representatives believe that net fiscal impact of these changes is favorable for conducting business. However in the realm of fiscal policy government did no pay attention problems related to VAT and to the legal loopholes enabling biased enforcement of the fiscal code.

One of the most important events in 2004 which may revolutionize the domestic business climate was approval of the Law on optimizing legal and normative framework regulating entrepreneurial activity\(^7\). EXPERT-GRUP considers that this is one of the most radical initiatives launched in the last 10 year in Republic of Moldova as a means of liberalizing business activity in private sector. According to the law provision, all legislative and normative acts regulating business activity are supposed to be reviewed in order to eliminate those restricting private initiative. More than 300 regulatory acts are supposed to pass through this legislative „guillotine”. However we believe that practical implementation of the regulatory reform may be impeded by uncertainty associated to electoral campaign, by already visible bureaucratic opposition within the bodies that have issued regulatory acts and by the fact that there is no a clear concept on how the control and regulatory system is going to work after the “guillotine”.

Lately several international evaluations of the business climate in Moldova over 2004-2005 became available.\(^8\) Most of the specialized institutions perceive an improvement of the business conditions in Moldova\(^9\). Enhancement of positive perceptions is confirmed by METRO group entering Moldovan market and by completion of negotiations on important projects with international investors. For instance, in 2004 Government signed three infrastructure projects on building two regional electric power plants and on finalizing the Giurgiuleşti project which will be able to significantly improve energetic security and infrastructure which are crucial for a normal way of doing business. Moreover, the said projects will exert externalities enabling new opportunities for domestic and international business. Liberalization of the telecommunication sector starting with January 2004 may also have contributed to forming a better image of Moldova for the international investors.

On the negative side of the balance several developments hindered a larger consolidation of the private sector. The „Megadat” scandal had the largest public impact but it was only one among other similar stories provoked by political and bureaucratic interests confronting economic ones. Privatization was a protracted and non-transparent process. Privatization plan was accomplished only after in

---

\(^7\) Known to the general public as the “guillotine law”.


\(^9\) However, Moldova remained in the not prestigious category of states with limited economic freedom.
November it was contracted five times. Which is more concerning is the clear change of public message related to structural policy. Governmental officials said to not be anymore interested in transmitting in private ownership the electric distributional networks in the northern region, arguing that under state ownership the networks ended the year much better financial results comparing to the central and southern networks which are private.

In order to avoid a new „bread crisis” similar to the one of end of year 2003 and lacking financial resources for setting up wheat state reserves at market prices, the government decided to stop administratively exports of grains. This policy led to accumulation of large domestic stocks and to reduction of prices, enabling the largest state-owned bakery SA „Franzeluta“ to diminish sizably prices for its bread. Taking into account the export contracts signed but not executed by Moldovan farmers, we can affirm that domestic agricultural producers suffered important losses due to the state policy of subsidizing inefficient state enterprises for electoral purposes.

**PRICES**

*heating over the poorest...*

In 2004 the consumer price index rose by 12.6% (December - December), the inflation rate registered a modest decrease compared with 2003 (15.7%). The industrial producers’ prices rose, according to our estimates by 5.6% down from 8.9% in 2003. Damping industrial inflation hindered a more significant rise of consumer prices. However in October the inflation outbreaks related to the increase in fuel prices have spread in other branches as well.

The foodstuffs have registered the biggest increase (13.3%). The tariffs for services registered an increase of 12.2%, while the non-food products inflation was of 12.0%. According to the assessments made by EXPERT-GRUP, the biggest price increase in food products has been registered for meat (the prices for pork have spectacularly increased by 70.3% and the ones for veal - by 39.9%) and the vegetables (59.9%). In the case of meat, this dynamics can be explained by chronic difficulties faced by the livestock sector, while the demand moderately grows.

The decrease of prices for flour (-6.9%) and bread (-8.8%) has lead to the significant flattening of the general tendency of price increase, both products having a considerable share in the consumer basket. This development is determined by three factors: i) the optimistic expectations related to a better agricultural harvest compared to 2003; ii) the administrative measures that prevented the price increase10 and iii) the administrative measures of exports’ regulation that, beginning with August have lead to an excessive offer compared with the internal demand. Another factor that hindered the increase of all prices in the national economy was the actual appreciation of the national currency compared to the US dollar during the first half of 2004.

