



# ANNUAL REPORT

# 2009



## LIST OF ABBREVIATIONS

<b>NAER</b>	National Agency for Energy Regulation
<b>PCA</b>	Partnership and Cooperation Agreement
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>BIM</b>	International Labor Office
<b>WB</b>	World Bank
<b>NBM</b>	National Bank of Moldova
<b>NBS</b>	National Bureau of Statistics of the Republic of Moldova
<b>TB</b>	Treasury bills
<b>NBC</b>	National Bank Certificates
<b>DNS</b>	Designated-Time Net Settlement System
<b>CHIBID</b>	Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan lei from other banks.
<b>CHIBOR</b>	Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan lei from other banks.
<b>TRC</b>	Total Regulatory Capital
<b>CIS</b>	Commonwealth of Independent States
<b>RTGS</b>	Real-Time Gross Settlement System
<b>SDR, XDR</b>	Special Drawing Rights
<b>DVP</b>	Delivery Versus Payment
<b>EUR</b>	European Union Currency
<b>IMF</b>	International Monetary Fund
<b>CPI</b>	Consumer Prices Index
<b>MDL</b>	Moldovan lei
<b>OPEC</b>	Organization of the Petroleum Exporting Countries
<b>SB</b>	State Bonds
<b>EaP</b>	Eastern Partnership
<b>GDP</b>	Gross Domestic Product
<b>REER</b>	Real effective exchange rate of the national currency
<b>REPO</b>	Agreement of securities trading with repurchase there of on a determined date and price
<b>RR</b>	Required Reserves
<b>RON</b>	Romanian lei
<b>RUB</b>	Russian Ruble
<b>AIPS</b>	Automated Interbank Payment System
<b>RAS</b>	Rapid Alert System
<b>BES</b>	Book-Entry System
<b>FISIM</b>	Financial intermediation services indirectly measured
<b>USA</b>	The United State of America
<b>ECT</b>	Energy Community Treaty
<b>EU</b>	European Union
<b>USD</b>	U.S. dollar
<b>SS</b>	State Securities



## CONTENTS

<b>Summary.....</b>	<b>3</b>
<b>World economy in 2009 .....</b>	<b>6</b>
<b>I. Economic Situation of the Republic of Moldova .....</b>	<b>8</b>
Real sector.....	8
Evolution of prices .....	12
Financial situation.....	13
Balance of payments .....	14
External debt .....	22
<b>II. Activity of the National Bank of Moldova .....</b>	<b>24</b>
Achievement of the monetary and foreign exchange policy in 2009 .....	24
Legislative and macroeconomic framework in 2009.....	24
Implementation and promotion of the monetary and foreign exchange policy during 2009 .....	25
Monetary policy instruments .....	26
Results of the monetary foreign exchange policy during 2009 .....	30
Monetary market.....	38
Collaboration of the National Bank of Moldova with the Government of the Republic of Moldova .....	44
Evolution of foreign exchange market.....	45
International collaboration .....	54
Supervision and regulation of bank's activity .....	58
Payment system .....	66
Information technology.....	66
Cash operations.....	67
NBM Personnel and Professional Training .....	67
Internal audit .....	68
Activity of the Council of administration of the NBM.....	69
Activity of completion and amending the normative acts in 2009 .....	70
<b>III. Annexes .....</b>	<b>75</b>

---

## Summary

---

### External environment

After two years of economic and financial crisis, the severe decline of the global activity started to recover gradually on the major emerging markets and in some advanced countries. The economic growth has strengthened and expanded during the second half of 2009 due to the stabilization of retail sales, commodity prices and global trade, and the assertion of the real estate markets. The real sector of the global economy is also recovering, the industrial production increasing to the global level in the third quarter of 2009. The inflation in developed countries was almost zero in the reference year, while in emerging countries it reached 5.2 percent. In general, the emerging economies have resisted better to the financial turmoil due to the improvement of the economic policies: some of these countries benefit from increased raw material prices and a stronger set of economic policies than during the previous crises.

### Real sector evolution

Economic evolution of Moldova's main trading partners has been marked by the financial and economic crisis worsening, which led to the deterioration of the internal conditions by reducing the volume of remittances, and by the domestic demand reduction to domestic products.

*The Gross Domestic Product (GDP)* of the Republic of Moldova, estimated for 2009, declined in real terms by 6.5 percent compared to the previous year. On the supply side, the fall in GDP was supported by negative results in the goods sector, particularly from industry, and reducing taxes and net product imports. Also, reductions were recorded for items of expenditure on gross domestic product, mainly on the account of significantly reduction of the capital formation and final consumption of households.

In 2009, the *industrial production* of enterprises of all types of real property recorded a decrease of 22.2 percent compared to the previous year and accounted for 23266.6 million lei in current prices.

According to the preliminary estimates, the *agricultural production* fell in 2009 in real terms by 9.9 percent compared to the previous year. The agricultural production reduction was mainly due to the sharp decrease in crop production, while livestock production increased compared to the previous year.

In 2009, in the economy has been allocated *investment in fixed capital* of only 65.1 percent from the level recorded in 2008. The main sources of financing investment activity remain to be the funds of economic agents and population.

*The average monthly wage* of an employee in the national economy in 2009 amounted to 2747.6 lei, increasing both in nominal and real terms by 8.6 percent as compared to the previous year.

In 2009, the contributions to the *state budget* revenue constituted 15.1 percent less than the amount collected in 2008, the state budget revenue constituting 4.5 percent higher compared to the last year. The state budget in 2009 resulted in a deficit amounting to 3631.8 million lei.

On December 31, 2009 *the external state debt* amounted to USD 957.5 million, increasing by USD 179.2 million compared with levels recorded at the end of 2008. *The internal state debt* amounted to 5104.9 million lei, made entirely of state securities. The total amount of internal state debt, debt to the NBM constituted 2213.4 million lei.

### Inflation dynamics

The restriction of the economic activity associated with the global economic crisis that reflected on the national economy has conditioned a significant reduction of the rate of growth of consumer prices. Thus, the annual inflation rate in December 2009, measured by consumer price index, was 0.4 percent versus 7.3



percent recorded in December 2008. This decrease was placed on a downward trend that began in June 2008 and continued until summer 2009.

Within the structure of components, the largest increase (by 2.5 percent) was recorded in prices for non-foodstuff products, followed by tariffs for services rendered to the population (by 2.2 percent), while prices for foodstuff products have recorded a reduction of minus 3.8 percent.

The annual core inflation showed a downward trend since April 2008, constituting 2.1 percent in October 2009, with a slight acceleration in December 2009.

### **National Bank's activity in 2009**

The efficiency of the promotion and implementation of the monetary policy during 2009 had a limited character as a response to the global financial crisis.

The financial crisis has increased the volatility in the foreign exchange and monetary markets and affected the economic activities. Thus, under low inflation pressures and significant decline in economic activity, the National Bank of Moldova has taken measures to support the banks' liquidity and to credit the national economy. As a result, loosening of monetary policy of the NBM by gradually reducing the base rate and the required reserves norm during 2009 was aimed at targeting the market interest rates to fall and further expansion of lending opportunities for the real sector of economy. It should be mentioned that, over the whole of 2009, the interbank money market interest rates and state securities took downward adjustments of the monetary policy rate.

In 2009, the National Bank of Moldova continued to use flexibly the monetary policy instruments. The divergent character of the money market determined the National Bank of Moldova to adapt its own management way of liquidity dependent on of market conditions, operating through several instruments. Besides the monetary absorption – the NBM certificates (CBN), were back on the market after a break of more than 10 years, state securities REPO - buying operations.

The official exchange rate of national currency against the U.S. dollar depreciated by 18.3 percent against the euro and depreciated by 19.6 percent. The depreciation in question was conditioned by the consequences of the international financial crisis triggered in 2008 when the currencies of the major trading partners of Moldova in the period of September to December of 2008 have significantly depreciated against the U.S. dollar, in particular: Ukrainian grivna (with 70.5 percent), the Polish zloty (with 29.6 percent), Turkish Lira (with 27.9 percent), Russian Rouble (with 19.4 percent), Romanian leu (with 17.7 percent). At the same time, the impact on exchange rate evolution of MDL was not felt immediately in 2008, but in 2009, while in other countries in the region the situation was stabilizing, the depreciation of currencies of those countries was insignificant.

To mitigate the excessive fluctuations of the official exchange rate of the domestic currency against the U.S. dollar, the NBM intervened during 2009 in the domestic foreign exchange market using foreign currency operations in the net amount of minus U.S. \$ 222.8 million, including U.S. \$ purchasing operations - U.S. \$ 315.9 million, U.S. \$ sales operations - U.S. \$ 538.7 million.

State's foreign exchange reserves decreased during 2009 to USD 192.1 million, or 11.5 percent, from USD 1672.4 million to USD 1480.3 million, which covers the import of 4.5 months.

In 2009, the banking system in Moldova has registered general involuntary trends, conditioned largely by the global financial crisis and by the uncertainty of the economic agents forecasting of their activity on medium term.

On June 19, 2009, the BC "Investprivatbank" SA license for conducting financial activities was withdrawn, following the situation of insolvency, which was caused by the unsatisfactory management of the bank. This was manifested by excessive concentration of loans in the "building / construction and development", contrary use of funds intended in the credit contracts, setting the deadline for repayment of loans at maturity



and granting of loans to repay the outstanding debts to the same customers as its resulted in drastic worsening of the loan portfolio quality. The liquidation process of the BC “Investprivatbank” SA is ongoing and according to the situation of December 31, 2009 all debts had been paid to individuals.

*The total assets* of the banking system at the end of 2009 totaled 39915.0 million lei, increasing compared to the same period of the previous year by 2.2 percent. *Tier I Capital* recorded a 2.4 percent decline, which led to license withdrawal of the BC “InvestPrivatBank” and to losses at some banks related to the reserves complement for credit risks. The *bonds* of banks have increased by 2.9 percent by the end of 2008 at the expense of other loans increase. However, the banking system recorded losses and the profitability of assets and shareholders’ equity had value negative.

Also, the National Bank of Moldova published at the end of 2009 the monetary policy strategy for 2010-2012. This monetary policy strategy is of a medium term and sets the prior directions of activity of the NBM oriented to achieve the primary objective. The strategy also determines the monetary policy regime, monetary instruments and their implementation, the transmission mechanism of monetary policy, the decision-making process regarding the achievement of the stated objective, the communication and transparency of the monetary policy.

The negotiations between the Government, National Bank of Moldova and the International Monetary Fund on the signing of the Memorandum on the Economic and Financial Policies (MPEF) for the years 2010-2012 began at the end of 2009, and which was subsequently approved by the IMF Board of Directors on January 29, 2010. One of the preconditions for signing the document was the achievement of the quantitative monetary objectives for the end of 2009, in particular the net domestic assets, net international reserves and the monetary base. At the end of 2009, the National Bank of Moldova has fully fulfilled the performance criteria stipulated in the MPEF.

**In difficult conditions of 2009, the National Bank of Moldova has managed to temper the pressures on the foreign exchange market and to maintain the banking system stability.**

## World economy in 2009

In 2009, the world economy growth rate was estimated at a real level of minus 0.8 percent. With the end of the worst global recession in modern history, the economic growth has strengthened and expanded during the second half of 2009, due to the stabilization of retail sales, commodity prices and global trade, as well as to the affirmation of housing markets. The real sector of the world economy is also recovering; the

*Table no. 1. Inflation rate and dynamics of the gross domestic product in 2009*

	Inflation rate (period-end), %	Gross domestic product, %
USA	2.7	-2.4
Japan	-1.7	-5.0
EU 27	1.5	-4.2
Euro zone	0.9	-4.1
Germany	0.8	-5.0
France	0.9	-2.2
China	1.9	8.7
Russian Federation	8.8	-7.9
Ukraine	12.3	-15.0

industrial production has globally increased with more than 12.0 percent (annualized rate) in the third quarter of 2009. Moderate growth rates were due to the financial systems that are not fully restored, as well as to the increased uncertainty about future income of households, which significantly reduced the private consumption.

After being hit by the financial crisis and by the restriction of the global trade, the economies have shown signs of stabilization, due to the unprecedented government's response. Profile

recovery is not the same everywhere. In the countries which have suffered a financial crisis, the recovery is clearly more modest than in the countries that have suffered in particular due to the reduced global demand. The inflation in the developed countries was almost zero (0.1%) in 2009, while in the emerging countries it reached 5.2%. In general, the emerging economies have resisted better to the financial turmoil because of improving the economic policies: some of these countries benefit from the increased raw material prices and a stronger set of economic policies than during previous crises.

The economy of the *United States of America* declined in 2009 by 2.4%, as compared to 1.1% in the previous year. Taking into account the worldwide collapse of demand, the exports had a negative contribution during the first three quarters of 2009. Although in the first half of 2009 the production dropped and unemployment raised to the level of the early '80s, due to the unprecedented level of monetary, financial and budgetary policy, the financial markets and real estate consumption began to stabilize. The further increase of confidence in the financial and real sector, high level of final consumption and a series of measures taken by the U.S. authorities to combat unemployment have led to revival of the U.S. economy starting with the second half of 2009. Although the financial conditions have considerably improved in the recent months, the markets remained tense at the expense of investment and consumption. The inflation rate constituted 2.7% at the end of 2009 compared to 0.1% in 2008.

Those *27 countries of the European Union* registered an economic reduction rate of 4.2% compared to plus 0.9 percent in 2008; the inflation reached the level of 1.5%.

In 2009, the economic growth in the *euro area* remained below its potential, actually registering a considerable reduction. Thus, in real terms, the gross domestic product in 2009 declined by 4.1% compared to plus 0.8% in the previous year. The significant increase in public debt and budget deficit to GDP of a number of EU countries like Greece, Italy, Spain, Ireland and Portugal have contributed to the depreciation of the pair USD/EUR, which has created an economic uncertainty in the region, with negative effects on the euro area image. Also, the domestic demand remains weak while the persistent financial constraints and the budget deficits proportions of a number of member states show the vulnerability of the European currency. However, by the end of 2009, the economic situation began to improve: the industrial output in the euro area started to recover, the exports have strengthened in December 2009 and the financial and real sector credibility has increased.



The annual inflation fell to 0.9% from 1.6% in 2008. The economies of Germany and France during this period showed a growth reduction of 5.0 and 2.2 percent respectively. The disinflation process that started in the second half of 2008 enabled the European Central Bank to cut, in several stages, the rates of monetary policy to stimulate the economic activity.

In 2009, the economic growth of *Japan* was negative, particularly because of the structural economic problems, major debt and deflation, as well as because of the reduction of the contribution of net exports as a result of the reduced external demand. The annualized rhythm of the Japanese growth of economy in 2009 reached the level of minus 5.0 percent, compared with minus 0.7 percent in 2008. The consumer prices in 2009 fell by 1.7 percent compared to the previous year.

Despite the recession, the real economic growth of *China* for 2009 constituted 8.7%, 1.3 percentage points lower than in 2008. This growth was due mainly to the massive investment effort initiated by the authorities, and due to the improvement of the labor market situation. The inflation rate has increased by 0.7 percentage points to 1.9% in 2009.

*Russian Federation* has suffered a deep recession in 2009, with a decrease of 7.9% of the gross domestic product, caused in particular by the particularly low domestic demand. However, in the third quarter of 2009 a modest recovery started, which has accelerated in the fourth quarter, but still being affected by high levels of unemployment and by the credit system that is still not so dynamic. The inflation in 2009 represented 8.8% by 4.5 percentage points lower than in the previous year.

The recession was particularly strong in *Ukraine*, which has reduced the real growth rate from 2.1 percent in 2008 to minus 15.0 percent in 2009, recording the most serious reduction in the last 15 years. The annual inflation fell by 10.0 percentage points compared to the year of 2008, constituting 12.3 percent and the budget deficit and political instability in Ukraine have contributed to the considerable depreciation of Ukrainian grivna.

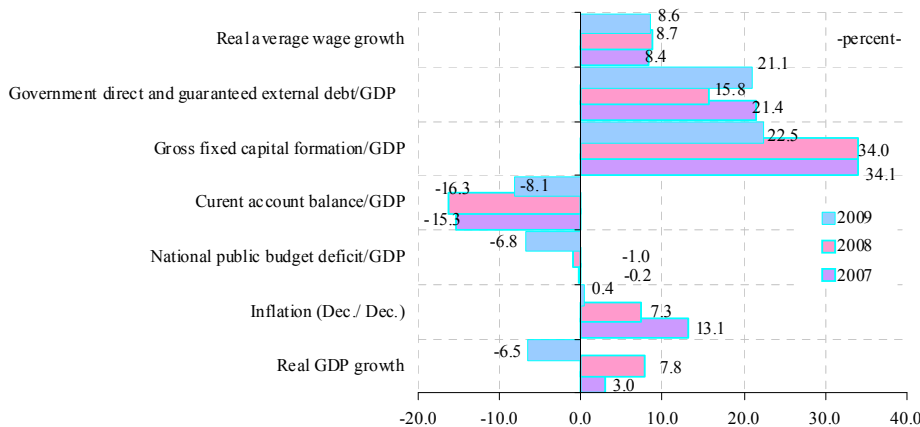
**I. Economic situation of the Republic of Moldova in 2009**

**Real sector<sup>1</sup>**

**Gross Domestic Product (GDP)** estimated for 2009 decreased in real terms by 6.5% as compared to the previous year. As for the supply, the GDP fall was supported by the negative results in the goods sector

(especially in the industry) and by the reduction of the net taxes on products and imports. Also, reductions were recorded for items of expenditure on gross domestic product, mainly on the account of reducing significantly the capital formation and the final consumption of households.

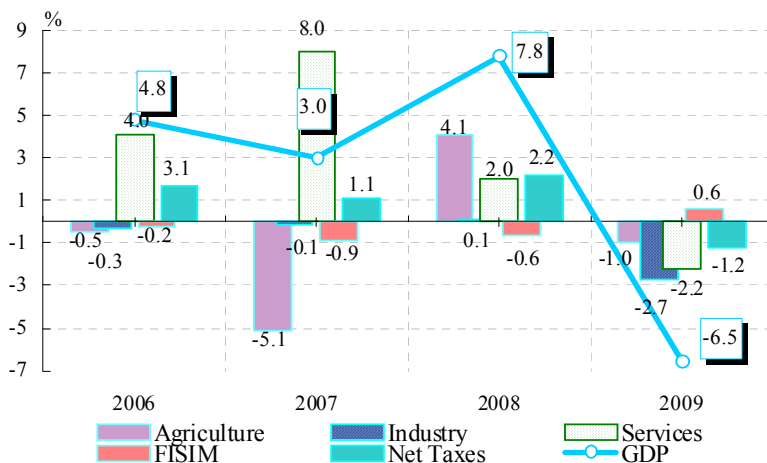
*Chart no. 1.1. Evolution of macroeconomic indicators*



volume per capita recorded 16830.6 lei (equivalent to about U.S. \$ 1514.4), decreasing nominally by 4.4 percent compared to 2008.

The GDP deflator, which characterizes the dynamics of the general price level in the economy constituted 2.0 percent (compared with 9.2 percent in 2008).

*Chart no. 1.2. Component contribution to real GDP growth (% versus previous year)*



The GDP reduction, *by categories of resources*, was mainly determined by the decrease of the gross added value within the services sector, by 16.1% (including in the industry - by 194%, agriculture - by 10.9%), including services sector - by 3.6% (in construction - by 27.6%, in transportation and communications - by 7.0%, trade - by 2.3%). However, the gross value added of the sector "other service activities" increased by 1.0% (chart no. 1.2). The volume of net taxes on products and imports fell by 7.0%.

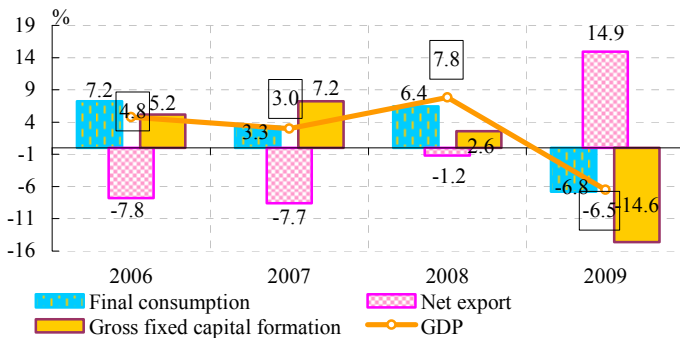
The structure of GDP *by categories of resources*, the services have continued to hold the largest weight in GDP formation (64.2 5 versus 61.7% in 2008), followed by net taxes on products and imports accounting for 16.0% (compared to 17.7%), industry - 13.0% (compared to 13.9%), agriculture - 8.5% (compared to 8.8%) and Financial Intermediation Services Indirectly Measured (FISIM) - minus 1.7%.

Supply components have contributed to lowering the real GDP as follows: industry - by 2.7 percentage points, services - by 2.2 percentage points (including construction - by 1.4 percentage points, transport and

<sup>1</sup> Source: National Bureau of Statistics of the Republic of Moldova

communications - by 0.8 percentage points, trade - by 0.3 percentage points), net taxes on products and imports - by 1.2 percentage points, agriculture - by 1.0 percentage points and financial intermediation services indirectly measured (FISIM) - with extra 0.6 percentage points.

Chart no. 1.3. Contribution of GDP components by uses (%)

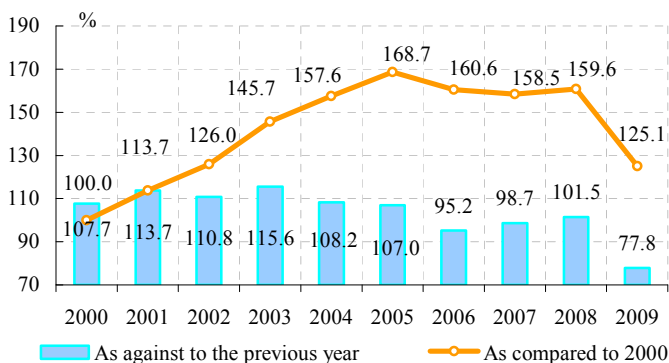


From the point of view of *GDP use*, the reduction of the domestic aggregate demand by 14.0% showed a reduction in gross capital formation by 37.2%, household consumption - by 7.9% and the increase of the final consumption of the government and non-profit institutions serving households – by 1.9% (chart no. 1.3). Negative balance of the net exports fell by 28.3% from 2008, noting a decrease in imports by 19.3% and exports - by 7.8%.