Regarding the non-food products, the fuel price increased by 25%, being influenced by the global tendencies and seasonal leap of demand. The prices for clothes rose by 16.7% and the ones for footwear – by 15.3%, the tendency being caused by the MDL appreciation and rise in the price of imports. The prices for medicines increased by 7.2%, thus greatly contributing to the variation of the non-food products’ price index. The increase in prices for medicines is related to the increase in demand from medical institutions after the implementation of the compulsory health insurance program and problems of the domestic suppliers (the pharmaceutical production has drastically decreased in 2004).

As concerns the services, there has been registered a significant increase in the

---

10 On November 20, the Government of the Republic of Moldova has adopted amendments to the Decision No. 547 from August 4, 1994 „Regarding the prices (tariffs) coordination and regulation by the state”. The reduction of the commercial margins for bread and bakery products from 20% to 10%. The commercial addition limited to 10% was about to enter into force before September 1, 2004, but in reality the supervisory bodies continue to constrain producers not to include more than 10% of commercial addition to the price.

11 See note 6.
tariffs for telecommunications (44.9%), but their contribution to the price variation for services was quite insignificant. Moreover, the maintenance services have become more expensive by 4.2%. The transportation tariffs rose insignificantly during the first three quarters, but this stability was compromised in October-December when the tariffs registered a growth of 26%. As a result, the transportation prices have increased by 31.7% for the whole year. As to the social services, the tariffs for education rose in average by 19.6%.

The structure of consumer prices’ inflation in 2004 is inauspicious for the poor, because the prices for foodstuffs that have a considerable weight in the consumption budgets of the poor households have increased the most. The overgrowth of currency resources transferred by Moldovan workers has created a wrong impression of prosperity. In the conditions of internal offer stagnation there has been observed an increase of the demand for imported goods that led to the currency outflow of the country.

During the next months the rise in prices for fuel and MDL depreciation in the second half of 2004 will lead to the increase of prices for local and imported goods and services. Meanwhile, the transportation prices in Chisinau did not increase, but this will happen in the nearest future. In other Moldovan cities the minibus transportation prices have already increased (for example in Soroca - by 50%). The transportation companies will definitely obtain the approval of new tariffs’ grid after the elections. EXPERT-GRUP also foresees an increase in the tariffs for electric power. Along with oil products, the increase in prices for electric power will lead new inflationist circuits in the national economy. EXPERT-GRUP believes that in January – February 2005 the consumer prices index will monthly increase in average by 1.1-1.3%. The usual seasonal increase tendencies in this period will be partially be hindered by administrative interferences in corporate prices.

LABOR AND HOUSEHOLDS

A more pessimistic mood

In 2004 the average salary has increased in real terms by 7.6% compared with 2003. Despite the positive dynamics, the salaries’ increase rate was much smaller than the 15.5% registered in 2003. Actually, in 2004 the tendency outlined in T3’2003 has become more evident. Chart 10 shows that during each month of 2004 the actual wages have been on a lower trajectory than in the corresponding month of 2003. With inflation in 2004 a bit more moderate, the slowdown was determined by the decrease of nominal increase rates. EXPERT-GRUP believes that this is a symptom characteristic to an economy that overcame the boom phase of the first „business cycle“ in the contemporary history and that will be on a descendent portion during the following 1-2 years, unless new capacities are involved and the investment projects start (see business environment).

In spite of the fact that in 2004 there have been significantly increases of the wages paid to some public sector categories, the differences maintained the same high quota. The average public sector salary constituting 67-69% of the private one. Taking into consideration the apparently high share of the wages paid illegally in the private sector, the real difference could be bigger. The huge differences remained the same in the two categories. Faculty and doctors get salaries within the average per country. The wages received in the agricultural branches represent 50% from the average ones in the economy, the ones in the banking-financial sector being thrice the average. The differences will remain similar during the next years and will keep the final consumption in the economy under the potential.