Within the *GDP structure by categories of uses* the weight of the final consumption in 2009 decreased by 0.8 percentage points compared to 2008, representing 112.8%. At the same time, the weight of the final consumption of government and non-profit institutions serving households rose to 25.6% of the GDP volume.

The investment rate, determined by the ratio of gross fixed capital formation and gross value added per economy, constituted 26.7%, which is a lower value as compared to previous years (41.3% in 2008 and 41.0% in 2007).

Chart no. 1.4. Real growth of industrial production

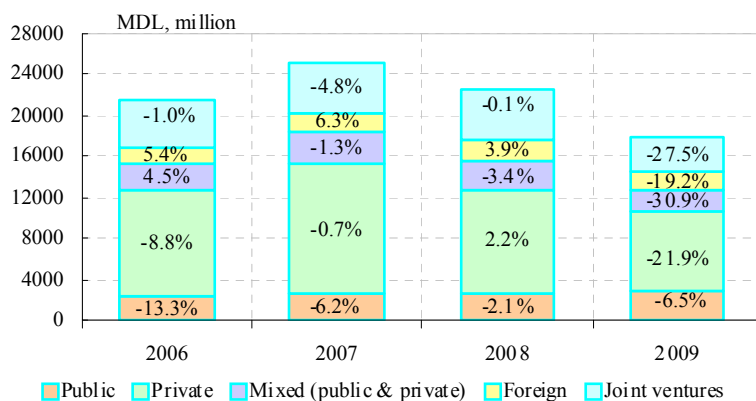


In 2009, the *industrial production* of all types of enterprises recorded a decrease of 22.2% versus the previous year and equaled to 23266.6 million lei in current prices. The production volume in 2009 increased by 25.1 percent compared to 2000.

In 2009, the *industrial production* of large and medium enterprises included in the monthly statistical records amounted to 17751.2 million lei in current prices, registering a decrease of 22.2 percent versus the previous year (chart no. 1.4).

This fact was mainly determined by the reduction of the production volume of the manufacturing enterprises by 24.3 % in real terms, which led to the decrement of the industrial production by 21.4%. At the same time, the activity of energy and heating supply, gas and water supply recorded a decrease by 32.1% versus the previous year.

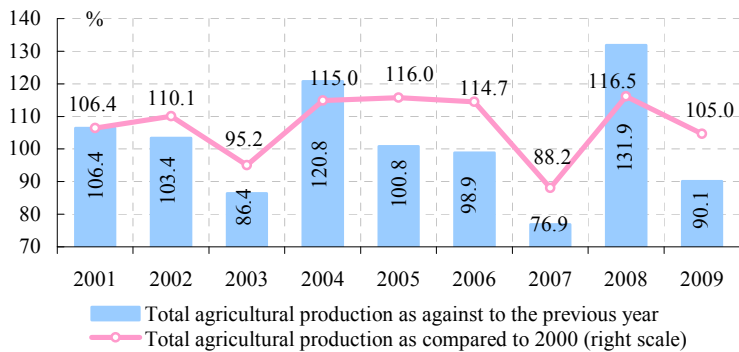
Chart no.1.5. Volume and growth rate of industrial production by forms of ownership\*



\* For 2009 data are shown by large enterprises, subject to monthly statistics

The labor productivity within the industrial sector in the period of January–December 2009 went down by 8.4% versus the similar period of the previous year. It should be mentioned that out of total number of enterprises subject to monthly statistics (646 enterprises), 73.5% reduced their industrial

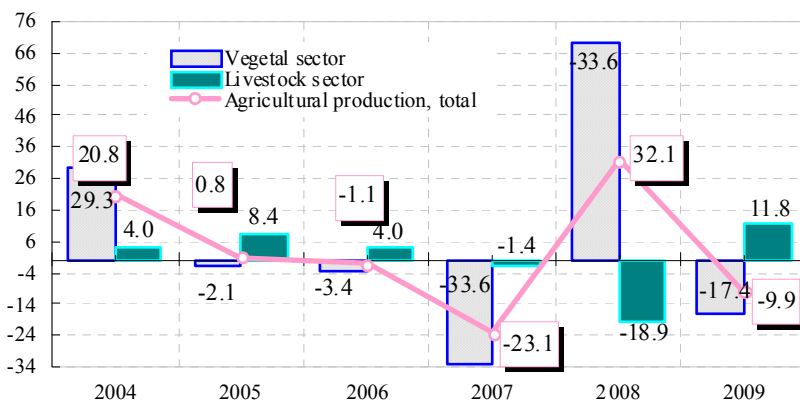
Chart no. 1.6. Real growth of agricultural production



production volume versus the previous year.

The analysis of the industrial production volume by forms of ownership revealed that the largest production volume reductions were recorded at mixed-ownership enterprises without foreign capital - with 30.9%, mixed-ownership enterprises with foreign capital - with 27.5 percent, and private enterprises - with 21.9%, which made up 73.6 percent of the total production (chart no. 1.5).

Chart no. 1.7. Agricultural production dynamics (versus the previous year, %)



**Agricultural production**, according to the preliminary estimations, totaled 13242.0 million lei in 2009, decreasing in real terms by 9.9% versus the previous year and by 5.0% versus 2000 (chart no.1.6). The reduction of the agricultural production was mainly caused by the emphasized decrease of the vegetal growth (by 17.4%), while the livestock production increased by 11.8% versus the previous year (chart no. 1.7). Thus, the vegetal growth contributed by 12.9 percentage points to the diminution of total production, while the livestock

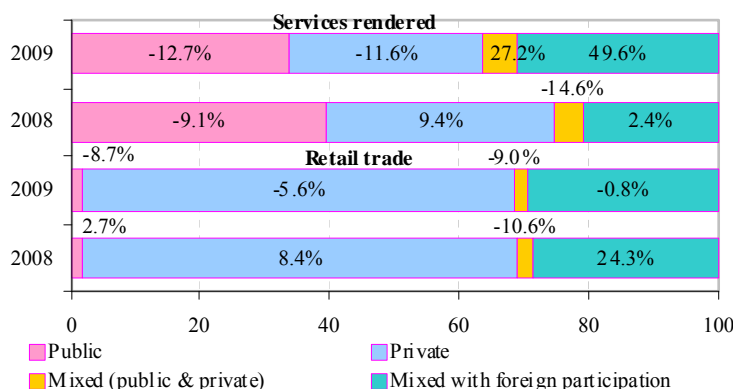
production – by 3.0 percentage point.

The **total volume of retail trade**, carried out in 2009 through *commercial units*, equaled to 19925.1 million lei, by 4.4% less in real terms as compared to the level recorded during the previous year.

The analysis of the sales volume within the ownership structure revealed the reduction of the retail trade

volume in commercial units: mixed (public and private) – by 9.0%, public – by 8.7%, private – by 5.6%, mixed (with participation of foreign capital) and foreign – by 0.8% (chart no. 1.8). The greatest part of trade was carried out through private commercial units (which represented 66.6% of total).

Chart no. 1.8. Structure and dynamics of retail trade and of services by forms of ownership (%)



**Services rendered to the population by officially registered enterprises**, in 2007, totaled 12261.7 million lei, achieving an increase in real terms by 2.6% versus 2008 level.

ownership (with participation of foreign capital) and foreign and mixed ownership (public and private) by 49.6% and 27.2%, respectively. Simultaneously, the volume of services within units with public ownership

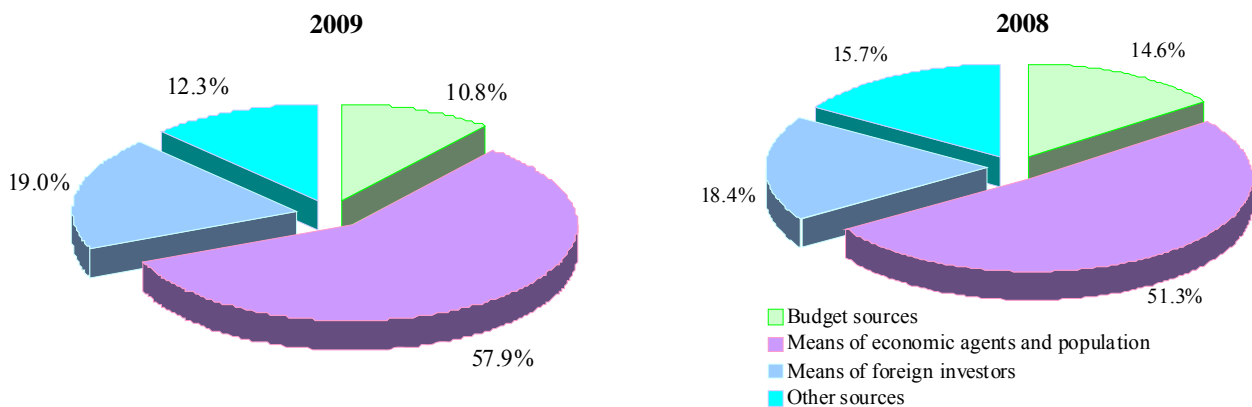
This growth was due to the increase of the volume of services within units with mixed

has decreased by 12.7%, with private ownership – by 11.6%, as compared to 2008, holding a 30.9 share of total services and 5.2 percent respectively.

In 2009 *fixed capital investments* in economy were assigned in an amount of 10818.9 million lei, which represented 65.1% versus the level of 2008. The volume of constructions and assembly works (54.1% of total investments) went down by 35.5% in comparable prices versus the level recorded in the previous year. The analysis of fixed capital investment allocated in the economy, according to the forms of property, reveals real decline of investments in foreign ownership (with 55.5%), private sector (with 39.8%), in mixed enterprises with foreign participation (with 32.7% ).

The main sources of financing the investment activity remain to be the own means of economic agents and population (57.9%). Another important source of financing the investment in fixed capital is foreign investment that constitutes 19.0%. On the account of budgetary resources both from the state budget and the administrative-territorial units were completed 10.8 percent of total fixed capital investment (chart no. 1.9).

Chart no. 1.9. Structure of fixed capital investments by sources of financing (%)



The specific analysis structure of the investment in fixed capital reveals the orientation of the majority party of investment (32.9 percent of the total) to the purchase of equipment and machinery, followed by the investments oriented to buildings construction (exclusive residential) and buildings (26.7%). For the construction of residential buildings have been targeted 17.7% of investments in fixed capital and for the public transport - 5.8%.

In 2009 the *economically active population* (according to data of quarterly questionnaires carried out in 12000 households) constituted 1265.3 thousand people, decreasing by 2.9% as compared to 2008. The *activity rate*<sup>2</sup> of the population aged 15 and over accounted for 42.8%. The number of unemployed, according to the International Labor Office (ILO) totaled approx. 81.0 thousand people (increasing by 30.7 thousand people versus the previous year) matching to an *unemployment rate* of 6.4% (4.0% in 2008).

*The number of employees per economy*<sup>3</sup> (593.4 thousand employees) reduced as compared to 2008 by 24.7 thousand people (by 4.0%). The construction sector scored the highest staff reduction (by 19.2%). Staff reductions were also observed in the processing industry (by 12.3%), in the agriculture sector (by 9.4%), transportation and communications (by 2.7%). At the same time, staff increases were also recorded in the real estate activity (with 1.8%) and health and social care (with 1.2%).

The *average monthly wage* of an employee in the national economy in 2009 amounted to 2747.6 lei, increasing versus the previous year both in nominal and real terms by 8.6%.

*Labor remuneration fund* constituted 17662.8 million lei. On December 31, 2009, the backlog for labor remuneration amounted to 153.5 million lei, increasing by 51.6 million lei versus December, 31, 2008.

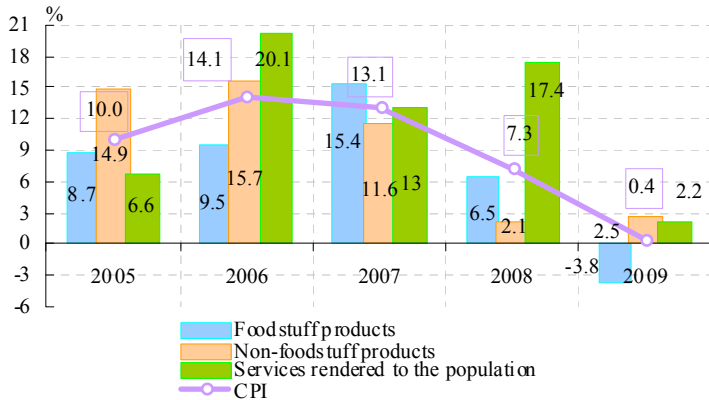
<sup>2</sup> Ratio between the active population aged 15 and over and the total number of population aged 15 and over

<sup>3</sup> For enterprises with 20 and more employees (5718 economic and social agents)

## Evolution of prices

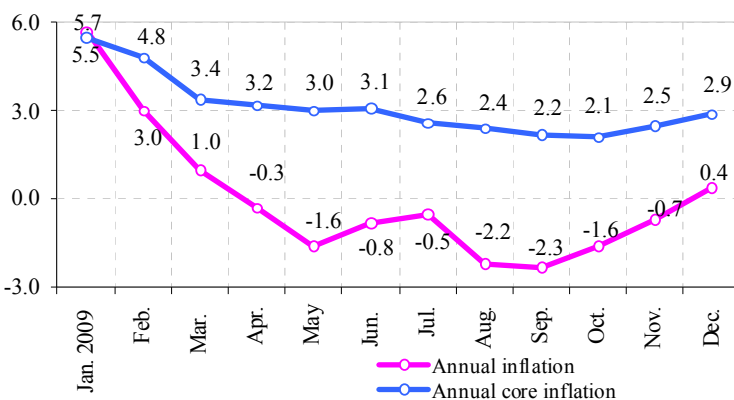
**The inflation rate**, at the end of 2009, measured by consumer prices index constituted 0.4% as compared to the level of 7.3% recorded at the end of 2008 (chart no.1.10). Within the components' structure, the highest prices increase (by 2.5%) was recorded for non-foodstuff products, followed by services rendered to the population (by 2.2%) and for foodstuff products (by 3.8%).

Chart no. 1.10. Inflation dynamics in the structure



The annual inflation calculated during the reporting period through the consumer prices index during 2009 had a contradictory development (chart no. 1.11) – in the first stage registering a downward trend in the first nine months of the year (from 7.3% in December 2008 to minus 2.3% in September 2009), after which the process was reversed, registering an upward trend in the next months, which resulted in an annual inflation of 0.4 percent at the end of the year.

Chart no. 1.11. Dynamics of inflation and core inflation (%)



**Annual core inflation**<sup>4</sup> registered a downward trend in the first 10 months of 2009 (2.1 percent in October 2009), then increased continuously until the end of the year, recording in December 2009 the amount of 2.9 percent, 2.5 points percentage more than the consumer price index inflation for the same period. It should be mentioned that, throughout the year of 2009, the core inflation recorded higher values than CPI inflation (chart no. 1.11). The largest contribution to price increases during 2009 recorded the non-foodstuff products (about 1.1 percentage points), followed by the services rendered to population (about 0.5

percentage points). At the same time, the foodstuff products had a contribution of minus 1.2 percentage points (table 1.2).

In 2009 the most significant reductions in **foodstuff products** prices were recorded in vegetable oil (25.2%), eggs (20.7%), and fruit (5.8%). At the same time, there were also recorded increases in sugar (18.9%) and vegetables (5.1%).

Table no. 1.2. Components contribution (%)

	2008			2009		
	Price growth	Contribution	Contribution/ CPI	Price growth	Contribution	Contribution/ CPI
<b>CPI</b>	<b>7.3</b>	<b>7.3</b>	<b>100.0%</b>	<b>0.4</b>	<b>0.4</b>	<b>100.0%</b>
Foodstuff products	6.5	2.3	31.5	-3.8	-1.2	-300.0
Non-food products	2.1	0.9	12.3	2.5	1.1	275.0
Paid services	17.4	4.1	56.2	2.2	0.5	125.0

Source: NBS, NBM

The pace of price increases of **non-foodstuff products** in 2009 was generated primarily by increases in medication prices (19.5%), fuel (0.5%). At the same time, price

<sup>4</sup> Index calculated by the method of exclusion (there were excluded food, fuel, products and services with administered prices) in the CPI calculated by the National Bureau of Statistics of Moldova.

reductions were recorded in construction materials, (3.2%), footwear (0.8%) and clothing (0.1%).

Within the group of *services rendered to the population* the inflation was mainly induced by the increase on tariffs by 0.2% on utilities (water supply and sewerage – by 22.6%, energy supply – by 31.0%). Prices increases were also recorded within passenger transportation (by 5.0%).

*Annual average consumer prices* in 2009 remained at the last year level. Prices for foodstuff products constituted minus 5.6%, for non-foodstuff products - minus 0.3%, for services rendered to population - 8.2%.

*Industrial producer prices* increased at the beginning of 2009 by 1.0%, while in the domestic market decreased by 0.5%. Prices in the processing industry increased by 1.2%, while extractive industry and electricity, gas and water prices - decreased by 7.1 and 0.2 percent respectively.

At the same time, the industrial production price indexes for domestic market and in the core activity – processing industry - have increased during the analyzed period by 3.1 percent each.

### **Financial situation<sup>5</sup>**

In 2009 the revenues of the *national public budget* were projected in an amount of 22791.0 million lei, while expenditures – in an amount of 28457.1 million lei.

The revenues of the national public budget, according to preliminary data, equaled to 23244.1 million lei, which is 102.0% of the projected amount, by 8.9% (2272.8 million lei) more as compared to 2008. According to the operative data, the expenditures of the national public budget equaled to 27342.7 million lei, and represented 96.1% of the yearly budget projections. The national public budget registered a deficit of 4098.6 million lei (6.8% of the gross domestic product for 2009).

*Tax collections* (84.0% of total revenues) constituted 19521.1 million lei and were carried out in an amount of 102.6% versus tax revenues foreseen for 2009.

*Non-fiscal revenues* totaled 839.1 million lei, or 3.6% of projections. *Their weight in the total amount of the national public budget revenues* accounted for 3.6%. *Revenues from public institutions' special funds* equaled to 1553.1 million lei, *special funds revenues* – 304.6 million lei and *grants* – 1026.2 million lei, of which 876.7 million lei represented the external grants.

Out of total volume of the national public budget expenditures, 71.4% were used for social-cultural programs performance, 9.5% – for the national economy fields, 8.3% – for defense, public order maintenance and national security, 5.2% – for general state services.

*State budget revenues* in 2009 constituted 13567.6 million lei, by 2409.9 million lei (15.1 percent) less than the amount collected in 2008. The state budget expenditures constituted 17199.4 million lei, 4.5% more as compared to the previous year. State budget in 2009 resulted in a deficit amounting to 3631.8 million lei.

In 2009 the *budgets of administrative and territorial units* accumulated incomes in the amount of 6285.9 million lei, which is 102.6% versus 2008. Expenditures were carried out at the level of 101.5%, and equaled to 6530.8 million lei. The budgets of administrative and territorial units were closed with a deficit of 244.9 million lei.

As of December 31, 2009 the *external state debt* constituted USD 957.5 million (the equivalent of 11779.4 million lei), increasing by USD 179.2 million as compared to the level recorded as at the end of 2008. The *domestic state debt* totaled 5104.9 million lei, composed entirely of state securities. Out of total amount of the domestic state debt, the debt to the National Bank of Moldova constituted 2213.4 million lei. State securities issued by auction constituted 2441.5 million lei.

<sup>5</sup> Based on preliminary information of the Ministry of Finance of the Republic of Moldova

**Balance of Payments for 2009 (preliminary data)**

The international financial crisis began to be felt in Moldova in the fourth quarter of 2008, 2009 being deeply marked by its effects, that include:

*Table no. 1.3. Balance of payment of Moldova (main aggregates) (USD, million)*

	2007	2008	2009
<b>CURRENT ACCOUNT</b>	<b>-673.81</b>	<b>-987.40</b>	<b>-439.29</b>
Goods and services	-2309.15	-3207.89	-1972.31
Goods	-2303.07	-3220.37	-1943.55
Export (FOB)	1373.34	1645.97	1329.16
Import (FOB), including:	-3676.41	-4866.34	-3272.71
energy (excluding electricity)	-644.70	-903.24	-652.99
Services	-6.08	12.48	-28.76
Export	625.08	837.20	675.19
Import	-631.16	-824.72	-703.95
Income	416.41	597.82	313.73
receivable, of which:	710.07	905.01	589.98
compensation of residents from abroad labor	649.00	842.00	563.40
inflow, of which:	-293.66	-307.19	-276.25
dividends and distributed branches profits	-52.77	-37.84	-136.85
reinvested income and undistributed branch profit	-112.81	-99.48	24.91
interest on loans ***	-64.03	-73.22	-86.96
Current transfers	1218.93	1622.67	1219.29
inflow, of which:	1284.17	1734.16	1318.43
workers' remittances from abroad	842.26	1046.02	635.18
outflow	-65.24	-111.49	-99.14
<b>CAPITAL AND FINANCIAL ACCOUNT</b>	<b>559.50</b>	<b>910.81</b>	<b>376.83</b>
Capital transfers	-7.96	-14.61	-17.54
Direct investment	522.04	691.49	79.45
of which: in the national economy	539.31	707.57	86.43
equity capital	227.38	441.70	155.08
reinvested earnings	112.81	99.48	-24.91
other capital	199.12	166.39	-43.74
Portfolio investment	-4.51	6.38	-5.82
Assets*	-0.07	-0.04	-0.25
equity securities	-0.07	-0.03	-0.25
debt securities		-0.01	
Liabilities**	-4.44	6.42	-5.57
equity securities	1.72	11.36	2.39
debt commitments	-6.16	-4.94	-7.96
Financial derivatives –banks (net)	-0.47	0.94	0.34
Other investment	579.26	678.62	119.85
Assets*	35.32	54.17	-210.51
trade loans	-7.61	78.33	50.58
currency and deposits	48.93	-25.96	-265.29
loans	-6.00	1.80	4.20
Liabilities**	543.94	624.45	330.36
trade loans	107.08	115.29	67.65
long-term loans***	312.81	360.49	-41.35
disbursed	565.91	761.37	319.93
reimbursed	-253.10	-400.88	-361.28
short-term loans	12.84	49.44	-20.95
deposits of non-residents within the national banking system	60.56	53.12	-46.64
other liabilities	50.65	46.11	187.45
SDR allocation			184.20
Reserve assets*	-528.86	-452.01	200.55
Errors and omissions	114.31	76.59	62.46
<i>Foreign money transfers of the individuals (labor migrants and others) through banks from Moldova</i>	<i>1218.23</i>	<i>1660.09</i>	<i>1182.02</i>

(-) – increase (+) – decrease; \*\* (+) – increase (-) – decrease; \*\*\* – including rescheduled loans

constituted USD 4077.67 million: the assets increased by 1.4 percent and liabilities - by 6.0 percent.