In October 2004 the number of employees in enterprises subject to statistical records (i.e. the ones with more than 20 employees) was smaller by 10,000 compared to October 2003. A part of the labor force is likely to be found in the 5000 small enterprises opened in 2004, another part choosing probably to emigrate. These processes took place in parallel with the unemployment rate increase: in the first half of the year the average unemployment rate constituted 9.3%, compared with 8.3% in 2003. Only the third quarter registered a lower
unemployment rate than in 2003, EXPERT-GRUP estimating a rate of 8.0% for the last quarter. In annual expression, the unemployment rate was estimated by EXPERT-GRUP to be 8.3%.

The intensive migration of workers abroad continued in 2004 reducing thus the quality of country labor resources. On the other hand, the emigrants represented a continuous source of providing households with currency for covering the consumption needs. According to the assessments made by EXPERT-GRUP, the currency flows in 2004 constituted USD 625-650 million. The age structure, residence and available income before departure suggests the fact that in the nearest future the income differences in the rural areas will grow faster than in the urban ones and will compromise the structural improvement of rural inhabitants’ consumption demand.

The slowdown of wages’ increase was closely related to the consumption demand repression. In 2004 the retail sale of goods and services registered a cumulated increase of 11.0% and 7.0% respectively. As shown in chart 12, during the current year the consumption demand was much more inactive than in 2003. This tendency could remain the same during the first half of 2005, in parallel with the increase of the saving inclination.

**COMMERICAL PARTNERS**

**Eager for imports**

According to preliminary assessments, in 2004 the global economy has increased by 4.5-4.7%. Within the developed countries, the U.S. and Japan registered GDP increases of over 4%. China increased impressively by 9.4% and judging recent trade tendencies one can say that this country will become an important trade partner for Moldova in the future. On the geopolitical level, the instability in Iraq has led to an evident volatility of prices for oil which followed an ascendant path and restrained global growth. In October the oil price in London and New York has reached a quota of USD 55/barrel, followed by an unsteadily descending period. As to the demand, the price for hydrocarbons has increased as a consequence of intensive expansion in China and the U.S. These tendencies reflected upon the prices on the Moldovan market as well. At global level the US dollar depreciated by 7.6% compared to Euro, on December 29 being registered its historical minimum of 1.3647 USD/Euro. The announcement of huge volumes of „twin deficits” in the U.S. makes us believe that the depreciation pressures on the dollar will persist in the following months too.

In 2004 the **European Union** continued to be behind the U.S. on the growth route. Germany and Italy, the main Moldovan commercial partners in the EU region continued to face serious macroeconomic and sector problems. In **Germany** the high unemployment rate (9.9%), the structural reforms and the appreciation of the European currency have lead to pessimistic expectations of the economic future and have compressed the internal demand. In 2004 a 2% GDP growth is estimated, the expected increase for 2005 being of 1.8%. Though it could be counterbalanced by the improvement of the financial and economic climate in other EU regions (France, Spain, Scandinavian states), Germany’s economic apathy is not favorable for Moldova, a fact that could lead to an inhibition of demand for Moldovan goods exported to the German market. **Italy** – the most important destination for Moldovan exports is credited with a better economic development 2005, of 1.9%, compared with 0.3% in 2003 and 1.4% in 2004. This increase will stimulate Moldovan exports to this country.

---

12 The research realized in 2004 by the Microfinance Alliance Moldova “The labor force migration and the transfers to the Republic of Moldova” says that in 2003 about 300000 Moldovan citizens went to work abroad. About 16% have higher education and have worked before as doctors, teachers, and civil servants.
In Russia the GDP increase constituted only 7.3%, being stimulated by the global increase of prices for oil products. Proportionately with the GDP, the wages and incomes increased as well, leading to an increase in the consumption demand by 13%, including for imported products. Given the stabilization of the purchasing power and consumers' trust, the imports increased by 20.7%, compared with 19.5% in 2003. It is expected that in 2005 the economic development will slow down (6.5%) along with the decrease of prices for oil products, in order to intensify in 2006 as a consequence of entering in the productive process of newly created capacities through investments in the fixed capital during 2004-2005.