**Current account**

In 2009, according to the preliminary data, the balance of payments recorded a negative balance on **current account**, decreasing by 55.5 percent compared to the previous year. The current account deficit ratio to GDP was 8.1 percent, compared to 16.3 percent in 2008.

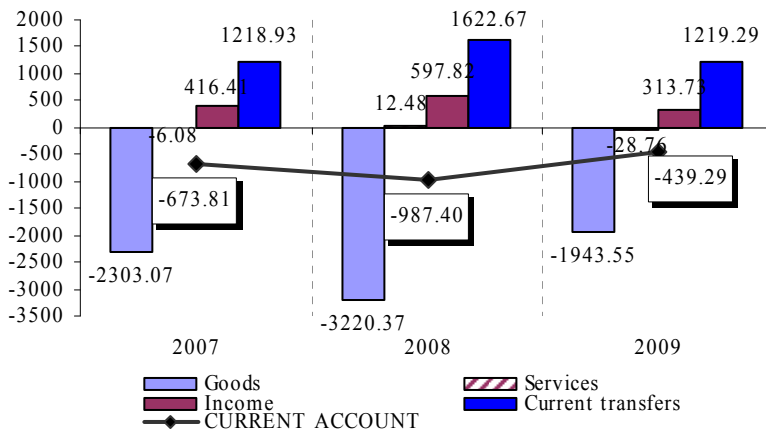
- decrease of the demand both in the domestic and foreign markets, which led to lower foreign trade;
- substantial reduction in shareholdings of foreign investors;
- increase in payments for foreign investments (dividends and interest paid to non-residents);
- prevalence of recovery of foreign loans repayments (including attracted from foreign investors);
- allocations of SDRs by the IMF;
- deferral of payments on current arrears led to the economic growth in other sectors.

The value of the **current account** deficit of balance of payments of the Republic of Moldova for 2009 fell to 439.29 million dollars, the goods and services trade deficit amounting to U.S. \$ 1972.31 million (compared to 3207.89 million USD in 2008).

**Capital and financial account** of the balance of payments ended in 2009 with a surplus amounting to 376.83 million dollars.

Moldova's international investment position at the end of 2009 remained debtor net and

Chart no. 1.12. Current account – main components (USD, million)



The trade deficit had an influence on the current account balance. Its negative effect was partially mitigated by the cumulative surplus of the income and current transfers, which covered the deficit of foreign trade in goods and services at a rate of 77.7 percent.

Foreign trade in goods and services volume has decreased by 26.8 percent, totaling U.S. \$ 5981.01 million, as compared to the previous year. The value of exports of goods and services fell by 19.3 percent, up

to 2004.35 million dollars, while that of imports decreased by 30.1 percent, up to 3976.66 million dollars. The export to import ratio has increased compared to the previous year by 6.8 percentage points and constituted 50.4 percent. The foreign trade deficit in goods and services totaled U.S. \$ 1972.31 million, reducing it by 38.5 percent.

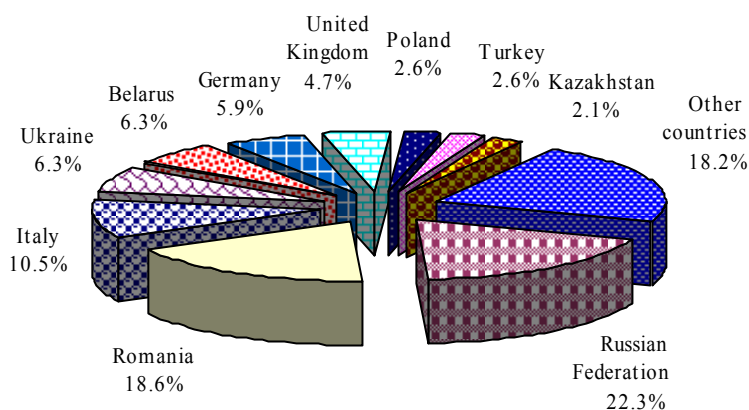
The external trade deficit in goods fell by 39.6 percent compared to the previous year, up to the level of 1943.55 million dollars (f.o.b. prices). The deficit reduction was due to the total value of imports for 2009 that showed a more significant reduction than the total value of exports, with 32.7 percent and 19.2 percent respectively.

The ratio of goods trade balance and GDP fell by 17.2 percentage points and constituted 36.0 percent. It should be mentioned that the trade deficit in absolute terms outpaced the exports of goods.

The trade of goods with both CIS and the rest of the world have ended with negative balances: the deficit with the world recorded the value of U.S. \$ 1306.57 million (decreasing by 38.0 percent compared to the previous year) and with the CIS - U.S. \$ 636.98 million (reducing by 42.7 percent).

According to the National Bureau of Statistics (NBS)<sup>1</sup>, the reduction of the trade deficit in 2009 occurred on the account of negative balances with Ukraine, Romania, Russian Federation, Germany and China. Although the trade with Kazakhstan, the United Kingdom and Georgia recorded positive balances, they have had a negligible contribution to the reduction of the deficit of foreign trade in goods.

Chart no. 1.13. The main destination countries of Moldovan exports in 2009



As for exports, the most important partners of Moldova in 2009 were Russian Federation, Romania, Italy, Ukraine, Belarus, Germany, Great Britain, Poland, Turkey and Kazakhstan. The cumulative volume of the export in these countries constituted 81.8 percent of total exports for the given period (Chart no. 1.13).

<sup>1</sup> The NBS data do not include the adjustments to the external trade in goods made by the Balance of Payments Division of the National Bank of Moldova, such as exports / imports of individuals, repair of goods, goods procured in ports by carrier, etc. The imports are valued in c.i.f. prices by countries based on the principle of country of delivery.

According to the preliminary data, the exports of goods in the **Russian Federation** were reduced by 8.6 percent in 2009 compared to the previous year, up to 286.60 million dollars. The most important categories of exported goods were: *edible fruits and nuts* – USD 65.55 million; *alcoholic beverages* – USD 52.15 million; *medicines* – USD 31.91 million, *fruit and vegetables products* – USD 22.99 million, *sugar* – USD 19.28 million, *carpets and other textile floor coverings* – USD 13.41 million.

The exports of goods to **Romania** fell by 28.6 percent, totaling 239.64 million dollars. The main categories of goods exported were: *wire, cable and other insulated electric conductors, optical fiber cable* - USD 88.80 million, *apparel and clothing accessories* – USD 22.20 million, *vegetable oil* – USD 11.40 million, *footwear* – USD 9.51 million, *sugar* – USD 9.00 million.

The value of exports to **Italy** amounted to USD 135.71 million, representing a 18.8 percent reduction. Categories of goods exported were: *apparel and clothing accessories* - USD 87.37 million, *footwear, gaiters and similar items* - USD 11.21 million, *bags, suitcases, folders and leather cases* - USD 10.59 million.

During the reporting period, Moldova has exported in **Ukraine** goods amounting to USD 81.41 million, 43.0 percent less than in 2008. The most important categories of goods exported were: *vegetable oil* - USD 17.66 million, *vegetal kingdom products* - USD 16.05 million; *alcoholic beverages* - USD 13.56 million, *textiles and articles thereof* - USD 4.75 million.

The exports to **Belarus** fell by 12.8 percent, up to the level of USD 80.79 million. The main categories of exported goods were: *alcoholic beverages* - USD 44.02 million, *vegetal kingdom products* - USD 16.97 million.

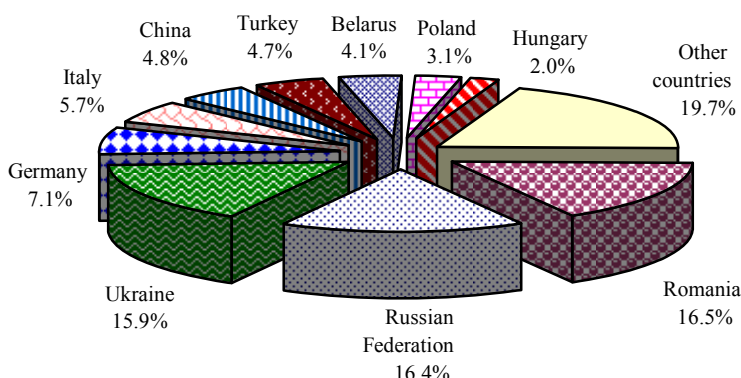
In the structure of exports by sections were predominant in 2009: *food and agricultural products* – with a share of 47.3 percent and *textiles and articles thereof* - with a share of 20.0 percent.

The exports of the *food and agricultural products* totaled USD 609.28 million, of which: *alcoholic beverages* - USD 157.26 million, *edible fruit and nuts* - USD 125.47 million, *cereals* - USD 70.85 million, *sunflower seeds* - USD 37.81 million; *fats and oils* - USD 50.71 million, *fruit and vegetables products* - USD 50.13 million, *sugar and confectionery* - USD 34.67 million, *tobacco and tobacco substitutes* - USD 15.65 million.

Of the export of *textile materials and articles thereof* in an amount of USD 257.80 million, USD 224.65 million constitutes the exports of *apparel and clothing accessories*, and USD 21.38 million - the export of *carpets and other textile floor coverings*.

Other major export categories were: *machinery, electrical devices and equipment* - USD 107.16 million; *pharmaceuticals* - USD 45.28 million, *base metals and articles thereof* - USD 29.45 million, *footwear, gaiters and similar items* - 26.08; *glass and glass items* - USD 22.99 million, *plastics and articles thereof* - USD 19.93 million, *leather goods* - USD 16.59 million, *iron, steel and articles thereof* - USD 15.77 million.

Chart no. 1.14. Main suppliers of goods of Moldova in 2009



According to the NBS, the main suppliers to Moldova in 2009, from where 80.3 percent of goods were imported, were Romania, Russian Federation, Ukraine, Germany, Italy, China, Turkey, Belarus, Poland and Hungary (chart no. 1.14).

In 2009, the imports of goods in **Romania** fell by 38.0 percent compared with 2008. The value of imports amounted to USD 539.51 million, representing 16.5 percent of the total. The most important categories of the imported goods were: *petroleum*

oils and oils obtained from bituminous minerals - USD 166.83 million; chemicals - USD 57.60 million, wires, cables and other electrical conductors - USD 38.32 million, textiles and textile articles thereof - USD 23.56 million, electrical insulators and insulating fittings of any material - USD 19.56 million.

The imports from the **Russian Federation** decreased by 18.6 percent, totaling USD 538.17 million. The most important categories of imported goods were: *petroleum gas and other gaseous hydrocarbons* - USD 313.45 million, representing 58.2 percent of the imports from the Russian Federation, *food, beverages, tobacco* - USD 51.73 million, *chemicals* - USD 32.47 million, *machinery, electrical and mechanical equipment* - USD 29.85 million, *petroleum oils obtained from bituminous minerals* - USD 18.08 million, *alcoholic beverages* - USD 12.95 million.

The imports from **Ukraine** amounted to USD 522.72 million, decreasing by 43.4 percent. The main categories of imported goods were *cigarettes* - USD 69.00 million, *iron, steel and articles thereof* - USD 55.89 million, *petroleum oils obtained from bituminous minerals* - USD 45.69 million; *chemicals* - USD 39.54 million, *vegetable kingdom products* - USD 30.77 million, *articles of stone, plaster, cement, ceramic, glass and similar materials* - USD 25.00 million, *unfinished goods and plastic articles* - USD 19.28 million.

The imports from **Germany** during the reporting period amounted to USD 231.58 million, with 36.9 percent less than in 2008. The main categories of imported goods were: *machinery and devices, electrical and mechanical equipments* - USD 54.25 million, *tractors and motor vehicles* - USD 36.69 million, *textiles and articles thereof* - USD 23.14 million; *medicines* - USD 17.68 million, *plastics, rubber and articles thereof* - USD 14.41 million.

The imports from **Italy** totaled USD 185.96 million, reducing by 25.2 percent compared to the previous year. The main categories of goods were: *textiles and articles thereof* - USD 61.13 million, *machinery and devices, electrical and mechanical equipments* - USD 29.61 million; *medicines* - USD 22.33 million, *hides and skins, fur and articles thereof* - USD 11.94 million.

Within the structure of imports by goods sections, as in 2008, the largest share - 21.9 percent is for the *mineral products*, which decreased compared to the previous year by 36.2 percent and totaled USD 718.18 million.

Table no. 1.4. Imports of energy (f.o.b. prices)

		2007	2008	2009	Total weight in 2009	2009 versus 2008
					%	
<b>Energy resources -total</b>	<b>(million USD)</b>	<b>644.70</b>	<b>903.24</b>	<b>652.99</b>	<b>100.0</b>	<b>72.3</b>
<b>From CSI</b>	<b>(million USD)</b>	<b>407.31</b>	<b>546.79</b>	<b>435.87</b>	<b>66.7</b>	<b>79.7</b>
Coal	(million USD) (thousand tons)	15.83 179.71	19.28 148.50	10.48 132.88	1.6	54.4 89.5
Natural gas	(million USD) (million. m <sup>3</sup> )	203.13 1305.41	256.50 1226.90	267.45 1126.27	41.0	104.3 91.8
Fuel	(million USD)	188.35	271.01	157.94	24.2	58.3
Oil fuel	(million USD) (thousand tons)	1.62 5.48	6.35 14.00	14.25 45.83	2.2	2.2 times 3.3 times
Diesel Fuel	(million USD) (thousand tons)	118.32 186.09	178.85 188.04	92.71 176.47	14.2	51.8 93.8
Car petrol	(million USD) (thousand tons)	19.64 30.40	18.69 21.70	11.52 21.30	1.8	61.6 98.2
Other	(million USD)	48.77	67.12	39.46	6.0	58.8
<b>From the rest of the world</b>	<b>(million USD)</b>	<b>237.39</b>	<b>356.45</b>	<b>217.12</b>	<b>33.3</b>	<b>60.9</b>
Coal	(million USD) (thousand tons)		13.12 57.32	0.20 1.35	-	1.5 2.4
Oil fuel	(mil. USD) (thousand tons)	1.30 2.36	0.60 0.77	0.22 0.42	-	36.7 54.5
Diesel fuel	(million USD) (thousand tons)	100.18 144.94	160.70 163.27	82.98 142.72	12.7	51.6 87.4
Car petrol	(million USD) (thousand tons)	125.32 177.12	167.06 189.75	123.81 196.53	19.0	74.1 103.6
Other	(million USD)	10.59	14.97	9.91	1.5	66.2

Among other significant sections can be mentioned: *machinery, devices, electrical equipments, and parts thereof* - USD 267.22 million, *textiles and articles thereof* - USD 244.38 million; *pharmaceuticals* - USD 172.25 million, *land vehicles, parts and accessories thereof* - USD 153.40 million, *plastics and articles thereof* - USD 144.59 million, *iron, steel and articles thereof* - USD 126.39 million.

In 2009, the imports of

energy recorded in the balance of payments amounted to USD 652.99 million (f.o.b. prices), by 27.7 percent smaller than that of 2008 (Table no. 1.4). The main suppliers of energy resources in 2009 were: *Russian Federation* (46.0 percent), *Romania* (25.8 percent), *Belarus* (10.8 percent) and *Ukraine* (9.7 percent).

The global economic crisis has affected the service sector, its impact manifested by the end of 2009 with a negative **balance of services**, in the value of USD 28.76 million, which constitutes 0.5 percent of the GDP.

The volume of the foreign trade in services fell by 17.0 percent compared to 2008. The services provided to non-residents totaled USD 675.19 million, and at the same time the non-residents of Moldova have provided services in the amount of USD 703.95 million (Table no. 1.5.).

Table no. 1.5. Dynamics of services

	2007	2008	2009	2009 versus 2008
	million USD			%
<b>Balance of services</b>	<b>-6.08</b>	<b>12.48</b>	<b>-28.76</b>	-
Export	625.08	837.20	675.19	80.6
Import	-631.16	-824.72	-703.95	85.4
Transport	18.48	32.12	-3.29	-
Export	263.76	357.04	253.48	71.0
Import	-245.28	-324.92	-256.77	79.0
Trips	-46.32	-61.89	-60.13	97.2
Export	167.30	211.88	168.22	79.4
Import	-213.62	-273.77	-228.35	83.4
Communications	48.12	67.19	66.06	98.3
Export	85.67	114.56	105.21	91.8
Import	-37.55	-47.37	-39.15	82.6
Other services	-26.36	-24.94	-31.40	125.9
Export	108.35	153.72	148.28	96.5
Import	-134.71	-178.66	-179.68	100.6

The transport services in 2009 had a negative balance amounting to USD 3.29 million. The value of transport services for non-residents fell by 29.0 percent compared to the previous year and amounted to USD 253.48 million, while those imported - USD 256.77 million, which is 21.0 percent with less than the previous year. Both as for the service and the use of transport service, the transport of goods has dominated, accounting for 66.2 percent, respectively, 61.6 percent.

During the reporting period, the travel services balance has recorded a deficit amounting to USD 60.13 million and the communications services - a surplus of USD 66.06 million.

**The revenue balance** ended with a surplus amounting to 313.73 million dollars, which is the equivalent of 5.8 percent of the GDP.

The inflow of revenues constituted USD 589.98 million, with 34.8 percent less than the previous year, and outputs - USD 276.25 million, reducing by 10.1 percent.

The revenue from foreign residents was estimated at USD 563.40 million, which constitutes 95.5 percent of the revenue inflows.

The investment income recorded net outflows amounting to USD 184.00 million.

According to the schedule, the main expected payments for the percentage service were: the bonds - USD 0.36 million, the NBM loans – USD 0.85 million, government loans - USD 18.26 million, licensed banks loans - USD 11.29 million, businesses in other sectors - USD 56.56 million (including the lending service from affiliated companies - USD 34.23 million).

It should be mentioned that, during 2009, Moldova has paid to foreign investors dividends totaling USD 138.04 million, of which the communications industry held a share of about 45.0 percent.

**The balance of current transfers** in 2009 recorded a surplus amounting to USD 1219.29 million, with 24.9 percent less than the previous year or equivalent to 22.6 percent of GDP.

The inflow of transfers has decreased by 24.0 percent compared to the previous year, and the outflows - by 11.1 percent. The amount of grants and technical assistance provided to Moldova in 2009 by the international organizations and foreign governments has been estimated at USD 245.76 million (including payment of foreign consultants).

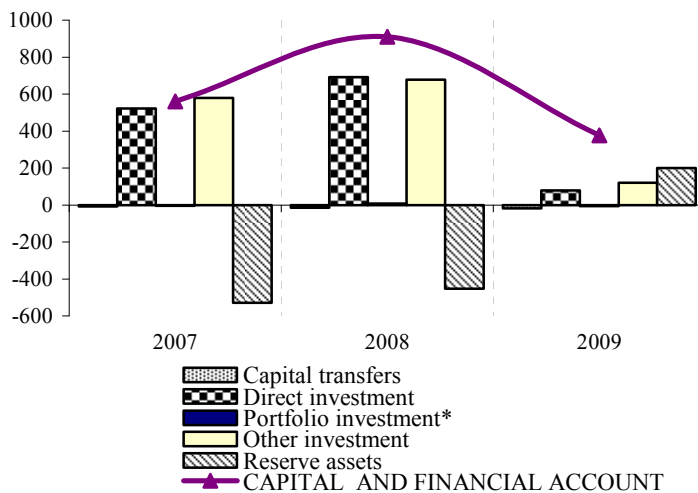
The inflows of humanitarian aid recorded by customs statistics constituted USD 21.43 million. The amount of the international paid contributions constituted USD 4.71 million.

The most significant weight (48.2 percent) of total inflows of the current transfers from abroad was that the transfers made by the employees working several years abroad, estimated at USD 635.18 million.

### Capital and financial account

The *capital and financial account* of the balance of payments recorded a surplus in 2009 amounting to USD 376.83 million (chart no. 1.15), determined by the financial support from the International Monetary Fund, the deferral of payments by businesses, as well as the reduction of the official reserve assets of the state.

Chart no. 1.15. The capital and financial account, main components (million USD)



\* including financial derivatives

The *capital transfers* showed net outflows of USD 17.54 million. The *financial operations* have resulted in a surplus of USD 394.37 million in 2009 (Table no. 1.6).

The foreign net assets (debt) rose to USD 7.80 million, resulting from increased net foreign assets in the form of foreign currency and deposits with USD 265.29 million. It should be mentioned that the official reserve assets of the state decreased to USD 200.55 million, in net value.

The net foreign liabilities increased by USD 402.17 million, mainly due to increase of arrears (other liabilities) of the economic agents in other sectors, and allocation of Moldova (with other states) of special drawing rights (SDRs) in the new financial instrument applied by the International

Monetary Fund to mitigate the impact of global economic crisis.

The net *direct investments* made during 2009 by foreign operators in the country were valued at USD 6.98 million, as determined by the contributions in the net share capital in the amount of USD 8.20 million, according to the reported data (Table no.1.7).

The inflows of the *direct foreign investment* in the national economy were valued at USD 347.58 million, decreasing from the previous year by 2.5 times. This decrease was due to lower shareholdings by 2.4 times, up to USD 201.83 million.

Within the intra-group lending, the resident economic agents have received loans from foreign investors amounting to USD 161.04 million; at the same time, according to the schedule USD 214.25 million had to be repaid, actually being paid USD 120.53 million, the rest increasing the arrears.

Within the intra-group lending, the resident economic agents have received loans from foreign investors amounting to USD 161.04 million; at the same time, according to the schedule USD 214.25 million had to be repaid, actually being paid USD 120.53 million, the rest increasing the arrears.