In Ukraine the economic fulminating expansion continued. Political crisis in November – December of 2004 was unable to undermine the positive economic tendencies during the last five years. The inflation rate increased more than expected, but the country’s central bank was able to manage the banking crisis that emerged in November and to avoid a long-term depreciation of the national currency. The GDP rose by 12%, placing the country on the first place in Europe. At the same time, the available income rose and thus increased the consumption propensity. Meanwhile, the imports increased by 14%. The exhaustion of the political crisis concurrently with the election of Victor Yuschenko creates premises for a definite stabilization of the economic situation and for launching a new qualitative package of reforms. On the other hand, there cannot be ignored the political risks that might worsen in 2005, eventually as a result of unwarrantable interferences from abroad. (Dissatisfactions from the Eastern and Southern Ukraine caused by the results of the last electoral race are not ignorable). It is expected that in 2005 the GDP will increase by 9%, the rhythms’ decrease being determined by a more intense inflation and unfavorable perspectives of the world steel market (one of the main Ukrainian export items).

Romania, the most important commercial partner of Moldova in Central Europe has strongly developed in 2004, the GDP swelling 8.1% in the first three quarters. All productive sectors were in progress, especially being distinguished the primary sector, increasing by 19.7%, and constructions – by 10%. The gross added value obtained in the services sector and in industry rose by 6% and 6.2% respectively, contributing with 82% to GDP variation. It is worth mentioning the fact that on the expenditures side 23.4% of the GDP have been consumed for the fixed capital gross formation that increased in real expression by 13.7%. The final consumption of households has increased by 9.8%, proving a bigger trust in the short and medium term economic perspectives. The goods and services imports have been bigger by 20.2% than in January – September 2003.

FOREIGN RELATIONS

Cold Eastern winds

For the Republic of Moldova the year 2004 was remarkable because of a sturdy worsening of the political relationships with the Russian Federation and by coming to a deadlock of relations with Ukraine. None of the two countries have signed the Stability and Security Declaration for the Republic of Moldova proposed for adoption at the OSCE Ministerial in Sofia in December 2004. Russia made use of a tough diplomatic message in order to express its disagreement regarding the unexpectedly relentless position of Chisinau towards the military Russian presence in Moldova and the support Moscow hives to the separatist region. The changes imposed by Chisinau in the access regime of the diplomatic staff to the region made the situation more complex than it was. EXPERT-GRUP believes there are grounds for a further worsening of the political relationships that could appear if an eventual Russian involvement in the election campaign in Moldova would be proved. In such a case, Moldovan exports could suffer as well. Also, Russia could make use of the energetic weapon in order to induce an adequate behavior from the Moldovan authorities. These perspectives could destroy the positive effects of the agreement from January 1 regarding the revocation of customs tariffs on Moldovan sugar exports to Russia.
In the second half of 2004 Ukraine was focused on the internal political problems and did not promote an active strategy towards Moldova. It might happen that under the EU pressure the new power installed in Kiev could be more willing to cooperate with Moldova in controlling the common border on the Transnistrian segment. This fact will considerably improve the negotiation position of Chisinau in relation with Tiraspol. A new opportunity window for negotiations with Kiev will derive out of Ukraine’s existing interest for its adherence to World Trade Organization in 2005. Generally speaking, the perspectives of Moldovan political relationships with Ukraine offer good chances for an intensification of business ties between the businesspeople of the two countries.

On the Western direction, all the important partners always expressed their concern regarding the political interferences in private businesses. It is expected that the support given by the foreign private and public donors for the development and reinforcement of the private sector could considerably increase, and emphasis in the foreign donors’ strategies could shift from the cooperation with or by means of governmental institutions to a direct collaboration with the private sector. This fact will open new opportunities for strengthening business and social, institutional and physical understructures, necessary for their development.