Table no. 1.6. External assets and liabilities, net flows

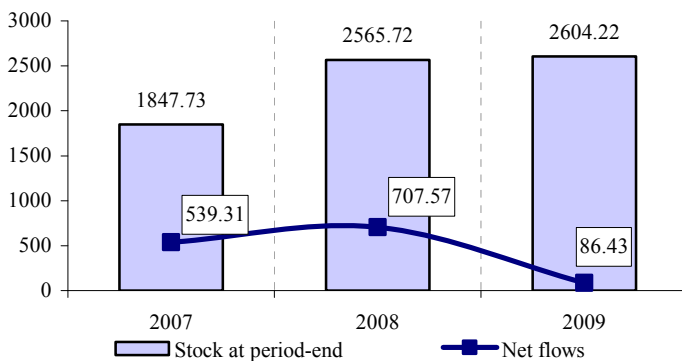
	2007	2008	2009
	million USD		
<b>Financial account</b>	<b>567.46</b>	<b>925.42</b>	<b>394.37</b>
<b>External assets</b>	<b>-506.38</b>	<b>-429.17</b>	<b>-7.80</b>
Direct investment	-12.25	-31.23	2.49
Portfolio investments	-0.07	-0.04	-0.25
Financial derivatives	-0.52	-0.06	-0.08
Other investment	35.32	54.17	-210.51
commercial credits	-7.61	78.33	50.58
loans	-6.00	1.80	4.20
currency and deposits	48.93	-25.96	-265.29
Reserve assets	-528.86	-452.01	200.55
<b>External liabilities</b>	<b>1073.84</b>	<b>1354.59</b>	<b>402.17</b>
Direct investment	534.29	722.72	76.96
Portfolio investments	-4.44	6.42	-5.57
Financial derivatives	0.05	1.00	0.42
Other investment	543.94	624.45	330.36
commercial credits	107.08	115.29	67.65
loans	325.65	409.93	-62.30
currency and deposits	60.56	53.12	-46.64
other liabilities	50.65	46.11	187.45
SDR allocation			184.20

Table no. 1.7. Direct investment (million USD)

	2007			2008			2009		
	inflow	outflow	net	inflow	outflow	net	inflow	outflow	net
<b>Direct investment</b>	<b>611.85</b>	<b>89.81</b>	<b>522.04</b>	<b>868.31</b>	<b>176.82</b>	<b>691.49</b>	<b>350.67</b>	<b>271.22</b>	<b>79.45</b>
<i>abroad</i>	0.27	17.54	-17.27	7.10	23.18	-16.08	3.09	10.07	-6.98
<i>in the national economy</i>	611.58	72.27	539.31	861.21	153.64	707.57	347.58	261.15	86.43
share capital	249.79	22.41	227.38	481.21	39.51	441.70	201.83	46.75	155.08
banking sector	39.98		39.98	30.06		30.06	25.45		25.45
other sectors	209.81	22.41	187.40	451.15	39.51	411.64	176.38	46.75	129.63
reinvested income and undistributed profits (+) / losses (-)	112.81		112.81	99.48		99.48	-24.91		-24.91
banking sector	27.57		27.57	22.68		22.68	-20.59		-20.59
other sectors	85.24		85.24	76.80		76.80	-4.32		-4.32
another capital (other sectors)	248.98	49.86	199.12	280.52	114.13	166.39	170.66	214.40	-43.74
claims against foreign investors	5.02		5.02	7.69		-15.15	9.62	0.15	9.47
commitments to foreign investors	243.96	49.86	194.10	272.83	91.29	181.54	161.04	214.25	-53.21
<b>Structure of direct investment flows in the national economy (%)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
banking sector	11.0		12.5	6.1		7.5	1.4		5.6
other sectors	89.0	100.0	87.5	93.9	100.0	92.5	98.6	100.0	94.4

The stock of direct foreign investment accumulated U.S. \$ 2604.22 million at the end of 2009 (chart no. 1.16), of which: equity capital and reinvested earnings - U.S. \$ 1982.62 million and intra-group loans (other capital) - U.S. \$ 621.60 million, USD 731 per capita.

Chart no. 1.16. Foreign direct investment in the national economy, annual growth rate (million USD)



Geographical distribution of direct foreign investment in share capital, accumulated in the national economy, indicates that the major share (51.7 percent) belongs to investors from EU countries, the CIS countries - 13.0 percent, and investors from other countries - 35.3 percent. The stock investments in share capital, originating in the EU increased during 2009, compared to the December 31, 2008, with 1.6 percent, in the CIS countries - with 4.1 percent,

and in other countries - with 9.6 percent.

**Portfolio investment** recorded net outflows amounting to U.S. \$ 5.82 million, driven by the Eurobonds service.

**Financial derivatives** include currency swaps performed by the licensed banks that have resulted in 2009 with net inflows amounting to USD 0.34 million.

**Other investments** have resulted in net capital inflows amounting to USD 119.85 million: foreign financial claims (*assets*) are increasing with USD 210.51 million, and commitments to non-residents (*liabilities*) - with USD 330.36 million.

The net repayments in 2009, performed by non-residents from the *trade credits* granted previously by the local businesses (*assets*) were valued at USD 50.58 million, while the increase of the net trade credits received from foreign partners (*passive*) - at 67.65 million dollars.

Foreign assets in the form of *currency and deposits* have increased during 2009 to USD 265.29 million in net worth, of which the assets of licensed banks increased by USD 186.77 million, while those of the economic agents in other sectors and of individuals - by USD 78.52 million. This increase can be explained by converting a large part of deposits in foreign currency deposits.

It should be mentioned that the non-residents deposits in the domestic licensed banks (liabilities) has decreased by USD 46.64 million in net worth.

Foreign loans divided by sector are presented in Table no.1.8.

Table no. 1.8. Foreign loans (mil. USD)

	2007		2008		2009	
	received	reimbursed	received	reimbursed	received	reimbursed
Loans of the monetary authorities (NBM from IMF)	33.27	22.05	37.56	25.43		14.86
Governmental loans	79.28	51.68	74.82	54.73	41.19	44.60
of which: rescheduled	31.94	21.18	31.52	21.74		
Bank loans	161.43	39.23	235.75	52.98	100.13	147.86
long-term	150.98	39.23	202.99	48.47	98.13	127.47
short-term	10.45		32.76	4.51	2.00	20.39
Loans of other sectors	309.16	144.53	492.81	297.87	189.04	185.34
long-term	302.38	140.14	446.00	272.25	180.61	174.35
short-term	6.78	4.39	46.81	25.62	8.43	10.99
<b>TOTAL</b>	<b>583.14</b>	<b>257.49</b>	<b>840.94</b>	<b>431.01</b>	<b>330.36</b>	<b>392.66</b>
TOTAL without the rescheduled	551.20	236.31	809.42	409.27	330.36	392.66

In 2009, the National Bank of Moldova has repaid to the IMF U.S. \$ 14.86 million of the previously received loans.

The Government of the Republic of Moldova received new loans from abroad in the amount of U.S. \$ 41.19 million and reimbursed USD 44.60 million.

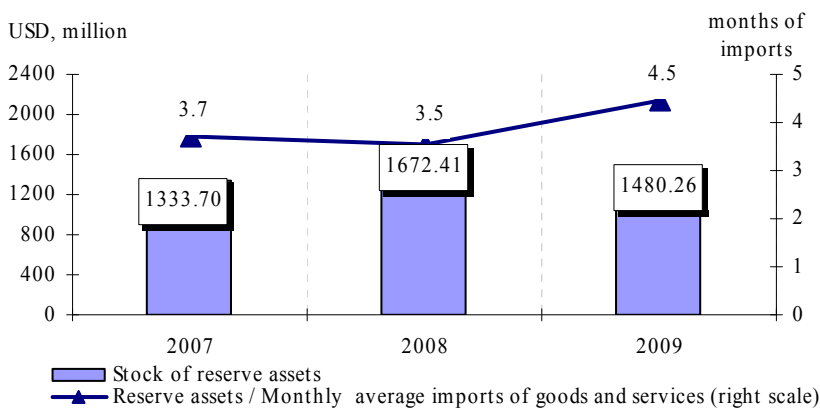
The licensed banks have attracted from abroad U.S. \$ 100.13 million, reimbursing USD 147.86 million of the loans previously acquired.

The economic agents in other sectors have borrowed from outside U.S. \$ 189.04 million. For reimbursement under the proposed schedule constituted U.S. \$ 185.34 million, U.S. \$ 153.87 million were actually paid, the outstanding amounts (arrears) being recorded in other liabilities.

Within the allocations by the IMF of special drawing rights liquidity, Moldova received SDR 117.71 million (USD 184.20 million): SDR 91.33 million (USD 142.66 million) - in August 2009, the general allocation and SDR 26.38 million (USD 41.54 million) - in September, within the special allocation.

Other liabilities (arrears and other outstanding commitments) during 2009 have accumulated net worth in the amount of USD 187.45 million, which represents arrears of the economic agents from other sectors.

Chart no. 1.17. Official reserve assets of the Republic of Moldova at the end of period



At the end of 2009, the state official reserve assets totaled U.S. \$ 1480.26 million (chart no. 1.17).

The state reserves have declined as a result of effective transactions reflected in the balance of payments with USD 200.55 million, of the price revaluation of financial instruments - with USD 6.88 million and has increased due to the fluctuating exchange rate of USD against other currencies by USD 15.28 million.

Among the effective transactions that have influenced the volume of the official reserve assets, should be mentioned:

Table no. 1.9. Gross external debt of Moldova (million USD)

	31.12.2007	31.12.2008	31.12.2009
<b>Governmental sector</b>	<b>765.80</b>	<b>778.30</b>	<b>957.54</b>
<i>long-term</i>	<i>765.80</i>	<i>778.30</i>	<i>957.54</i>
Bonds and commitments	12.69	6.35	
Loans	753.11	771.95	773.67
SDR allocations			183.87
<b>Monetary authorities</b>	<b>159.36</b>	<b>166.97</b>	<b>153.33</b>
<i>long-term</i>	<i>159.36</i>	<i>166.97</i>	<i>153.33</i>
Loans	159.36	166.97	153.33
<b>Banks</b>	<b>362.37</b>	<b>577.99</b>	<b>481.97</b>
<i>short-term</i>	<i>199.24</i>	<i>265.05</i>	<i>199.69</i>
Loans	10.45	38.70	20.31
Currency and deposits	178.49	226.35	179.38
Other debt liabilities	10.30		
<i>long-term</i>	<i>163.13</i>	<i>312.94</i>	<i>282.28</i>
Loans	163.13	312.94	282.28
<b>Other sectors</b>	<b>1523.36</b>	<b>1853.01</b>	<b>1994.48</b>
<i>short-term</i>	<i>942.03</i>	<i>1111.32</i>	<i>1227.88</i>
Loans	10.59	30.78	28.30
Commercial credits	501.73	606.87	676.07
Other debt liabilities	429.71	473.67	523.51
Arrears	84.93	111.66	149.70
Other	344.78	362.01	373.81
of which the debt for energy resources	343.16	360.39	372.19
<i>long-term</i>	<i>581.33</i>	<i>741.69</i>	<i>766.60</i>
Loans	581.33	741.69	766.60
<b>Direct investment: intra-group lending</b>	<b>545.03</b>	<b>729.81</b>	<b>781.51</b>
Commitments to foreign investors	545.03	729.81	781.51
Arrears	25.86	38.31	154.23
Loans from foreign investors	519.17	691.50	627.28
<b>TOTAL</b>	<b>3355.92</b>	<b>4106.08</b>	<b>4368.83</b>

- The net reduction of U.S. \$ 219.84 million from net sales of foreign currencies on the domestic foreign exchange market;
- The net reduction of U.S. \$ 166.94 million determined by the reduction of the required reserves rate in foreign currency of the licensed banks by the NBM;
- The increase of U.S. \$ 184.20 million resulting from the allocation of SDRs by the IMF;
- The external debt service payments - U.S. \$ 85.14 million for maintenance of embassies - USD 7.00 million, for contributions to international organizations - U.S. \$ 3.39 million.

### External debt of the Republic of Moldova

The gross external debt of Moldova at December 31, 2009 amounted to USD 4368.83 million, increasing by 6.4 percent compared to the end of last year (table no. 1.9).

The external debt distribution by institutional sector was as follows: government sector - 21.9 percent, the monetary authorities - 3.5 percent, banking sector - 11.0 percent, traders from other areas - 45.7 percent, direct commitments to foreign investors - 17.9 percent.

The stock of *public and publicly guaranteed external debt* (table no. 1.10) increased during the year with 19.1 percent, accounting U.S. \$ 1139.75 million at December 31, 2009, mainly on the account of allocations of special drawing rights from the IMF.

*Private non-guaranteed external debt* constituted U.S. \$ 3229.08 million, an increase of 2.6 percent.

The long-term commitments have increased during 2009 by 3.6 percent to USD 2787.03 million, while short-term - with 11.8 percent, up to USD 1581.80 million.

Analyzing the commitments in the form of *loans and securities* (table no. 1.11), which amounted to USD 2955.70 million, we find that 67.9 percent of them accounted for the private sector (including state guaranteed

Table no. 1.10. Public external debt, publicly guaranteed and private non-guaranteed debt (million USD)

	31.12. 2007	31.12. 2008	31.12. 2009
<b>Public and publicly guaranteed debt</b>	<b>943.99</b>	<b>957.36</b>	<b>1139.75</b>
<i>Short-term</i>	<i>0.04</i>	<i>0.02</i>	<i>0.02</i>
Other debt liabilities	0.04	0.02	0.02
Arrears (principal and interest)	0.04	0.02	0.02
of which: public corporate debt	0.04	0.02	0.02
<i>Long-term</i>	<i>943.95</i>	<i>957.34</i>	<i>1139.73</i>
Bonds and commitments	12.69	6.35	
Loans	931.26	950.99	955.86
of which: public corporate debt	5.29	1.14	20.43
SDR allocation from IMF			183.87
<b>Private non-guaranteed debt</b>	<b>2411.93</b>	<b>3148.72</b>	<b>3229.08</b>
<i>Short-term</i>	<i>1141.23</i>	<i>1376.35</i>	<i>1427.55</i>
Loans	21.04	69.48	48.61
Currency and deposits	178.49	226.35	179.38
Commercial credits	501.73	606.87	676.07
Other debt liabilities	439.97	473.65	523.49
Arrears (principal and interest)	84.89	111.64	149.68
Other	355.08	362.01	373.81
<i>Long-term</i>	<i>725.67</i>	<i>1042.56</i>	<i>1020.02</i>
Loans	725.67	1042.56	1020.02
<b>Direct Investment: intra-group lending</b>	<b>545.03</b>	<b>729.81</b>	<b>781.51</b>
Commitments to foreign investors	545.03	729.81	781.51
Arrears	25.86	38.31	154.23
Loans from foreign investors	519.17	691.5	627.28
<b>Total</b>	<b>3355.92</b>	<b>4106.08</b>	<b>4368.83</b>

Note: From September 2007, public external debt includes public corporations commitments (businesses in the share capital of which state holds 50.0 percent or more)

Table no. 1.11. Loans and external debt commitments (million USD)

	31.12. 2007	31.12. 2008	31.12. 2009
<b>Monetary authorities</b>	<b>159.36</b>	<b>166.97</b>	<b>153.33</b>
Loans (from the IMF)	159.36	166.97	153.33
<b>Governmental debt</b>	<b>765.80</b>	<b>778.30</b>	<b>773.67</b>
<i>Direct governmental debt</i>	<i>747.22</i>	<i>762.77</i>	<i>760.37</i>
Loans	734.53	756.42	760.37
Debt commitments	12.69	6.35	
<i>Guaranteed debt assumed by the government</i>	<i>18.58</i>	<i>15.53</i>	<i>13.30</i>
Other sectors	18.58	15.53	13.30
Loans	18.58	15.53	13.30
<b>Public corporate debt</b>	<b>5.33</b>	<b>1.16</b>	<b>20.45</b>
Banks	0.59		
Loans	0.59		
Other sectors	4.74	1.16	20.45
Loans	4.70	1.14	20.43
Arrears on loans	0.04	0.02	0.02
<b>State guaranteed private debt</b>	<b>13.50</b>	<b>10.93</b>	<b>8.43</b>
Other sectors	13.50	10.93	8.43
Loans	13.50	10.93	8.43
<b>Private non-guaranteed debt of state</b>	<b>1376.63</b>	<b>1953.49</b>	<b>1999.82</b>
Banks	172.99	351.64	302.59
Loans	172.99	351.64	302.59
Other sectors	1203.64	1601.85	1697.23
Loans (inclusive from the foreign investors)	1092.89	1451.90	1393.32
Arrears on loans (inclusive from foreign investors)	110.75	149.95	303.91
<b>TOTAL</b>	<b>2320.62</b>	<b>2910.85</b>	<b>2955.70</b>

debt, whose service was performed by the private sector), and 32.1 percent – for the public (including the NBM debt, state direct debt and the private one assumed by the state after the execution of securities, and the corporate and public debt).

During 2009, the state debt was influenced, in terms of reduction, by the payment (redemption) of bonds in the amount of USD 6.35 million and the repayment of principal on loans previously recovered - USD 44.60 million and in terms of increase - the disbursements of new loans amounting to USD 41.19 million. The new loans under the government guarantee were not contracted in 2009.

The external borrowing of public corporations increased by USD 19.19 million due to new recovery, the stock accumulated at the end of the year being USD 20.45 million.

Table no. 1.12. Loans and external debt commitments, specifying creditors \* (million USD)

	31.12. 2007	31.12. 2008	31.12. 2009
<b>Monetary authorities</b>	<b>159.36</b>	<b>166.97</b>	<b>153.33</b>
IMF	159.36	166.97	153.33
<b>Direct state debt</b>	<b>747.22</b>	<b>762.77</b>	<b>760.37</b>
<i>International bodies</i>	<i>461.65</i>	<i>480.25</i>	<i>504.53</i>
IBRD, IDA	434.49	436.40	441.16
EBRD	3.44	2.47	1.50
IFAD	19.31	31.65	37.18
BDCE	4.41	8.79	12.91
IEB		0.94	11.78
<i>Bilateral creditors</i>	<i>272.88</i>	<i>276.17</i>	<i>255.84</i>
USA	56.74	56.41	53.82
Japan	22.51	26.89	23.50
Russian Federation	135.84	133.51	121.30
other	57.79	59.36	57.22
<i>Debt commitments</i>	<i>12.69</i>	<i>6.35</i>	
<b>Guaranteed debt assumed by state</b>	<b>18.58</b>	<b>15.53</b>	<b>13.30</b>
<i>Other creditors</i>	<i>18.58</i>	<i>15.53</i>	<i>13.30</i>
<b>Public corporate debt</b>	<b>5.33</b>	<b>1.16</b>	<b>20.45</b>
<i>International bodies</i>		<i>0.36</i>	<i>9.31</i>
EBRD		0.36	9.31
<i>Other creditors</i>	<i>5.33</i>	<i>0.80</i>	<i>11.14</i>
<b>State guaranteed private debt</b>	<b>13.50</b>	<b>10.93</b>	<b>8.43</b>
<i>International bodies</i>	<i>13.50</i>	<i>10.93</i>	<i>8.43</i>
BERD	13.50	10.93	8.43
<b>State non-guaranteed private debt</b>	<b>1376.63</b>	<b>1953.49</b>	<b>1999.82</b>
<i>International bodies</i>	<i>101.41</i>	<i>161.26</i>	<i>141.87</i>
<i>Other creditors</i>	<i>1275.22</i>	<i>1792.23</i>	<i>1857.95</i>
<b>TOTAL</b>	<b>2320.62</b>	<b>2910.85</b>	<b>2955.70</b>

\* inclusive principal and interest arrears

The private non-guaranteed debt has been characterized by the repayments prevalence according to the schedule - USD 544.95 million, on the new contracted loans - USD 431.02 million. The accumulation of arrears on principal constituted 125.19 and on interest - USD 28.77 million. Thus, the stock of the private non-guaranteed debt amounted to USD 1999.82 million at the end of 2009.

The distribution of external commitments on major creditors of the Republic of Moldova is presented in Table no. 1.12.

## II. Activity of the National Bank of Moldova

### Achievement of the monetary and foreign exchange policy in 2009

The fundamental objective of the National Bank of Moldova is to ensure and maintain the price stability. Without prejudice to the fundamental objective, the National Bank of Moldova promotes and maintains a financial system based on market principles and supports the economic policy of the state.

In order to achieve this objective, the National Bank of Moldova shall establish and maintain the money market conditions, credit and foreign exchange that lead to the sustained and stable economic development of the state, and in particular, to the financial and currency system based on the market laws.

#### The legislative framework of the monetary policy in 2009

Monetary and foreign exchange policy for 2009 was prepared under the Law on National Bank of Moldova, being completed in collaboration with the relevant financial and economic bodies of the Moldovan Government and approved by the Council of administration of the National Bank of Moldova on December 18, 2008.

Moreover, at the end of 2009, the National Bank of Moldova has approved and published the monetary policy strategy for 2010-2012. The monetary policy strategy is of a medium term and sets the priority directions of the activity of the NBM, oriented towards achieving the primary objective "to ensure and maintain the price stability."

In this context, the NBM monetary policy strategy for 2010 - 2012 sets quantitative inflation target at 5.0% for 2010 with a possible deviation of  $\pm 1.0$  percentage points, and establishes the annual quantitative target in a middle range of a single figure.

The strategy also determines the monetary policy regime, monetary instruments and their implementation, the transmission mechanism of the monetary policy, the decision making process on the achieving the established objective, the communication and transparency of the monetary policy.

In 2009, the monetary policy, foreign exchange and fiscal – budgetary coordination was performed including within the Liquidity management committee, established by the National Bank of Moldova and the Ministry of Finance in 2006, aiming to achieve an effective collaboration in order to achieve the management tasks and to monitor the financial market liquidities.

At the end of 2009, the negotiations began between the Government of Moldova, National Bank of Moldova and International Monetary Fund on the signing the Memorandum on Economic and Financial Policies for the years 2010-2012, which was subsequently approved by the Board of Directors of the IMF on January 29, 2010. One of the preconditions for approval of the document served the achievement of quantitative monetary goals for the end of 2009, in particular, the net domestic assets, net international

reserves and the monetary base (Table no. 2.1).

In this context, it should be mentioned that by the end of 2009 the National Bank of Moldova has fully met the performance criteria stipulated in MPEF, which also

Table no. 2.1. Quantitative ceilings on 31.12.2009

Monetary indicators	Effective on 31.12.2009	Ceiling for 31.12.2009	The difference with the ceiling
Net domestic assets of the NBM (MDL, million)	-6029.7	-5090.0	-939.7
Net International Reserves of the BNM (U.S. \$ million)	1341.0	1300.0	41.0
Net International Reserves of the BNM (U.S. \$ million)	10456.3	10900.0	-443.7

contributed to the approval of the agreement.

In the fourth quarter of 2009, the National Bank of Moldova in agreement with the National Bureau of Statistics has introduced the methodology for calculating the core inflation index that has been adopted and

published on December 30, 2009. Under this methodology, starting with January 2010, the National Bureau of Statistics began calculating and publishing the core inflation index, an important indicator of the monetary policy that indicates the impact of the monetary factors on the inflation process.