In 2004 there was adopted the Action Plan Moldova-EU that had involvements in the commercial relationships: asymmetrical free trade regime, eventually circulation freedom, and greater guaranties for investments. The plan does not offer a clear perspective of adherence or association with the EU, but doesn’t necessarily exclude these possibilities. The expected improvement in the relationships with the EU and Ukraine could open a new window of opportunity for Moldova. Besides, depending on the development way and results of the parliamentary elections, the relationships with the EU could register a qualitative jump in 2005, after the diplomatic offensive of 2004 for obtaining a greater support for Moldova in London, Brussels and Berlin proved to be efficient.

The radical political changes in Bucharest created favorable premises for relaunching the political dialogue between Moldova and Romania, and along with it for intensifying the economic relations between the two countries that are currently in a hibernation stage because of subjective reasons. It is obvious that the economic relations with Romania will materialize in new investments of Romanian businessmen in Moldova (more likely in new businesses than in privatization) and in increased imports of electric power. The visit to Chisinau of the Romanian President Traian Băsescu encourages these perspectives. Unfortunately, Moldovan exports will not develop spectacularly. It might happen that 2005 would be the last year of existence of the free trade agreement between Moldova and Romania, because Romania’s obligations of adherence to the EU impose the adjustment of all commercial agreement to the EU commercial policy.

After Chisinau’s refusal to sign in November 2003 the „Kozak Memorandum” proposed by the Russian Federation, certain positive changes have been outlined in the relationships between the U.S. and the Republic of Moldova. The U.S. concerns for the democracy status in the Republic of Moldova have increased, the future of political and economic relationships between the two countries completely depending upon the way the March 6, 2005 parliamentary elections will be held. If Moldova will succeed in ensuring a democratic exercise in elections and practically confirm the oratory of economic reforms, there are chances that in 2005-2006 Washington may recognize the statute of market economy in Moldova.

In 2003-2004 in Georgia and Ukraine took place the well-known events that favor an extraordinary closeness in the foreign policy positions of these states. Taking into consideration this fact and the continuously difficult political situation in Russia that is likely to worsen more, EXPERT-GRUP considers that in 2005 there could be created premises for the de facto cessation of the Commonwealth of Independent States or for its coming into a final stagnation. The situation will be deteriorated by the non-cooperating attitude manifested by Russia towards the

13 Beginning with January 1, 2004 in Russia there have been cancelled the social facilities offered to such politically important strata as: pensioners, policemen, military people and other. The inadequately implemented reform has led to the outbreak of social protests throughout the country. The President’s Vladimir Putin personal rating decreased during one month only by 5%.
problems of separatist regions from Georgia and the Ukrainian pro-European policies. The idea of a Common Economic Area launched in 2004 will be abandoned, Ukraine’s participation being crucially important for the project implementation.

POLITICAL COMPETITION

Chances for a „Moldovan revolution”

Throughout 2004 and in January 2005 the opposition remained split. The strategy used by PCRM (Communist Party of the Republic of Moldova) in 2004 has tightened the maneuver field of opposition parties in two main directions: European integration and fighting corruption. Besides the realization of some concrete objectives (increase of pensions and public sector salaries), the Government had the PR tools necessary to create the impression of an exceptional efficiency in fulfilling the two tasks. Often, the message derailed to direct involvements in the private economic activity and the activity of state firms was guided by political interests and less by economic ones (decrease of prices for the bread produced by the J.S.C. „Franzeluța”, the supply of heating and hot water for all block of flats in Chisinau indifferently to the level of payment and many others).

Big hopes have been invested in the capacity of the electoral block „Moldova Democrată” (Democratic Moldova) for having coagulated a strong team and formulated an attractive offer of economic policy. But the block was not able to formulate an attractive economic program and to bring on the forefront more personalities with no political past. The block’s heterogeneity has increased, while an ideological binder could hardly be found. These facts make very difficult the problem of keeping the block in the future legislative for which it has still good chances.