### Implementation and promotion of the monetary and foreign exchange policy during 2009

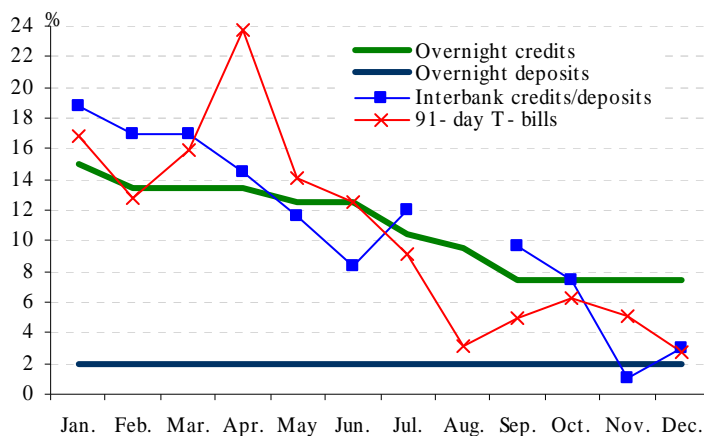
The implementation efficiency and promotion of the monetary policy during 2009 had a limited character in response to the global financial crisis.

The financial crisis has increased the volatility in the monetary and foreign exchange markets and has intensified the slowdown of the economic activity. Thus, under the low inflation pressures and significant decline in the economic activity, the National Bank of Moldova has taken measures to support banks' liquidity and to credit the national economy. As a result, the loosening of monetary policy of the NBM, by gradually reducing the base rate during 2009, and the basic norms of the required reserves, was aimed at targeting the market interest rates to fall and the further expansion of the opportunities to credit the real sector of economy.

Although the main monetary policy operations (both short-term sterilization and liquidity injection operations) were made at the NBM basic rate, the momentum transmitted by the NBM rates were taken late by the interbank market of credit/deposits and state securities market (SS), and often did not affect the short-term interest rates in these markets.

Thus, in November 2009 the average rate on loans/inter-bank deposits fell below the lower limit of the interest rates corridor, constituted by the rate on overnight deposits, recording the lowest value of 1.00 percent annually, amid a stagnation situation of the activity in this market, generated by the excess of the liquidity in the banking system. Also, in April, in the SS market, when the liquidity recorded a maximum deficit in the market, the yields rose by 10.0 percentage points more than the upper limit of the corridor rates, the monthly average rate of SS of 91 days registering 23.8% annually (chart no. 2.1).

Chart no. 2.1. Evolution of the interest rates corridor in 2009



The reference rate of the CHIBOR overnight interbank market, distorted positioned in relation to monetary policy rate in the first half of the year, was corrected by the end of the year, recording relatively small oscillations.

However, on the whole, in 2009 the interest rates in the interbank monetary market and government securities took downward adjustments of the monetary policy rate. The average monthly interest on loans / interbank

deposits maintained the downward trend, reaching in December the level of 3.02 percent, lower than that recorded in January - 18.84 percent. The average interest rate on state securities placed in the primary market also dropped from 17.45 percent in January to 4.51 percent in December, and the yields associated with SS transactions in the secondary market decreased from 17.22 percent in January to 3.72 percent in December 2009.

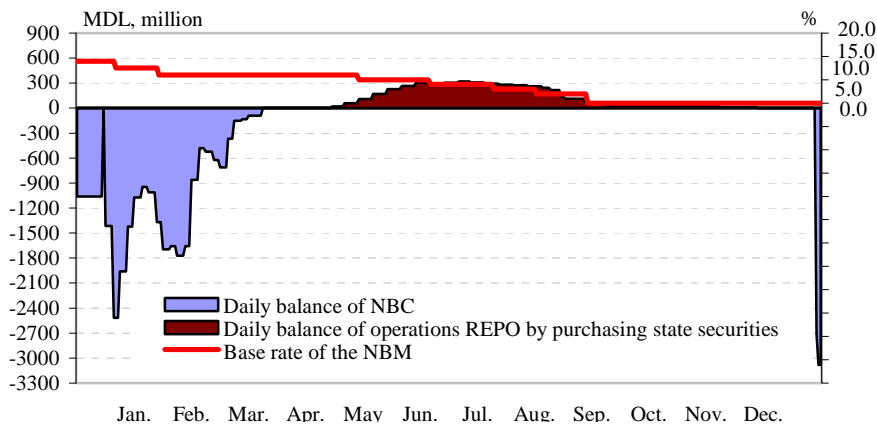
On the background of the decline of the economic activity in the countries in the region following the global financial crisis during 2009, the net inflows of foreign capital related to the revenue from foreign trade, investment and remittances were significantly reduced. Simultaneously, there has been increasing in demand for foreign currency from individuals influenced by the expectations of exchange rate of MDL.

Taking into account that the high exchange rate volatility is harmful for both the fundamental objective and the financial stability of the real and financial sector, the created conditions determined the National Bank of Moldova to intervene in the market by selling foreign currency to alleviate the excessive fluctuations of the currency exchange rate and to discourage the speculative behaviour in the foreign exchange market.

### Monetary policy instruments

In 2009 the National Bank of Moldova continued to use flexibly the monetary policy instruments.

Chart no. 2.2. Daily balance of the open market operations conducted by the NBM in 2009



### Open market operations

Divergent nature of the money market during 2009 led the National Bank of Moldova to adapt its management of liquidity according to the market conditions, operating through several instruments. Besides the monetary absorption – the NBM certificates (CBN) were back on the market after a break of more than 10 years, state securities REPO – buying operations (chart no. 2.2).

### NBM Certificates – selling

#### operations

NBM certificates, as a means of monetary absorption, were actively used by the NBM only at the beginning (first month) and the end of 2009 (last day); the excess market liquidity recorded in the second half of the year, as a result of purchases of foreign currency by the NBM and of reducing the norms of required reserves, being left to banks for lending the real sector of economy.

In the first two months, the National Bank of Moldova has organized two weekly auctions of selling CBN, and starting with the second half of March 2009 has organized one auction per week. The certificates issued during this period had a maturity of seven days, thus the NBM has achieved the objective of switching to the issuance of the CBN to a single maturity.

The daily balance of the CBN issued in the first quarter of 2009 has evolved from a maximum value of 2518.5 million lei in January to a low level of 89.0 million lei registered at the end of March 2009.

In 2009, the certificates were sold at a rate equivalent to the NBM basic rate.

In the first months of 2009, the base rate was reduced by two adjustments of 1.50 percentage points each on January 20 and February 10, 2009, to the level of 11.00 percent annually. Thus, the interest rate of the issued CBN dropped from 13.96 percent annually at the beginning of January to 11.00 percent annually in the months of February-March 2009. As a result of the reduction of the base rate, in the subsequent periods of 2009, the CBN issuances from December were carried out at an interest rate of 5.0 percent annually.

In 2009, the weighted average rate of sterilization operations amounted to 10.62 percent versus 17.00 percent annually in the previous year.

The declining rates recorded at the NBM sterilization operations, and the insignificant volumes compared to the previous year led to the reduction of the cost of NBM for the liquidity sterilization from 210.8 million lei in 2008 to 32.8 million lei in 2009.

REPO operations

In the context of the declining liquidity recorded in the market starting with the end of the first quarter of 2009, the National Bank of Moldova began in May 2009 to grant liquidity to the banking system through state securities REPO-buying operations with the NBM base rate for up to 6 months.

In the months from May to June and in the first week of July, the National Bank of Moldova performed state securities REPO-buying operations as negotiations, providing liquidity to banks through this instrument, in the amount of 346.0 million lei.

Since November 2009, the National Bank of Moldova has reiterated its intention to support the economic revitalization of the loan process by committing to provide continuous liquidity to banks by initiating weekly state securities REPO-buying operations with a fixed interest rate (NBM basic rate), according to a schedule prepared for the period of November 2009 - December 2010, published on the official website of the NBM.

From the 7 announced auctions, only within the auction of November 25, 2009, carried out by the National Bank of Moldova, there were submitted demands by the banks, being paid single bank liquidity in the amount of 3.0 million lei with the interest rate of 5.00 percent annually for a period of 28 days.

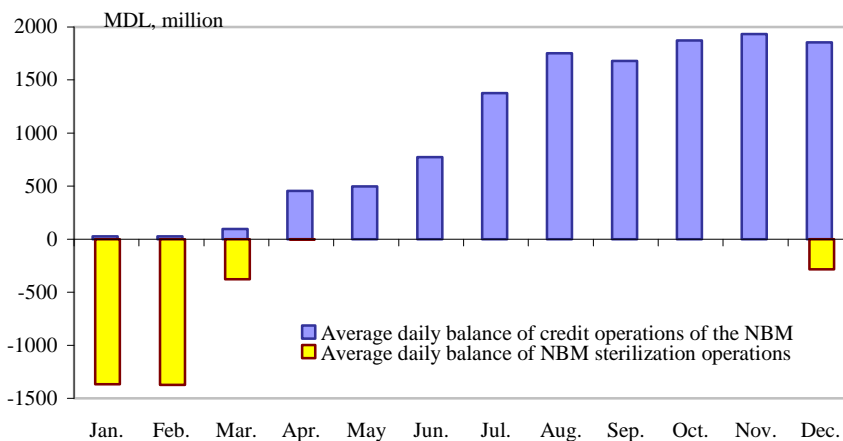
The average weighted interest rate on REPO-buying operations performed during 2009 has registered 10.16 percent annually, the average term being of 114 days.

Lending activity

With the restriction and the liquidity excess in the first quarter of 2009, starting with April the National

Bank of Moldova has moved to a creditor position against the banking system (chart no. 2.3).

Chart no. 2.3. NBM operations conducted on the money market in 2009



The accessibility broadening of credit resources of the National Bank of Moldova in 2009 was achieved as a result of the diversification of destinations and the increase of the credit limits granted to banks.

During 2009, the National Bank has allocated loans to maintain liquidity to banks, credit traders in the real sector of the economy and protecting the integrity of the

banking system.

The volume of loans granted by the National Bank of Moldova constituted 2209.9 million lei, representing the main weight in the total volume of refinancing operations of the NBM.

Credit resources of the National Bank of Moldova were granted mainly to maintain the banking liquidity and to lend the real sector of economy.

To maintain the liquidity of banks, in 2009 the National Bank of Moldova granted loans to the licensed banks in the amount of 660.0 million lei, the balance of these loans at December 31, 2009 constituting 450.0 million lei.

In order to credit the real sector of economy, the National Bank of Moldova in the months of May to August 2009 opened credit lines to banks for a year amounting to 960.0 million lei. At the end of the year, the balance of credits granted to the real sector of economy constituted 798.0 million lei. These credits



allocated by the bank were mainly for industries and trade (42.2 percent), agriculture and food industry (about 33.6 percent) and energy industry and fuel (about 14.1 percent).

The loans for maintaining the banks liquidity and for lending the real sector of economy were granted with the NBM basic rate, variable during the period of credit action, which declined throughout the year from 11.00 to 5.00 percent annually.

In 2009, the National Bank of Moldova has continued to monitor the loans granted in the previous years to housing construction cooperatives. At the end of the reference year, the balance of these loans amounted to 21.9 million lei. As a result of the payments made on time or in advance, the balance of credit loans for housing construction cooperatives, compared with the end of 2008, declined by 17.0 percent.

The total balance of credit debt of the banks to the National Bank of Moldova at December 31, 2009 amounted to 1859.8 million lei compared to 26.4 million lei of credit debt recorded in late 2008 which was represented entirely by loans for crediting the housing construction cooperatives.

In 2009, compared with 2008, within the pledge structure, which assures the credit debt of the banks to the NBM, essential modifications have occurred. In the reference year, the compulsory reserves of banks in MDL and in freely convertible currencies and state securities held at the National Bank of Moldova were accepted as pledge for lending, where in 2008 the pledge has been formed only from the cash of the "Loro" accounts of the banks maintained at the NBM.

#### *Standing facilities*

The operating regime of standing facilities (deposits and overnight credits), established by the NBM allowed banks to manage efficiently their liquidity and offered to the NBM more flexibility in the monetary policy implementation.

*Overnight credit facility.* In the context of the liquidity deficit in the banking system observed at the beginning of 2009, the National Bank of Moldova during the months of February - May 2009, aiming to ensure a proper functioning of the interbank money market, provided through the overnight credit facility cash on the banks demand, the daily average balance in this period constituted about 66.8 million lei.

During the mentioned period, the minimum average daily balance of overnight credits in the amount of 10.0 million lei was registered in February, and the maximum value of 126.0 million lei - in April 2009.

*Overnight deposit facility.* The NBM reversal position, in relation to the banking system, has not excluded the permanent formation in 2009 of the excess liquidity in the short term, which was placed at the National Bank of Moldova at the initiative of the banks through the deposit facility.

The average daily balance during the overnight deposits had an upward trend, from 59.9 million lei in January to 3069.1 million lei in December 2009, increasing according to the liquidity excess increase in the banking system.

#### *Required reserves*

In 2009, the National Bank of Moldova, in addition to the interest rate policy, has actively continued to use the required reserves mechanism for monetary policy to achieve its objectives.

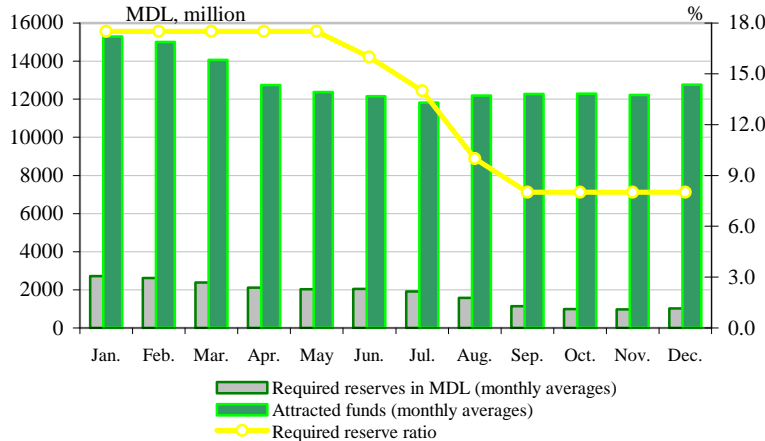
During the months of June to September 2009, the Council of administration of the National Bank of Moldova, while reducing the base rate, decided four times to decrease the norm of the required reserves.

At June 18, 2009, the norm of the required reserves was reduced by 1.5 percentage points, being established at a rate of 16.0 percent of the base, starting with the tracking period of the attracted funds of June 21, 2009 to July 5, 2009.

On July 16, 2009, the norm of the required reserves was reduced by 2.0 percentage points, being established in proportion of 14.0 percent of the base, starting with the tracking period of the attracted funds of July 21 to August 5, 2009.

On August 6, 2009, the norm of the required reserves in MDL was established in the amount of 10.0 percent and those in freely convertible currencies - by 12.0 percent from the base (decreasing by 4.0 percentage points, and by 2.0 points percentage respectively), starting with the tracking period of the attracted funds of August 6, 2009 to August 20, 2009.

**Chart no. 2.4. Evolution of the financial means attracted in MDL, MDL required reserves and the norm of the required reserves in 2009**



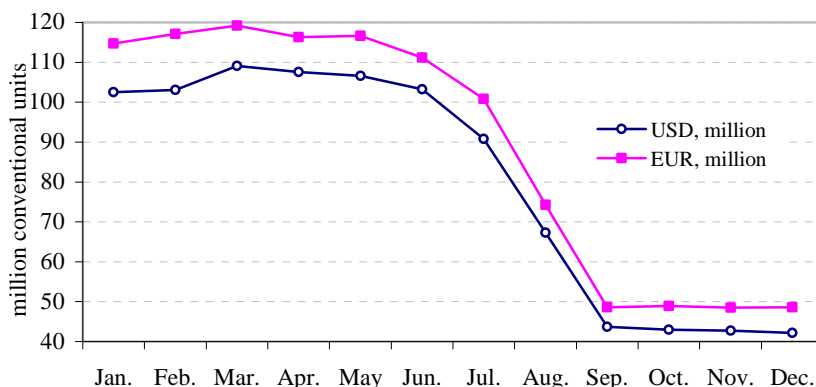
of the banks was determined by the required reserves size and by the development of the attracted funds (chart no. 2.4).

During the months of January to May 2009, when the norm of the required reserves was maintained at a constant level of 17.5 percent of the base, the required reserves in MDL decreased by about 19.0 percent because of the negative evolution of the attracted funds as a result of the global financial crisis.

The downward curve of the required reserves, during the months of June to November 2009, was mainly determined by the decrease of the required reserve norm and by the maintenance of the descendent trend during the nominated period of funds attracted by banks.

In December 2009, the required reserves trend in MDL has reversed, with an increase for two consecutive tracking periods of attracted funds.

**Chart no. 2.5. Evolution of the required reserves in USD and EUR during 2009**



Euros respectively, decreasing by U.S. \$ 68.4 million and by 73.7 million Euros, or 2.6 and 2.5 times, respectively, compared with the required reserves maintained by banks at the end of December 2008 (chart no. 2.5).

On September 3, 2009, the norm of the required reserves in MDL and in freely convertible currencies was established in the amount of 8.0 percent of the base (decreasing by 2.0 and 4.0 percentage points respectively), starting with the tracking period of the attracted funds of September 6, 2009 to September 20, 2009.

The consequent decrease of the required reserves norm has generated large volumes of excess liquidity in the banking system, influencing the growth of lending capacity of banks, prerequisite for restoring the economic growth.

During 2009, the required reserves level

The amount of the required reserves in MDL of banks during the tracking period of the attracted funds - December 6 to December 20, 2009 and maintained at the end of the year, constituted 1041.9 million lei, decreasing by 1844.4 million lei, or about 2.8 times compared to the same period last year.

The amount of the required reserves held by banks in dollars and Euros, at December 31, 2009 constituted U.S. \$ 42.0 million and 48.6 million

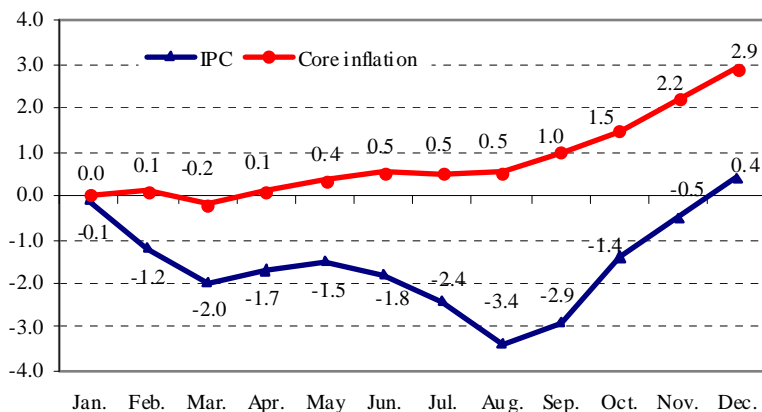
## Results of the Monetary and foreign exchange policy during 2009

Implementation of the monetary and foreign exchange policy during 2009 took place in a situation of economic crisis.

The significant deviation of the development of the macroeconomic indicators of macroeconomic assumptions and expectations that formed the basis on the monetary policy, the fierce situation and negative expectations of people have significantly influenced the implementation of monetary policy and the fundamental achievement.

Also, it should be mentioned that, in these difficult conditions, the National Bank of Moldova managed to ensure the relative stability of prices, to maintain the stability of the banking system and to moderate the pressures on the foreign exchange market. In this context, the preliminary data provided by the National Bureau of Statistics, the gross domestic product declined in real terms by 6.5 percent. During the same period, the exports of goods and services decreased by 7.8 percent and imports - by 19.3 percent in the

Chart no. 2.6. Cumulative evolution of the consumer price indices for 2009 (%)



previous year. The average exchange rate of national currency for 2009 amounted to MDL 11.1134 for 1 USD. The state budget recorded a deficit of 6.0 percent of GDP.

The economic activity restriction associated with the global economic crisis that has reflected on the national economy has conditioned the significant reduction of the growth rate of the consumer prices and the inflation of 0.4 percent recorded by the end of 2009, including the food prices that fell by 3.8 percent while the non-food products and public services prices rose by 2.5 and 2.2

percent respectively (chart no. 2.6).

The *core inflation index*<sup>1</sup> for 2009 constituted 2.9 percent, being higher to the inflation rate by 2.5 percentage points and by 6.1 percentage points lower than the limit originally predicted inflation indicator, which shows that the deflation recorded during 2009 was potentiated mainly by the non-monetary factors.

The implementation of the monetary policy instruments and measures, aimed at mitigating the consequences of the global economic crisis, including the withdrawal of foreign investment, reducing the liquidity of the banking sector, currency depreciation expectations and withdrawal of deposits by the population, led to the following dynamic monetary indicators.

### Dynamics of monetary indicators

#### Reserve money

In 2009, the *reserve money*<sup>2</sup> decreased by 10.1 percent (1177.3 million lei) compared to the previous year and amounted to 10456.3 million lei at end of December 2009. The evolution of the reserve money was determined by *net domestic assets* decreased by 1832.5 million lei, or by 45.6 percent compared to the end of 2009, as a result of shrinkage of other items by 2222.1 million lei.

<sup>1</sup> Index calculated by exclusion method (local foodstuff products, fuel, products and services with administered prices were excluded), based on CPI published by the National Bureau of Statistics of the Republic of Moldova.

<sup>2</sup> Reserve money includes currency in circulation (outside the banking system), banking reserves (required reserves in Moldovan lei of banks with the National Bank of Moldova and cash money with banks' vaults) and sight deposits of other organisations held at the National Bank of Moldova.

Table no. 2.2. Components of the monetary base at end of the period (million lei)

	2008	2009	Modification	
			relative %	absolute million lei
<b>Monetary base</b>	<b>11633.6</b>	<b>10456.3</b>	<b>- 10.1</b>	<b>- 1177.3</b>
Money in circulation	7578.7	8849.0	16.8	1270.3
Bank reserves	4051.3	1604.4	- 60.4	- 2446.9
Obligatory reserves	2886.3	1041.9	- 63.9	- 1844.4
Other reserves	1165.0	562.5	- 51.7	- 602.5
Deposits of state enterprises	3.6	2.9	-19.5	- 0.7

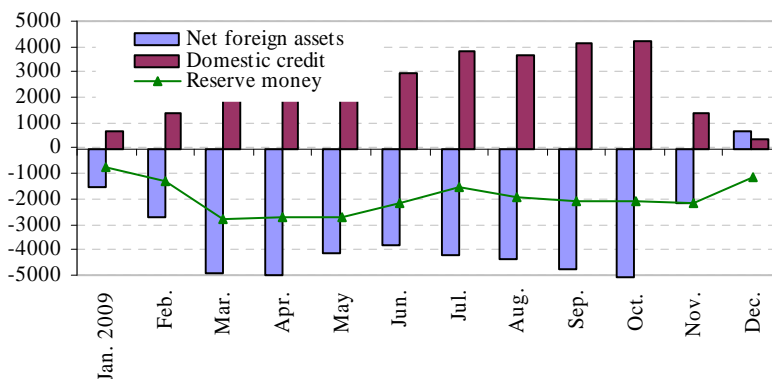
At the same time, the *domestic credit* increased by 389.7 million lei or by 8.4%, as a result of the increase by 493.0 million lei, or by 11.8% of the claims of the NBM to the banks, while claims to the Government showed the opposite trend, decreasing by 493.0 million lei, or by 21.6%.