The great non-accomplishment of the political year 2004 was the fact that there have not emerged new and young political forces that could have capitalized on the big social expectations created by the wave of the „rose” and „orange” revolutions from 2003-2004. On the other hand, there appeared the first political power relatively important, the Union „Patria-Rodina” (Motherland) that occupied the niche held by the PCRM until 2001 and that openly pleads against Moldova’s adherence to the European and Euro-Atlantic structures. The positions of the anti-European political faction in Moldova can only consolidate in the future.

The existing conflicts on the right wing are not a result of major ideological or geopolitical differences, but of the existing personal enmities between the party’s leaders and because of the electoral conjuncture also. As PCRM has good chances to be the major political power in the following legislative, the fight for the second place is unfolded between the BMD and PPCD. In the situation when the Government would allow irregularities in the electoral process, the existent discords between the two main opposition powers make more complicated but do not exclude the realization of the „street model” of democracy in the Republic of Moldova14. There exist already the necessary preconditions for the release of this scenario: first of all, events in Romania, Ukraine and Georgia in 2003-2004 have exported a revolutionary mood in Moldova too; secondly, over the past years the Government abused all the administrative instruments for influencing the results of the 2005 elections long before these would have taken place. Finally, the election campaign has started with scandals that could only increase considerably.

Even if the PCRM succeeds to manage a likely post-electoral crisis, the current dispersion of the opposition does not make its life easier. First of all, the opinion polls show a decrease in the party’s rating. Secondly, the opposition carefully supervises the way the PCRM uses the so-called administrative resources, which overuse may be lethal for the current Government. In the third place, there are chances for the PSDM or the Block „Patria-Rodina” to overpass the electoral

---

14 On the eve of the 2003 elections in Georgia the relationships between the opposition powers of this country were not simpler than in the ones in Moldova in 2005, but an efficient union was still possible.
minimum threshold, thus making things even more difficult the post-election arithmetic.

EXPERT-GRUP considers that a serious worsening of the relationships with Transnistria in the election and post-election period is possible, and along with it the degradation of the political stability and military security in the region. During the same period the risk of political violence will become more stringent, fact that could culminate with protests and street confrontations. As a conclusion, the post-election situation foreseen in the second part of January 2005 is characterized more by instability and premises for anticipated or repeated elections, perspective unfavorable for the business.