The dynamics of the *domestic credit* has remained positive throughout 2009, continuing to increase until

October. The trend has reversed in the fourth quarter, noting a decline in the growth rate (chart no. 2.7), due, in particular, to the measures to absorb the liquidity excess in the money market by applying the monetary policy instruments: the sales of certificates of the National Bank of Moldova (CBN) and the acceptance of the overnight deposits from the banks.

The *net foreign assets* of the National Bank of Moldova increased by 655.2 million lei, or by 4.2 percent versus the end of 2008.

Chart no. 2.7. Components of reserve money increase versus December 2008 (MDL, million)



It should be mentioned that, in the months of April - June 2009 and October - December 2009, the dynamics of the net foreign assets was characterized by an upward trend, being more pronounced at the end of the year, during which reached positive values. The evolution of the net foreign assets was influenced by the foreign currency procurement of the National Bank of Moldova from the interbank market (chart no. 2.7).

Within the structure of the reserve money, by the end of 2009, the weight of

*money in circulation* increased by 19.5 percentage points from 65.1 percent, up to 84.6 percent. At the same time, the weight of the banking reserves declined from 34.8 percent to 15.3 percent.

The decrease of the weight of banking reserves during 2009 has been determined by the significant reduction of the norm of the required reserves from the attracted funds in national currency, up to 8.0 percent to the end of 2009.

Monetary multiplier M3 (ratio between the reserve money and money supply M3) increased during the reference period from 2.72 to 3.13, as a result of the negative evolution of the reserve money on the background of the inessential growth of the money supply M3.

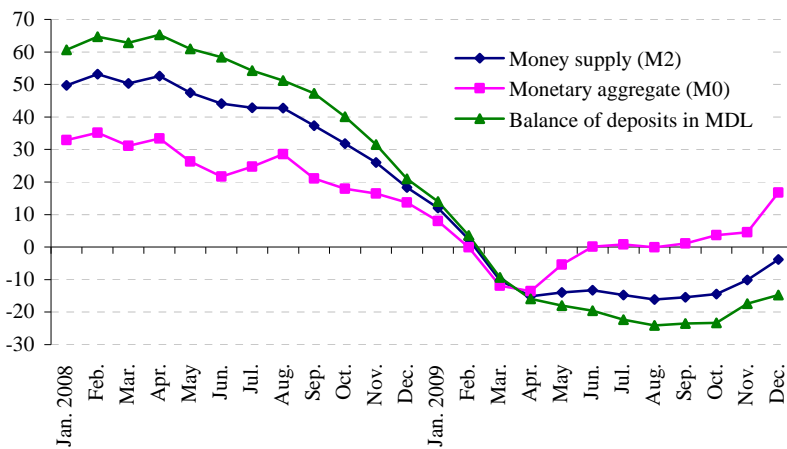
### Money supply

During January-December 2009, the *money supply (M2)*<sup>3</sup> decreased by 3.8%, noting a significant slowdown compared with the annual growth of 18.4 percent in 2008. The annual dynamics of the M2 aggregate was characterized by the negative trends, being more pronounced in the period of February - May 2009, with a sharp decline in April - December 2008 - with 21.9 percent.

The restriction of money supply M2 was imprinted during the opposite contributions of cash in circulation and deposits in national currency. At the beginning of the year (between January-April 2009), the dynamics

<sup>3</sup> Money supply M2 includes the currency in circulation (M0), deposits in MDL and money market instruments

**Chart no. 2.8. Evolution of the money supply M2**  
(increasing compared to the same month of the previous year, %)



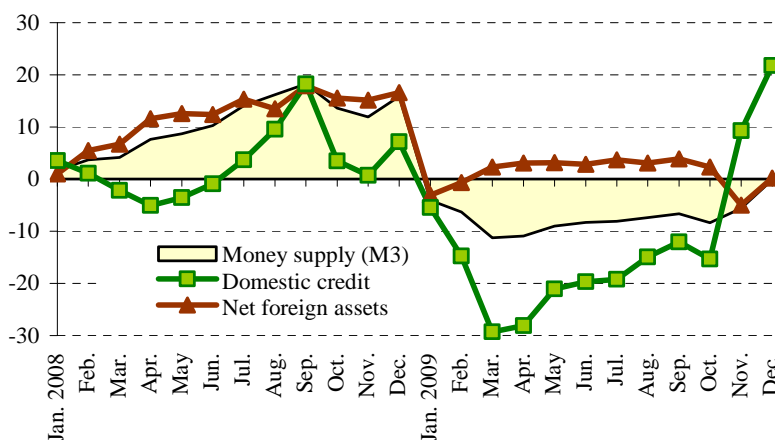
of both components of the money monetary M2 was established on a negative territory, continuing the downward trend since 2008, and reflecting a similar behavior (chart no. 2.8). This period was characterized by withdrawing the money from circulation as a result of net selling of foreign currency by the NBM. Since May 2009, the dynamics of the **monetary aggregate (M0<sup>4</sup>)** has changed its trajectory, recording signs of stabilization, which is explained by the prevalence of foreign currency purchases on sales.

In 2009, the deposits in national currency recorded a deeper decline than M0 monetary aggregate developments - with 14.7 percent (in 2008 increasing by 21.0 percent). Thus, the deposits in national currency have contributed to lower directly the money supply M2, determining the negative trend of the dynamics of the money supply M2 in 2009.

The main causes of decrease of deposits in national currency attracted from institutions and non-monetary financial institutions as well as from the population constituted the worsening conditions of the implementation of the debt service on loans granted to these sectors of the economy and the reduction of the current income which amid the reduction of the economic activity, has led to the failure of the money sources.

The share of sight deposits in the total deposits in national currency constituted 36.0 percent in December 2009, increasing during the reporting period with 7.6 percentage points. This aggregation in the structure of deposits in national currency for the sight deposits shows the need to access the high liquid cash resources required by the failure both from the industry and population.

**Chart no. 2.9. Evolution of the counterparties of the money supply M3**  
(increasing compared to the same month of the previous year, %)



At the same time, the growth of **money supply (M3)<sup>5</sup>** moderated to 3.2 percent in 2009 versus 15.9 percent registered in 2008.

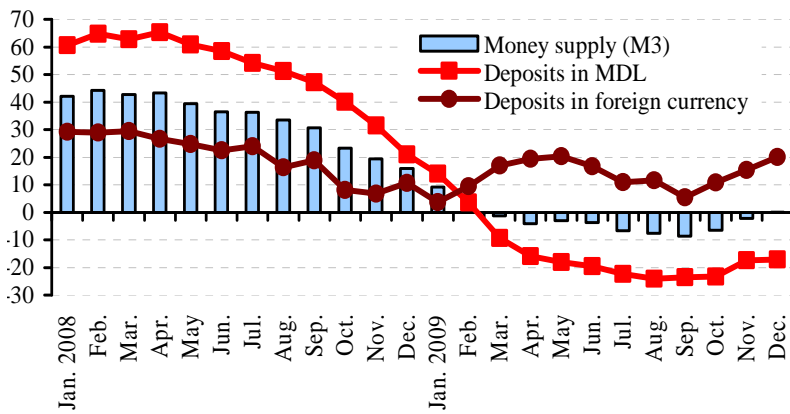
From the perspective of the counterparties of money supply M3, the developments of the credit granted to private sector and population have exerted a negative effect on the monetary indicator M3 in the period of January-November 2009, determinign the economic stagnation of the loan process. Another impact on reducing M3 in this period constituted the downward trend in net foreign assets, as a result of the negative net flow increase of the export-import

<sup>4</sup> Monetary aggregate M0- money in circulation; the cash emitted into circulation by the National Bank of Moldova, excluding the cash from the banks office and from the NBM office.

<sup>5</sup> Money supply M3 includes money supply M2 and deposits in foreign currency of residents expressed in U.S. dollars.

operations and of the private external credit under the restriction of the economic activity in the private sector. In December 2009, the trends of the both counterparts of money supply M3 returned to the positive values (chart no. 2.9).

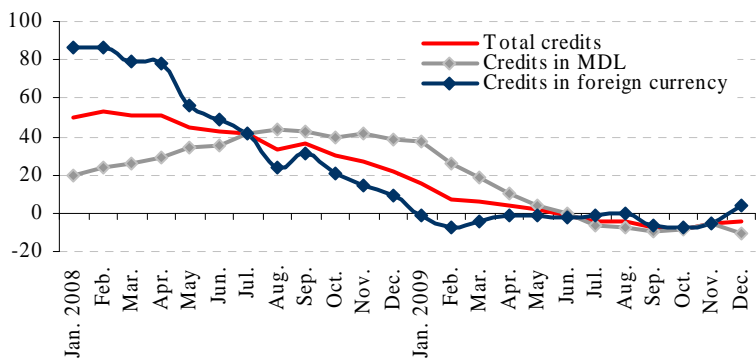
**Chart no. 2.10. Dynamics of the main components of the money supply M3 (increasing compared to the same month of the previous year, %)**



The positive dynamics of the monetary indicator M3 different from that of M2 is due to the upward trend of deposits in foreign currency, recalculated in MDL, which during 2009 increased significantly - by 18.5 percent, while increasing in U.S. dollar was only 0.2 percent (chart no. 2.10).

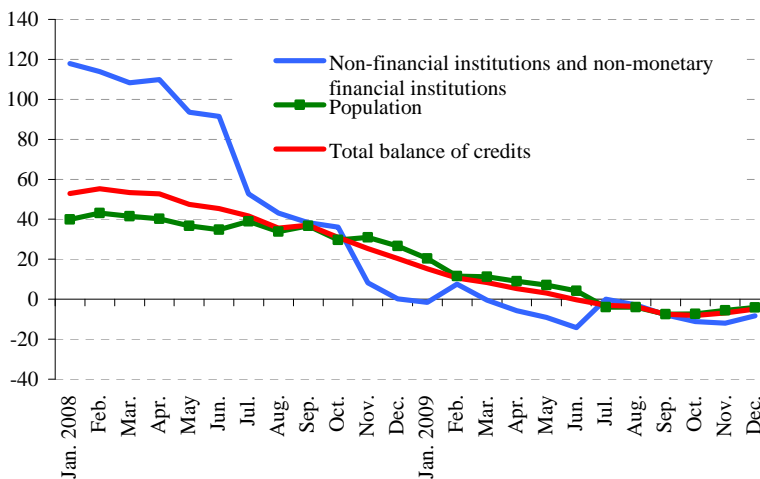
**Chart no. 2.11. Evolution of credits in economy (increasing compared to the same month of the previous year, %)**

(increasing compared to the same month of the previous year, %)



The highest growth rate of deposits in foreign currency expressed in U.S. dollars, was recorded in May 2009 - 7.1 percent (USD 67.7 million), being determined by the expectations of depreciation of MDL against the U.S. dollar in deepening economic crisis conditions and, as a consequence, the financial sources relocation to the deposits in foreign currency in the detriment of deposits in national currency.

**Chart no. 2.12. The balance of loans to economy by sectors (increasing compared to the same month of the previous year, %)**



Subsequently, the dynamics of deposits in foreign currency registered a moderation maintained until September with a moderate increase in the fourth quarter of 2009.

• **Monetary market**

In 2009, the *total balance of loans granted to economy*<sup>6</sup> fell by 4.9 percent versus 2008, showing an opposite trend compared to the previous year which recorded an increase of 20.3 percent.

The slowdown was recorded both on credits in national currency and those in foreign currency, the loans in national currency were affected more strongly reflecting an annual growth rate of minus 10.7 percent, being particularly influenced by the unfavorable conditions of supply of new loans with high rate for both private sector and the population. Thus, the weak demand for loans is explained by the increasing costs of new loans and pessimistic expectations regarding the future revenues (chart no.

<sup>6</sup> According to IMF methodology, from the total credits in economy (including the interest rate on loans) are excluded the interbank credits and loans to Government.

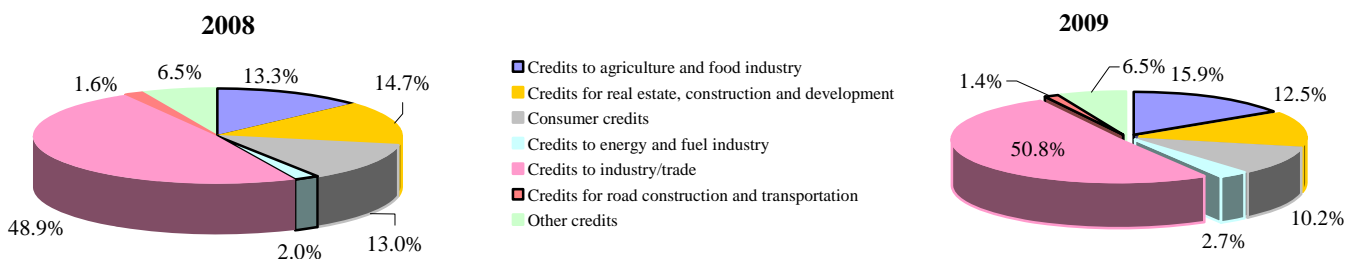
2.11).

The balance of loans granted to private sector decreased in 2009 by 4.3%, while in 2008 it increased by 22.0%. The balance of credits granted to private sector in foreign currency, expressed in U.S. dollars, was characterized by a more pronounced reduction rate (17.2 percent) compared with that of loans in national currency, due to common factors of both components of the credits granted to private sector and by the MDL depreciation against the U.S. dollar / euro and the possible impact on private sector related to risk of sudden depreciation of the domestic currency.

The deepest negative rate was recorded in the balance of credits granted to the population, which was 8.2 percent in 2009 (chart no. 2.12), being determined by the reduction of 30.0 percent of the balance of the consumer loans, whose share in the total loans given population at the end of 2009 constituted 51.4 percent.

Within the credits structure by economic branches in 2009 occurred changes indicating growth in demand, on the background of decreased consumer confidence, consumer credit, whose share decreased from 13.0 to 10.2 percent, also for credits for real estate, construction and development, the most affected sector by the global financial crisis, from 14.7 to 12.5 percent. At the same time, the loans granted to industry and trade, and those to agriculture and food industry remained dominant, noting increases in weight, respectively, from 48.9 to 50.8 percent and from 13.3 to 15.9 percent at the end of 2009 (chart no. 2.13).

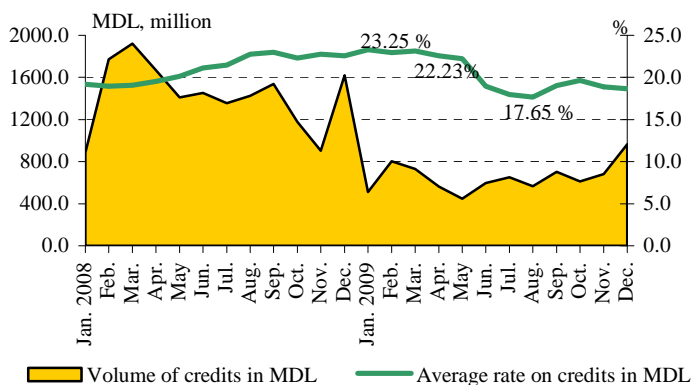
Chart no. 2.13. Structure of the balance of credits granted by economic sectors (%)



Evolution of new loans and interest rates

In 2009, the lending process in the economy declined sharply to 48.8 percent (up to the level of 14246.4 million lei) compared to the increase of 5.0 percent in 2008. The economic decline in the loan process can be largely put on the account of both the pessimistic expectations of the real sector and banking sector due to the reduction of the bank financing by international organizations in terms of deepening global financial crisis and by the reduction of the liquidity in the banking system.

Chart no. 2.14. Dynamics of volumes and average rates of credits granted in national currency

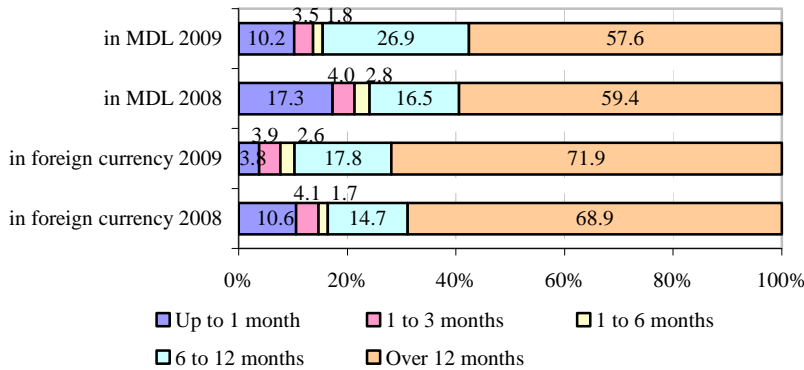


The evolutions recorded in both components reflect the negative dynamic, the national currency component being more pronounced compared to the foreign currency component (the reduction of 54.3 percent, or 9299.3 million lei versus the previous year) (chart no. 2.14).

The majority share in the volume of loans in domestic currency was still represented by loans to legal persons, who held 84.9 percent of total loans in lei, although reduced by 51.1 percent compared to the previous year, reaching the level of 6645.3 million lei. The strongest restriction of credit was recorded in the months

of April to June 2009. The loans granted to population had a similar development registering a decrease of 66.4 percent compared to 2008, reaching the level of 1182.6 million lei.

Chart no. 2.15. Term structure of loans granted



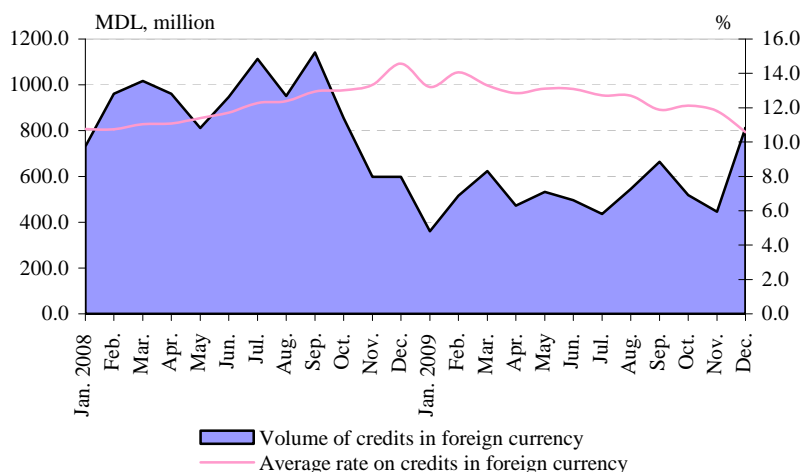
goods (chart no. 2.15).

In 2009, the *weighted average annual interest rate on new loans in national currency* decreased by 0.65 percentage points in 2008, up to the level of 20.31 percent. During the reporting year, the evolution of the average rates on loans was uneven (from a maximum of 23.25 percent in January to a minimum of 17.65 percent in August 2009), showing decreasing trends that were visible in the second half of the year. In this period, the lending process experienced a revival sustained by the monetary policy measures adopted by the NBM on bank loans for crediting the traders in the real sector of economy and for maintaining the liquidity in the banking system. In the same context, during 2009, while reducing the basic rate, the NBM has lowered the reserves of funds attracted by banks, measures that also intended to stimulate the lending process to the economy.

However, the credit institutions had conservative lending policies and have not reduced the interest rates to the potential cost, while maintaining relatively high costs to new loans because of the insufficient resources for lending, the evolution of bad loans and risks in the context of the global financial crisis.

Within the context of a deficit of demand, the loans in foreign currency fell more moderate (with 39.9 percent) constituting 6418.5 million lei (the equivalent of USD 577.5 million). The decrease of the volume of lending in foreign currency can be attributed mainly to the rebound recorded for loans granted to legal entities on longer terms (over 12 months), which contributed 66.5 percent of this reduction. However, the

Chart no. 2.16. Dynamics volume and average rates on credits extended in foreign currency



The main causes of reduction of demand for credit constituted the economic activity slowdown and the decrease of business and household income.

Term structure of new loans in the economy in 2009, has still reflected the continuing trend of loans with maturities over 12 months at maximum rates for both loans in national currency (57.6 percent) and credits in foreign currency (71.9 percent), thereby confirming the preference of traders to borrow for investment and acquisition of durable

the share of the foreign currency loans in the total of the new loans in 2009 increased by 6.7 percentage points as compared the previous year (from 38.4 percent to 45.1 percent) due to the more pronounced reduction of loans in national currency, and because of the statistical effect resulting from the national currency depreciation and increasing expectations in the exchange rate evolution.

In these circumstances, the average interest rate on loans in foreign currency was relatively stable during the first five months of the year, later it went on a downward slope, reducing

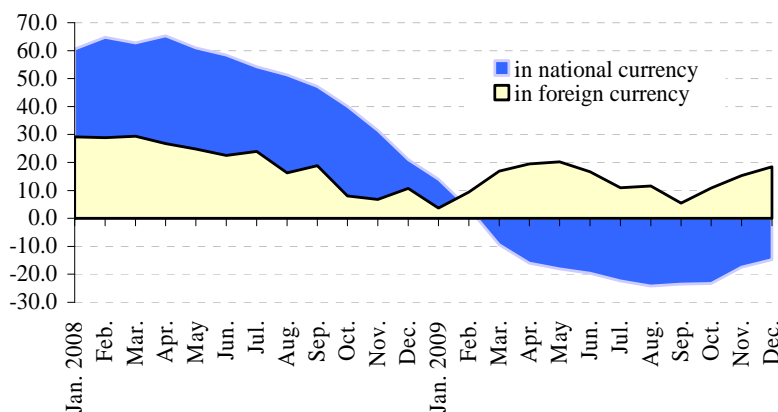
to the level of 10.58 percent in December (chart no . 2.16).

The weighted average annual interest rate on *new loans in foreign currency* amounted to 12.51 percent in 2009, compared to 12.02 percent in 2008.