### STATISTICAL ANNEX

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP, million MOL, current prices</td>
<td>8917</td>
<td>9122</td>
<td>12322</td>
<td>16020</td>
<td>19052</td>
<td>22566</td>
<td>27297</td>
<td>31980-32130</td>
</tr>
<tr>
<td>GDP/capita, USD</td>
<td>528</td>
<td>465</td>
<td>321</td>
<td>354</td>
<td>408</td>
<td>459</td>
<td>543</td>
<td>718-722</td>
</tr>
<tr>
<td>GDP increase rate, %</td>
<td>1,7</td>
<td>-6,5</td>
<td>-3,4</td>
<td>2,1</td>
<td>6,1</td>
<td>7,8</td>
<td>6,3</td>
<td>6,5-7</td>
</tr>
<tr>
<td>GDP deflator,</td>
<td>112,6</td>
<td>109,4</td>
<td>139,8</td>
<td>127,3</td>
<td>112,1</td>
<td>109,8</td>
<td>113,8</td>
<td>110</td>
</tr>
<tr>
<td>Agriculture share in the gross added value, %</td>
<td>30,2</td>
<td>30,4</td>
<td>27,6</td>
<td>29,0</td>
<td>25,4</td>
<td>24,0</td>
<td>22,5</td>
<td>21,0</td>
</tr>
<tr>
<td>Industry and constructions share in the gross added value, %</td>
<td>29,0</td>
<td>23,5</td>
<td>22,8</td>
<td>21,7</td>
<td>24,7</td>
<td>23,2</td>
<td>24,7</td>
<td>22,5</td>
</tr>
<tr>
<td>Services share in the gross added value, %</td>
<td>40,8</td>
<td>46,1</td>
<td>49,4</td>
<td>49,3</td>
<td>49,9</td>
<td>52,8</td>
<td>52,8</td>
<td>56,5</td>
</tr>
<tr>
<td>Gross investments in the fixed capital, % in GDP</td>
<td>19,9</td>
<td>22,1</td>
<td>18,4</td>
<td>15,4</td>
<td>16,7</td>
<td>16,3</td>
<td>17,1</td>
<td>16,4</td>
</tr>
<tr>
<td><strong>Households</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal monthly disposable income, MOL</td>
<td>133</td>
<td>118</td>
<td>133</td>
<td>186</td>
<td>241</td>
<td>322</td>
<td>422</td>
<td>520</td>
</tr>
<tr>
<td>Retail trade, real increase, %</td>
<td>-3,8</td>
<td>-12,3</td>
<td>-27,4</td>
<td>4,0</td>
<td>14,8</td>
<td>34,2</td>
<td>18,2</td>
<td>11,0</td>
</tr>
<tr>
<td>Services rendered to the population, real increase, %</td>
<td>10,2</td>
<td>-11,7</td>
<td>-10,2</td>
<td>0,1</td>
<td>21,2</td>
<td>11,8</td>
<td>12,5</td>
<td>7,0</td>
</tr>
<tr>
<td><strong>Prices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer prices index</td>
<td>112,0</td>
<td>108,0</td>
<td>139,0</td>
<td>131,0</td>
<td>110,0</td>
<td>105,2</td>
<td>111,6</td>
<td>112,6</td>
</tr>
<tr>
<td>Producer prices index</td>
<td>120,0</td>
<td>109,7</td>
<td>144,0</td>
<td>128,5</td>
<td>112,3</td>
<td>104,7</td>
<td>108,9</td>
<td>105,6</td>
</tr>
<tr>
<td>Agricultural prices index</td>
<td>99,0</td>
<td>91,0</td>
<td>65,0</td>
<td>126,0</td>
<td>99,5</td>
<td>100,2</td>
<td>120,3</td>
<td>103,0</td>
</tr>
<tr>
<td><strong>Labor</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population, million</td>
<td>3,65</td>
<td>3,66</td>
<td>3,65</td>
<td>3,64</td>
<td>3,64</td>
<td>3,63</td>
<td>3,62</td>
<td>3,61</td>
</tr>
<tr>
<td>Number of employees in the economy, million</td>
<td>1,65</td>
<td>1,64</td>
<td>1,50</td>
<td>1,51</td>
<td>1,50</td>
<td>1,51</td>
<td>1,36</td>
<td>1,35</td>
</tr>
<tr>
<td>Unemployment rate, OIM methodology</td>
<td>-</td>
<td>9,2</td>
<td>11,1</td>
<td>8,5</td>
<td>7,3</td>
<td>6,8</td>
<td>7,9</td>
<td>8,3</td>
</tr>
<tr>
<td>Nominal average wage, MOL</td>
<td>220</td>
<td>250</td>
<td>305</td>
<td>408</td>
<td>544</td>
<td>691</td>
<td>892</td>
<td>1080</td>
</tr>
<tr>
<td>Real average wage increase, %</td>
<td>4,9</td>
<td>5,5</td>
<td>-12,5</td>
<td>2,2</td>
<td>21,6</td>
<td>20,9</td>
<td>15,5</td>
<td>7,6</td>
</tr>
<tr>