- **Deposits market**

*The deposits balance*<sup>7</sup> within the banking system totaled 23834.1 million lei at the end of 2009, decreasing by 1.0 percent (251.2 million lei) compared to the previous year. The decrease of the total balance of deposits was generated by the reduction of the balance of deposits in national currency by 14.7 percent, while the balance of deposits in foreign currency increased by 18.5 percent.

**Chart no. 2.17. Evolution of deposits**  
(increasing compared to the same month of the previous year, %)



*The Balance of deposits in national currency* decreased by 14.7 percent in 2009, up to the level of 12091.7 million lei compared to the increase of 21.0 percent in 2008.

With a weight of 23.7% of total of money supply (M3), *term deposits in national currency* decreased by 2414.1 percent, up to the level of 7733.9 million lei. Their decrease was due, in particular, to the individuals' deposits, which fell by 22.5 percent (1870.9 million lei) to the end of 2008.

*The balance of foreign currency deposits* of residents expressed in MDL amounted to 11742.4 million lei (the equivalent of U.S. dollars 954.5 million), increasing by 1835.7 million lei.

*The balance of term deposits in foreign currency of residents* increased by 12.4 percent to 8943.0 million lei. Also, 65.5 percent of this growth has accounted for the *deposits in foreign currency of individuals*, which increased by 9.2 percent by the end of 2008. Expressed in U.S. dollars, they have decreased by 51.6 million dollars due to the statistical effect caused by the depreciation of the national currency and constituted USD 622.1 million at the end of 2009.

During 2009, the process of placing funds within the banks has manifested by registering a growth rate, driven by a preference for saving in the conditions of an economic crisis.

During the reporting year the increase of *the volume of term deposits attracted by banks*, driven by its components, the growth of deposits attracted in foreign currency (25.9 percent) exceeded the one of deposits in national currency (1.3 percent).

It should be mentioned that, during February-March of the reporting year, and the months of June to September 2009 there was a growing trend of the interest in foreign currency savings as a consequence of the expectations of the national currency depreciation and shift of financial assets to foreign currencies. As a result, the share of new term deposits attracted in foreign currency within the total deposits structure increased by 5.5 percentage points compared with 2008, to the level of 51.5 percent for 2009.

Modest annual expansion of deposits attracted in national currency (by 1.3 percent, or 227.6 million lei) reflected a pronounced deceleration of annual growth of individuals' deposits, which stood at minus 8.7 percent (1218.6 million lei) while the annual growth rate of deposits of legal persons constituted 34.3 percent (1446.2 million lei).

<sup>7</sup> According to IMF methodology, out of the total of deposits in the banking system, the funds of the commercial banks and financial institutions, state budget accounts, extra budgetary funds, non-resident legal and natural persons are excluded.

Chart no. 2.18. Dynamics of the volumes and average rates of term deposits attracted in national currency

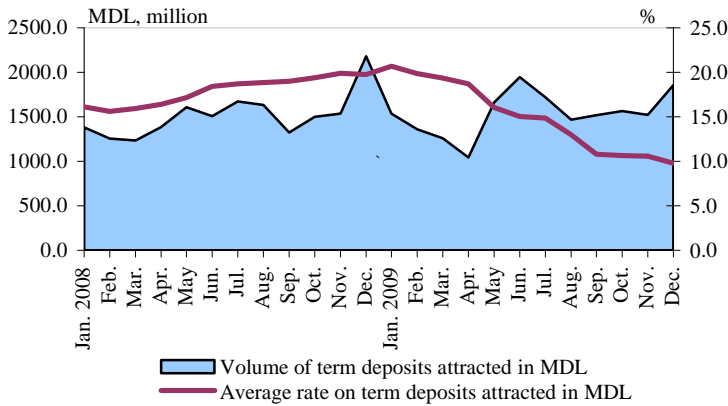
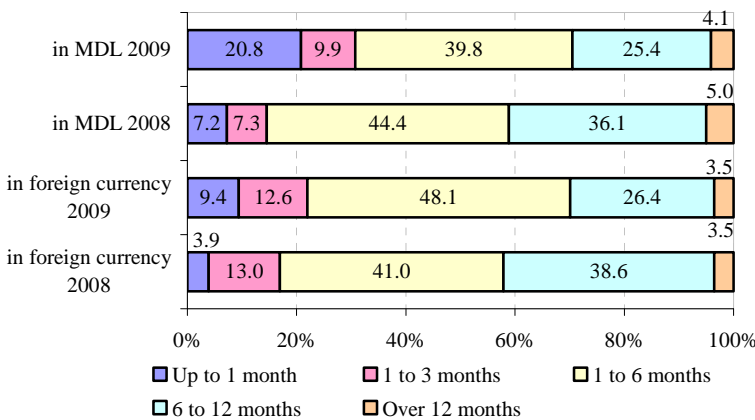


Chart no. 2.19. Structure of term deposits



The average interest rates on term deposits attracted in national currency has begun to reveal a downward trend in response to the promotion by the NBM of more moderate rate policy instruments of monetary regulation. As a result, *the average annual interest rate on new term deposits attracted in national currency* decreased by 3.43 percentage points versus 2008, constituting 14.66 percent in 2009 (chart no. 2.18).

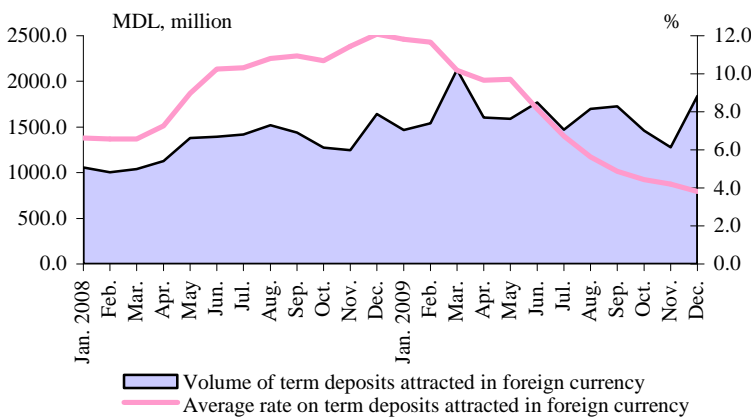
Within the structure of new term deposits attracted in national currency, and in 2008 the basic segment (39.8 percent) was represented by the deposits with maturities from 3 to 6 months, although with a reduction ratio of 4.6 percentage points compared to the previous year (chart no. 2.19). Also, there was a considerable decrease in the share of deposits with maturities from 6 to 12 months (by 10.7 percentage points) for deposits with maturities of up to one month, which registered a 20.8 percent share of total in 2009 (increase of 13.6 percentage points).

During 2009, compared to the previous year, the new term deposits attracted in foreign currency had a higher dynamic than the deposits in the national currency. Thus, the volume of deposits in foreign currency has increased by 4032.5 million lei (25.9

percent), due to the individuals' deposits increase of 4042.8 million lei (30.0 percent).

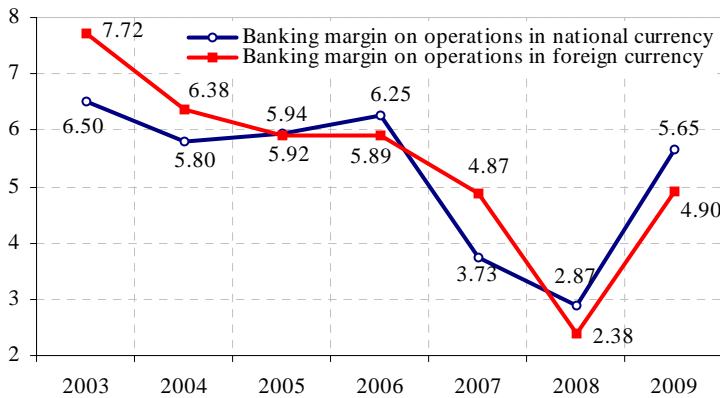
In the conditions in which the national currency depreciates and the uncertainties regarding the business environment in Moldova persist, the deposits in foreign currency on short term were preferred, in particular, the deposits with maturities from 3 to 6 months because of the attractive yields, whose share rose from 41.0 percent in 2008 to a level of 48.1 percent in 2009.

Chart no. 2.20. Dynamics of volumes and average rates of term deposits attracted in foreign currency



*currency* fell by 2.03 percentage points in 2008; constituting 7.61 percent in 2009 (chart no. 2.20).

Chart no. 2.21. Evolution of the banking margin for the operations in national and foreign currency (percentage points)



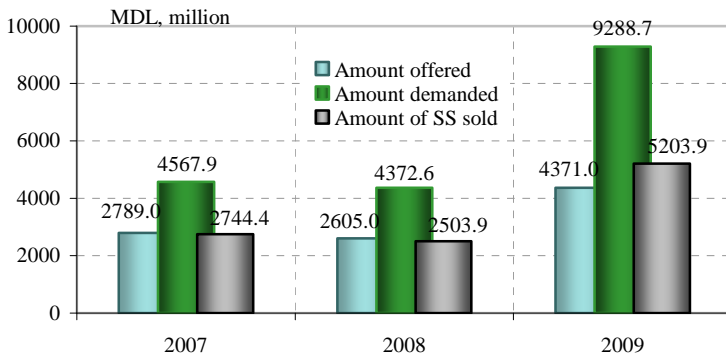
During 2009, the *bank margin* (the difference between the average rate on loans and deposits) has reversed the downward trend registered during the years 2003-2008. Thus, the bank margin associated with the operations in national currency increased by 2.78 percentage points, up to the level of 5.65 percentage points and the one attached to the transactions in foreign currency increased by 2.52 percentage points, constituting 4.90 percentage points in 2009 (chart no. 2.21).

**Monetary market**

**Primary market of state securities**

Acting as a fiscal agent of the state, the National Bank of Moldova held 195 bonds in 2009.

Chart no. 2.22. Volume of supply, demand and sales of SS



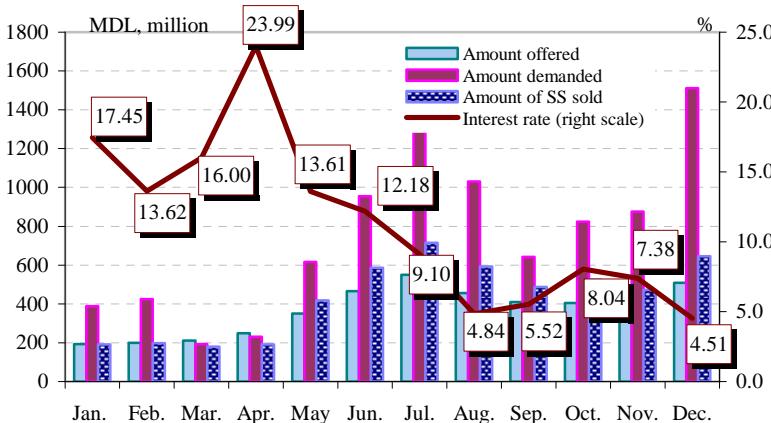
One of the consequences of the global financial crisis in Moldova was the reduction of the budget revenues and, therefore, the Ministry of Finance was forced to increase the loans in the domestic market during the reporting year. Thus, the supply of state securities in the primary market auctions exceeded the amount of 1766.0 million lei in 2008 constituting 4371.0 million lei (chart no. 2.22).

During 2009, the volume of demand registered the highest value compared with previous years - to 9288.7 million lei. It

should be mentioned that, the offer was exceeded by the demand 2.1 times due largely to the monetary policy loosening actions undertaken by the NBM in the context of the global financial crisis.

The value of the state securities in circulation amounted to 5203.9 million lei, the adjudgement degree increasing from 96.1 percent in 2008 to 119.1 percent in the reference year. Since May, when the yields fell almost by half during a month, the Ministry of Finance has accepted a higher volume of bonds than the

Chart no. 2.23. Monthly dynamics of the volume of supply, demand and sales of SS at the auctions on the primary market in 2009



offered ones. Monthly demand has evolved during the year according to the liquidity of the market, recording the minimum value in the months March-April 2009 (volume applications banks was less than the volume of supply) and beyond, usually more than twice the second offer half of the year (chart no. 2.23).

The monthly demand has evolved during the year according to the liquidity of the market, recording the minimum value in the months of March-April 2009 (the volume of banks demand was less than the

volume of the supply) and usually exceeding two times the supply in the second half of the year (chart no. 2.23).

The interest rates of the SS with maturities up to one year, issued during 2009, had an overall downward trajectory, except April – the period of liquidity restriction in the market when the yields have marked a significant increase and the average monthly rate registered a record level of the year by 23.99 percent annually. Since May 2009, the National Bank of Moldova intervened in the market, expanding the credit availability by allocating its resources to maintain the banks liquidity and by open market operations (Repo-buying), which has helped to increase the banks liquidity, and therefore - to return the SS rates on the downward trend. At the first auction in May they dropped sharply, by about 8.0 - 9.0 percentage points, recording an average rate of 13.61 percent annually. By the end of the year, the average monthly interest rate dropped by about 9.0 percentage points in December 2009 and reached a minimum value of 4.51 percent annually.

The relatively low yields, especially in the second half of the year, offered by SS, determined the non-bank investors to withdraw the investments from the state securities market, so the purchased SS value decreased from 270.6 million lei in 2008 to 156.7 million lei in 2009, the share of the purchases of the non-bank investors decreasing in the total emitted volume from 10.8 to 3.0 percent annually. During 2009, non-resident investors were not registered in the bonds market.

The specific conjuncture of 2009 forced the Ministry of Finance to amend the structure of the state securities supply: at the end of April, amid the manifested investors' uncertainties, there were excluded from

the state bonds (SB) with a maturity of two years and with a floating interest and later were introduced treasury bills (T-bills) for 21 days. T-bills with maturity of 91, 182 and 364 days were offered at auctions throughout the year, from May, simultaneously with liquidity injections in the market undertaken by the

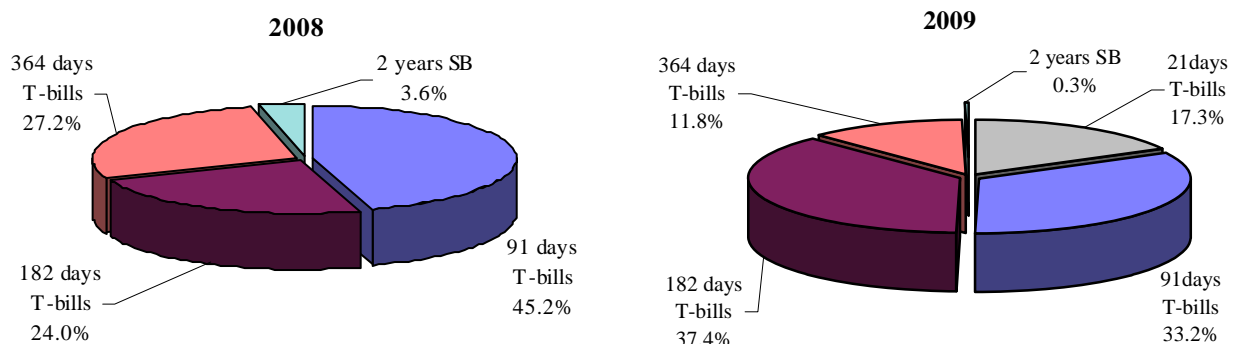
**Table no. 2.3. Annual weighted average nominal rates of interest on state securities (%)**

	QB 21 days	QB 91 days	QB 182 days	QB 364 days	SB 2 years
2008		17.70	18.10	18.39	19.02
2009	4.49	9.54	10.49	12.65	10.95

National Bank of Moldova, the Ministry of Finance has significantly increased the volume of supply on the above-mentioned maturities, especially on T-bills of 182 days, which is the most used by banks in REPO operations with the National Bank of Moldova.

Over two thirds of the securities issued have a maturity of 91 and 182 days. The state bonds with floating interest with maturity of two years were issued at a rate of 55.5 percent of the bid and only during the first quarter, their share in the total of issued SS decreasing from 3.6 percent in the previous year up to 0.3 percent in 2009 (chart no. 2.24).

**Chart no. 2.24. Structure of government securities issues in the division by type**

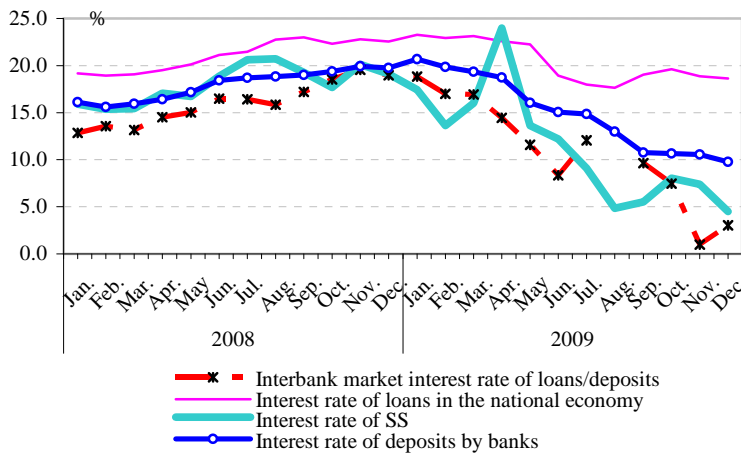


The average maturity of newly issued securities declined from 206 days in 2008 to 162 days in reporting year.

The yields of state securities with maturity up to one year have remained close as value only until May, then, although moved in the same direction, the interest on treasury bills with maturities of 21 and 91 days have reduced, while those for bonds with longer maturities - 182 and 364 days - increased, only for short periods decreasing to the levels of 10.0 percent annually.

Although, despite the interest decreasing trend, the banks prefer to lend the state (state securities remaining one of the absolute means of the domestic investment), there was an obvious reluctance from banks for investments on terms longer than 6 months.

Chart no. 2.25. Evolution of interest rates

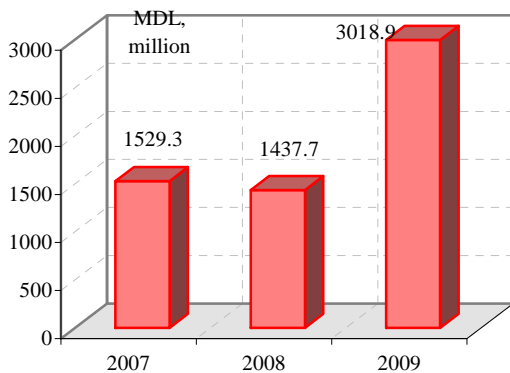


In the last SS issuance of 2009, the average interest rates registered values of 2.26, 2.58, 4.76 and 6.06 percent annually for maturities of 21, 91, 182 and 364 days, being about 13.0 - 15.0 percentage points lower compared to the values recorded at the end of 2008.

The average annual interest rate on state securities with maturities up to one year, awarded in 2009, decreased, registering 9.32 percent annually compared to 17.95 percent annually in 2008.

In the yields hierarchy on money market, the supremacy was still kept by the interest on loans in the economy (chart no. 2.25). The state securities investment has offered lower earnings than bank deposits in the reporting year (exception - the temporary increase in rates of SS in April), competing more with the interbank placements.

Chart no. 2.26. Dynamics of volumes of SS in circulation at the end of the 2007-2009



Facing with the need for deficit financing, the Ministry of Finance, simultaneously with SS placed via auctions, on March 27 and October 13, 2009 has placed bonds with floating interest rate by underwriting (equivalent to the NBM basic rate plus margin at issuance) and with maturity of one year in the amount of 300.0 and 150.0 million lei at the nominal value, respectively.

The volume of state securities in circulation at the end of the year, from those placed in the primary market through auctions and subscriptions, grew by 2.1 times compared to the last year, from the level of 1437.7 million lei at the end of

2008 to the level of 3018.9 million lei at the nominal value on December 31, 2009 (chart no. 2.26).

The state securities in circulation increased the purchase price at the end of the reporting year compared to the end of the previous reporting year by 1595.0 million lei.

**Interbank money market**

The high excess of liquidity in the banking system followed in the second semester of 2009 has determined the state of passivity of the interbank market. Thus, compared to the previous year, the volume of interbank transactions declined significantly, amounting to 6736.3 million lei, decreasing by 8896.3 million lei, or 56.9 percent.

In the reference year, analogical to the previous years, the main component of the transactions turnover in the interbank market was represented by loans / interbank deposits, constituting 99.0 percent of total transactions. The key volume of the interbank loans and deposits registered a minimum maturity of the market, the weight of the overnight transactions representing 94.3 percent of the total.

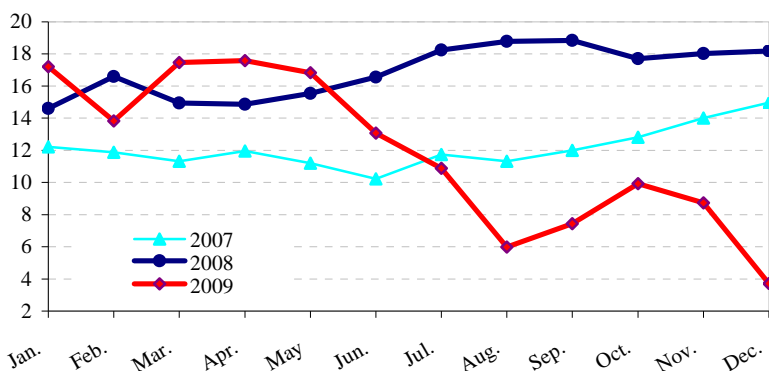
Throughout 2009, the intensity of transactions of credits / interbank deposits developed unevenly, their monthly volume being in direct dependence on the liquidity fluctuations in the banking system.

The interest rates on loans / interbank deposits in 2009 were placed on a downward curve, following the NBM basic rate evolution path. During 2009, the monthly average interest rate on those transactions declined from 18.84 percent annually in January to 3.02 in December and the annual average rate constituted 15.83 percent annually, decreasing compared to the previous year by 0.59 percentage points.

In 2009, the maturity of the transactions between banks was four days, the weighted average term remaining at the level of 2008.

**Secondary market of state securities**

**Chart no. 2.27. Dynamics of weighted average nominal rates of SS rates traded on the secondary market**



The annual turnover on the secondary market was 65.8 million lei, decreasing by 143.5 million lei compared to 2008, which shows the interest of the major investors to maintain the securities to the maturity in its investment portfolios.

The most traded bonds were still securities with the term to the maturity under one year, i.e. in the range from 28 to 91 days, which weight represented 66.4 percent of total SS transactions compared to 60.3 percent in 2008.