<td><strong>Foreign trade</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods export, USD million</td>
<td>874,1</td>
<td>632,1</td>
<td>462,3</td>
<td>471,5</td>
<td>570,2</td>
<td>710,6</td>
<td>790,3</td>
<td>990</td>
</tr>
<tr>
<td>Goods import, USD million</td>
<td>1171,2</td>
<td>1023,7</td>
<td>573,1</td>
<td>777,4</td>
<td>897,2</td>
<td>1103,1</td>
<td>1402,7</td>
<td>1815</td>
</tr>
<tr>
<td>Deficit of goods commercial balance, % GDP</td>
<td>-15,4</td>
<td>-23,1</td>
<td>-9,5</td>
<td>-23,8</td>
<td>-22,1</td>
<td>-23,6</td>
<td>-30,5</td>
<td>-31,8</td>
</tr>
<tr>
<td>Direct foreign investments, USD million</td>
<td>78,3</td>
<td>74,4</td>
<td>38,8</td>
<td>127,5</td>
<td>148,5</td>
<td>110,4</td>
<td>50,0</td>
<td>60,0</td>
</tr>
<tr>
<td>Transfers from gastarbeiters, USD million (official data)</td>
<td>93,3</td>
<td>99,7</td>
<td>90,1</td>
<td>126,2</td>
<td>183,7</td>
<td>239,1</td>
<td>258</td>
<td>450</td>
</tr>
<tr>
<td><strong>Public finances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated budget incomes, million MOL</td>
<td>2941,7</td>
<td>2721,9</td>
<td>3100,3</td>
<td>4102,4</td>
<td>4324,8</td>
<td>5084,4</td>
<td>6620,5</td>
<td>7532,5</td>
</tr>
<tr>
<td>Consolidated budget expenses, million MOL</td>
<td>3608,4</td>
<td>3027,1</td>
<td>3495,3</td>
<td>4268,8</td>
<td>4325,8</td>
<td>5194,1</td>
<td>6183,4</td>
<td>7354,5</td>
</tr>
<tr>
<td>Budgetary balance, % in GDP</td>
<td>-7,5</td>
<td>-3,3</td>
<td>-3,2</td>
<td>-1,0</td>
<td>0,0</td>
<td>-0,5</td>
<td>1,6</td>
<td>0,4</td>
</tr>
<tr>
<td>Internal public debt, % in GDP</td>
<td>11,0</td>
<td>17,2</td>
<td>15,5</td>
<td>12,6</td>
<td>12,6</td>
<td>12,5</td>
<td>10,7</td>
<td>11,8</td>
</tr>
<tr>
<td>External and state guaranteed public debt, % in GDP</td>
<td>49,1</td>
<td>65,9</td>
<td>79,3</td>
<td>64,5</td>
<td>59,4</td>
<td>51,5</td>
<td>26,0</td>
<td></td>
</tr>
<tr>
<td>Monetary indices</td>
<td>2002</td>
<td>2003</td>
<td>2004</td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
<td>2009</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Monetary basis, annual increase, %</td>
<td>32.6</td>
<td>-5.5</td>
<td>41.3</td>
<td>29.8</td>
<td>27.9</td>
<td>31.1</td>
<td>17.0</td>
<td>39.7</td>
</tr>
<tr>
<td>Official currency reserves, USD million</td>
<td>360</td>
<td>141.5</td>
<td>180.5</td>
<td>222.5</td>
<td>228.5</td>
<td>269.6</td>
<td>302.3</td>
<td>470.2</td>
</tr>
<tr>
<td>Official exchange rate, annual average MOL/USD</td>
<td>4.62</td>
<td>5.37</td>
<td>10.52</td>
<td>12.43</td>
<td>12.87</td>
<td>13.57</td>
<td>13.92</td>
<td>12.33</td>
</tr>
<tr>
<td>Interest rate credits in MOL, %, annual average</td>
<td>32.8</td>
<td>30.1</td>
<td>35.5</td>
<td>33.3</td>
<td>28.5</td>
<td>23.1</td>
<td>19.2</td>
<td>20.9</td>
</tr>
<tr>
<td>Interest rate deposits in MOL, %, annual average</td>
<td>24.5</td>
<td>21.0</td>
<td>27.4</td>
<td>24.6</td>
<td>20.6</td>
<td>14.4</td>
<td>12.6</td>
<td>15.5</td>
</tr>
<tr>
<td>Credit in the economy, stock, million MOL</td>
<td>1506</td>
<td>1771.4</td>
<td>1608.8</td>
<td>2291.2</td>
<td>3101.3</td>
<td>4165.7</td>
<td>5999.7</td>
<td>7399.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Global economy</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth globally, %</td>
<td>4.2</td>
<td>2.8</td>
<td>3.7</td>
<td>4.7</td>
<td>2.4</td>
<td>3.0</td>
<td>3.9</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Sources: DSS, NBM, IMF, estimates by EXPERT-GRUP