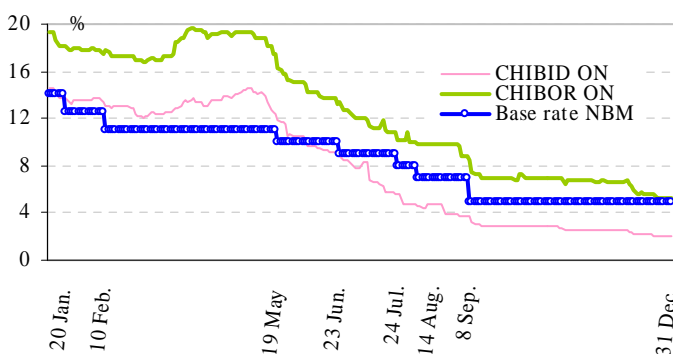
Throughout 2009, a downward trend in the weighted average nominal interest rate dominated on the secondary market, a reversed trend compared to the previous year. The persistence of the liquidity excess in the money market in the second half of the year was reflected in a substantial reduction of the yield definitive operations on the secondary market with state securities - from 17.22 percent in January to 3.72 percent in December 2009 (Chart no. 2.27).

Throughout 2009, a downward trend in the weighted average nominal interest

The average annual value of the nominal interest rate has been decreasing by 4.33 percentage points compared to the previous year, constituting 13.12 percent annually.

**Reference interest rates on interbank money market**

**Chart no. 2.28. Reference rates in the interbank market and the base rate of the NBM during 2009**



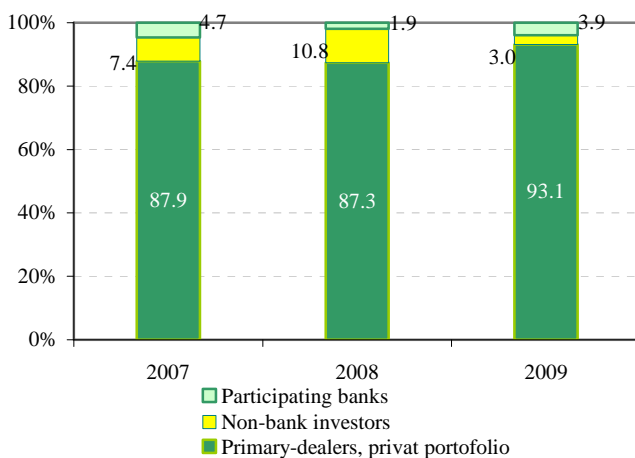
CHIBOR / CHIBID reference rate curve (indicative quotations of interest rates in the placement / attraction on the interbank market of funds in national currency) has been decreasing during 2009, except March and April when they rose on average by 2.0 percentage points on all maturities. In the months from May to September, incorporating the effects of successive reductions in monetary policy interest rate in this period, the CHIBOR / CHIBID quotations had an accelerated downward trend, followed by a slower decline

of the rate until the end of the year. On average these quotations have fallen during 2009 by approximately 9.0 - 14.0 percentage points on all maturities.

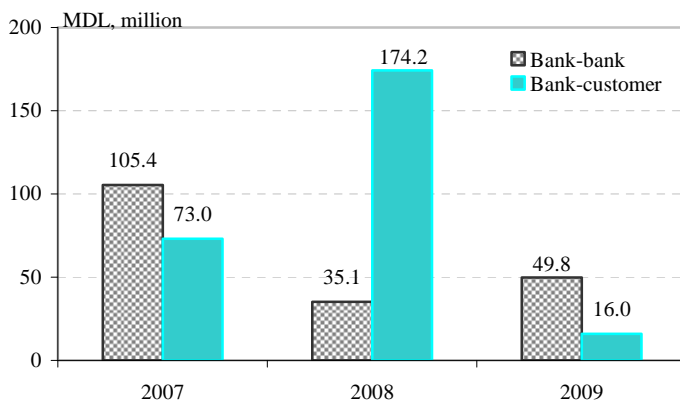
CHIBOR / CHIBID quotations with maturity of one week (1W) were higher than the NBM base rate in the first half of the year. Since June, 1W CHIBID rate fell below the base rate and continued to fall (in September at a slower pace) until the end of the year, departing from the base rate. At the same time, the margin between CHIBOR / CHIBID quotations for 7 days fell by about 3.0 percentage points. On December 31, 2009, the 1W CHIBOR quotation registered 5.19 percent and 1W CHIBID quotation - 2.03 percent annually (Chart no. 2.28).

**Activity of primary dealers in the state securities market**

**Chart no. 2.29. Procurement structure of SS at primary market auctions into categories of participants**



**Chart no. 2.30. Selling-buying transactions conducted by primary dealers on the secondary market**



During 2009, there were 11 primary dealers in the state securities market, who contributed to a good course of placement auctions of state securities on the primary market and their liquidity assurance on the secondary market. The volume of the applications presented by the primary dealers at auctions of state securities placement in 2009 constituted 8631.0 million lei.

Throughout 2009, the primary dealers have purchased securities in the amount of 4875.3 million lei, which is 111.5 percent of the Ministry of Finance offer (in 2008 this indicator constituted 94.1 percent).

Of the total volume of awarded bonds, 93.1 percent (4845.8 million lei) were purchased by the primary dealers and on behalf of their own account, the volume of SS purchased by investors registering a decline both as a share and absolute value (chart no. 2.29).

In 2009, the activity of the primary dealers on the secondary market of state securities declined, particularly in transactions such as bank-client, which registered a volume of 16.0 million (24.3 percent of the total volume of state securities transactions), compared to 174.2 million lei (83.3 percent) in the previous year (chart no. 2.30).

**State Securities Recording in the Book-Entry**

**System of the National Bank of Moldova (BES)**

The importance of the state securities recording in the Book-Entry system of the NBM (BES) integrated with the automated interbank payment system (AIPS) results from the fact that securities settlement systems and payment systems are key elements for the entire financial system, the secure and efficient activity of these is fundamental to all economic activities, and at the same time, providing the basis for monetary policy transmission channels and overall stability of the financial system.

The Book-Entry system of state securities managed by the NBM is the mechanism by which the NBM deposits state securities and certificates issued by the NBM, as well as the settlement of transactions of such financial instruments.

In order to minimize the settlement risk, BES in interaction with the payment system of the NBM provides final settlement of the DVP transfers in real-time during an operational day within the central bank. The settlement in real-time is supporting the monetary policy operations and the efficient functioning of state securities.

All securities registered in the Book-Entry system are dematerialized; it reduces the cost and the risk associated with their maintenance and transfer.

On December 31, 2009 there were registered securities in the Book-Entry system in the amount of 8343.8 million lei at nominal value, which by issuers constitutes as follows:

I. Ministry of Finance – SS in total 5257.5 million lei, including:

- 3018.9 million lei – 57.4% SS issued through primary market auctions and underwriting;
- 2238.6 million lei – 42.6% SS issued and delivered to the National Bank.

II. The National Bank – NBC in total 3086.3 million lei, issued through primary market auctions.

Total amount of SS registered in BES at nominal value by holders is as follows:

**Banks**

- as of 31.12.2009 – 2904.3 million lei
- as of 31.12.2008 – 1306.1 million lei

**Other investors** (including Deposit Guarantee Fund)

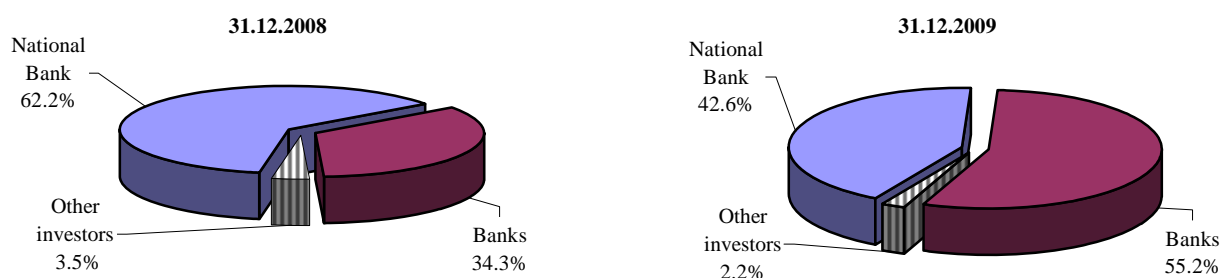
- as of 31.12.2009 – 114.6 million lei
- as of 31.12.2008 – 131.6 million lei

National Bank of Moldova (SS delivered to the NBM as a result of converting the loans granted previously to the state and then re-issued)

- as of 31.12.2009 – 2238.6 million lei
- as of 31.12.2008 – 2364.9 million lei

As for the structure of SS registered as of December 31, 2009 in BES by holders, the increase of the share held by banks for investment purposes and the decrease of the share held by the National Bank of Moldova, caused by the downward trends of the state securities interest rates issued and delivered due to the conversion of loans granted previously to the state, as well as the reduction of the non-bank investors, as a result of people’s preferences for placements with yields higher than the state securities, reflecting the main trend of the reverse situation reviewed at the end of the previous year (chart no. 2.31).

Chart no. 2.31. Structure of the SS in circulation in the holders profile



The NBM Certificates amounting to 3080.2 million lei were registered in the portfolios of banks and 6.1 million lei in the portfolios of other investors.

During the reference year, in the BES of the National Bank of Moldova, there have been recorded 6284 operations amounting to 56788.7 million lei (twice less than in the previous year), of which:

1. Primary Market Operations (new issues) – 28933.8 million lei.



2. The Ministry of Finance redemption of the state securities to their maturity state - 13100.4 million lei.
3. Redemption by the NBM of NBM certificates on their maturity - 12359.1 million lei.
4. Open market operations conducted by the NBM – 739.1 million lei.
5. Selling-buying operations – 65.8 million lei.
6. Pledge operations – 1590.5 million lei.

## **Collaboration of the National Bank of Moldova with the Government of the Republic of Moldova**

### ***Government debt to the National Bank of Moldova***

In accordance with the Agreement on the balance of debt contracted earlier from the National Bank in Moldova in 2009, concluded between the Ministry of Finance and the National Bank of Moldova on September 24, 2008 and the Additional Agreement of 11 December 2009, the National Bank of Moldova conducted during 2009 re-issuance of government securities in its portfolio to the maturity.

On December 31, 2009 the state debt to the NBM consists entirely of SS amounted to 2213.4 million lei (at purchase price), remaining at the level of the previous year.

State securities obtained in the NBM portfolio as a result of reissuance of loans made during 2009 have maturities ranging between 90 and 95 days. The interest rates on issued securities ranged from 2.06 - 24.47 percent annually. The weighted average interest rate on SS held in portfolio at December 31, 2009 registered the level of 4.54 percent annually, the average maturity of state securities in the portfolio on the last day of the reporting period amounted to 48 days.

The market value of the state securities held in the NBM portfolio at December 31, 2009 constituted 2227.9 million lei.

### ***State deposits placed at the National Bank of Moldova***

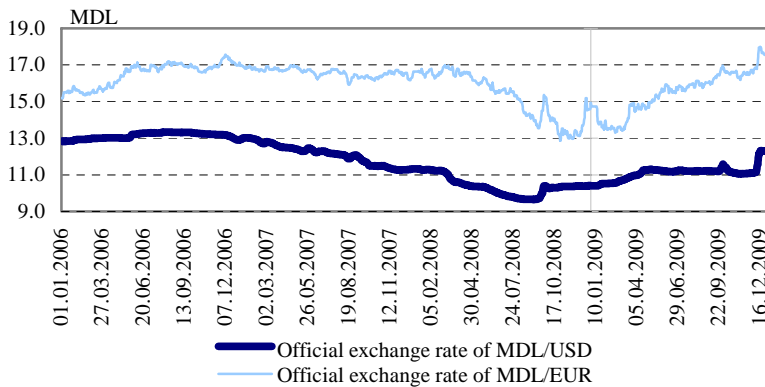
Under the Agreement between the National Bank of Moldova and the Ministry of Finance of December 5, 2007 and the provisions of the Regulation on acceptance of deposits from the Ministry of Finance, approved by the Decision no. 358 of the Council of administration of the NBM of December 28, 2006, the Ministry of Finance has placed at the National Bank of Moldova in 2009 deposits in MDL with maturity from 1 month to 1 year in total volume of 319.0 million lei. Compared with 2008, the amount of deposits placed at the NBM decreased about 4.0 times, because of the budgetary resources deficit experienced during the year.

On December 31, 2009 the balance of deposits constituted 10.0 million lei. The weighted average rate on deposits in balance amounted to 18.79 percent annually, increasing by 0.63 percentage points compared to the rate recorded for deposits on balance sheet at December 31, 2008.

The average deposits on balance sheet at the end of 2009 constituted 246 days, decreasing by 7 days compared to the previous year.

**Evolution of the foreign exchange market**

Chart no. 2.32. Fluctuations of the official exchange rate of MDL



**Evolution of the nominal and real effective exchange rate**

During 2009, *the official nominal exchange rate of the national currency against the U.S. dollar* depreciated by 18.3 percent, while against the euro depreciated by 19.6 percent (chart no. 2.32).

This depreciation was determined by the international financial crisis triggered in 2008 when the currencies of the main trade partners of Moldova were significantly down against the U.S. dollar

in the period of September to December 2008, in particular: Ukrainian grivna (with 70.5 percent), the Polish zloty (with 29.6 percent), Turkish Lira (with 27.9 percent), Russian Ruble (with 19.4 percent), Romanian leu (with 17.7 percent) (table no. 2.4).

At the same time, the effect of the crisis on the evolution of exchange rate of the MDL had an immediate impact in 2008 and was felt in 2009, while in other countries from the region the situation has stabilized, the currencies weakening in these countries being insignificant.

Table no. 2.4. Exchange rate changes regarding the USD during 2008 and 2009 (%)

	01.09.2008 - 31.12.2008	2009
Polish Zloty	-29.6	1.7
Turkish Lira	-27.9	0.4
Ukrainian Grivna	-70.5	-0.5
Russian Ruble	-19.4	-3.2
Romanian Leu	-17.7	-4.3
Serbian Dinar	-20.8	-7.6
Moldovan Leu	-7.7	-18.3

Depreciation (-)/appreciation (+)

*The real effective exchange rate of the national currency (REER)*, calculated as compared to December 2000 constituted 99.3 percent in December 2009 and depreciated by 21.4 percentage points as compared to the end of 2008, which shows an increase of the national currency competitiveness. REER depreciation occurred on the background of low levels of inflation in Moldova compared to inflation in countries that are major trading partners of Moldova and the appreciation of the dollar against some

currencies (*euro, Hungarian forint, Turkish lira, Chinese Yuan and the Romanian leu*) and the depreciation on a smaller scale of the *Russian ruble and Ukrainian grivna* compared with the inflation in these countries. Among the main trading partners of Moldova that have contributed to increasing the competitiveness of the national currency are: Ukraine, Romania, Russian Federation, Italy and Germany (chart no. 2.34).

Chart no. 2.33. Dynamics of the nominal and real effective exchange rate of the national currency calculated based on the weight of the main commercial traders

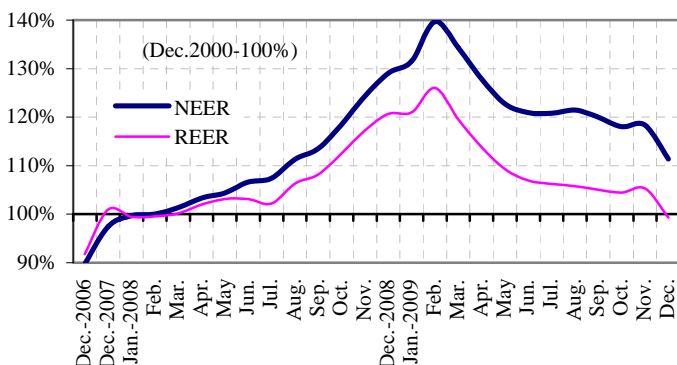
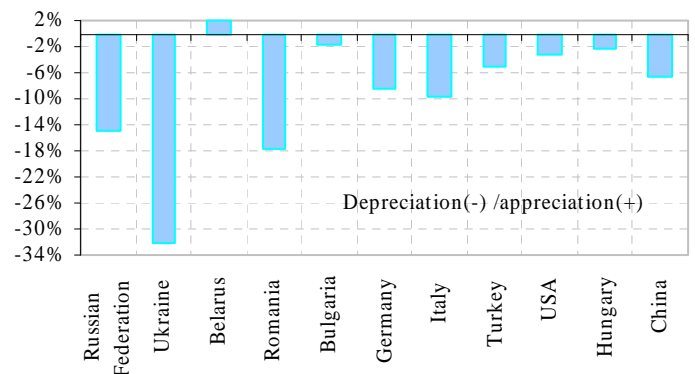


Chart no. 2.34. Contribution of the main commercial traders of the RM to the real effective exchange rate depreciation during 2009

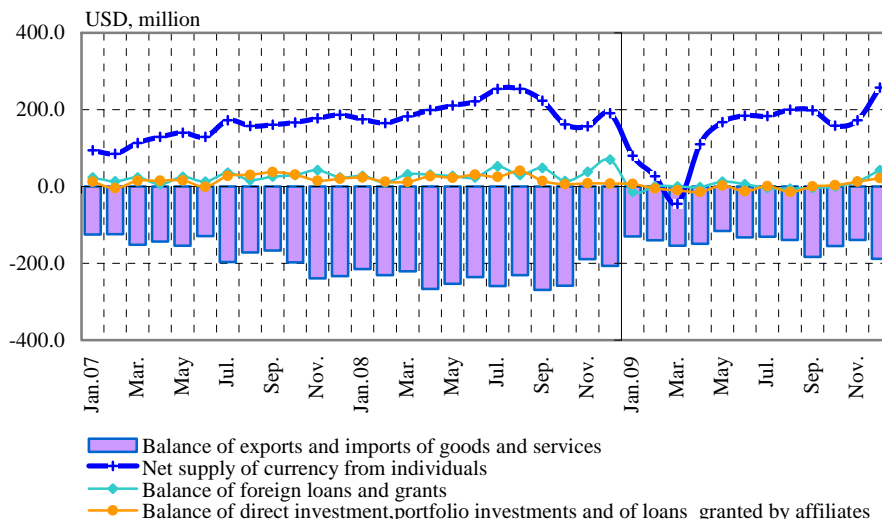


In the chart no. 2.33 can be observed a depreciation trend of the real effective exchange rate of the national currency after February 2009, when it reached the maximum level of appreciation of 26.0 percentage points versus 2000 and 5.4 percentage points versus 2008.

During January - April 2009, a depreciation trend of the national currency against the U.S. dollar on the domestic foreign exchange market was recorded both in nominal and real effective terms. As a result of the global financial crisis, which affected the countries in the region since September 2008, there was a decrease in volume of liquidity in the domestic foreign exchange market. Thus, the first four months of 2009 recorded a negative net flow of foreign currency by USD 440.0 million less compared with the negative net flow of minus USD 37.4 million during the same period of 2008.

Although the negative net flow of foreign exchange for the payments / receipts for foreign trade fell from minus U.S. \$ 933.5 million recorded in the first four months of 2008 to minus U.S. \$ 573.1 million in the same period of 2009, this has not led to the attenuation of the depreciation of the national currency exchange

**Chart no. 2.35. Dynamics of net supply of the foreign exchange of individuals and the net flow of import and export of goods and services, private external loans, grants and technical assistance\***

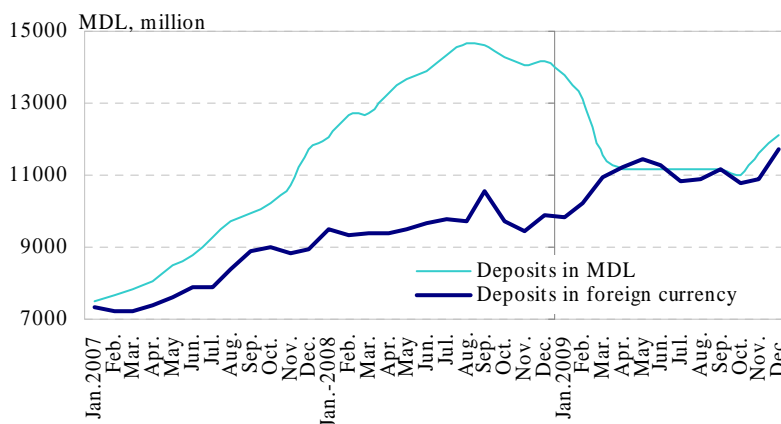


\* Preliminary data

rate due to the following factors (chart no. 2.35): (i) a significant decrease in net supply of foreign currency from individuals (from USD 722.2 million in first four months of 2008 to USD 171.3 million during the same period of 2009, or 76.3 percent compared with first four months of 2008); (ii) negative net flows related to the direct investment, portfolio and loans from contracted from affiliated persons (minus U.S. \$ 22.6 million in the first four months of 2009 compared with U.S. \$ 73.1 million during the same period of 2008) and private external loans, grants and technical assistance (minus U.S. \$ 15.6 million in the first four

months of 2009 compared with U.S. \$ 100.8 million during the same period of 2008). Simultaneously, during this period the demand of foreign exchange from individuals has increased, determined by the partial

**Chart no. 2.36. Evolution of deposits in foreign currency and in national currency**



conversion of funds in foreign currency, influenced by people's expectations on exchange rate of MDL against USD.

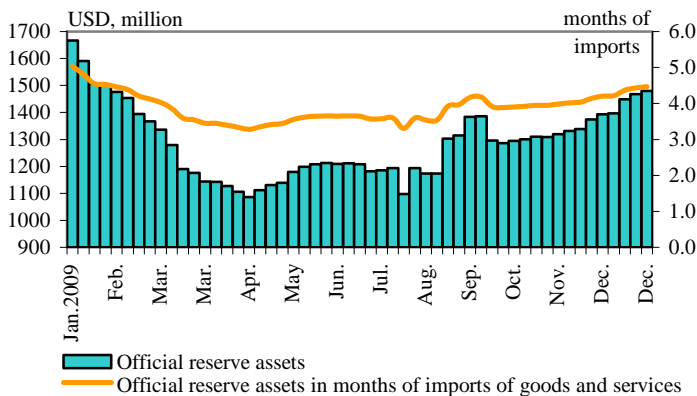
Thus, applying the fixed rate of December 31, 2008, the deposits in foreign currency during this period increased by the equivalent of USD 125.2 million, or 13.1 percent, while the deposits in national currency decreased by the equivalent of USD 289.5 million or 21.2 percent (chart no. 2.36). In these circumstances, the NBM has carried out net sales of USD to alleviate the excessive fluctuations of the official exchange rate of the national currency

against the USD and to stop the agiotage on the domestic foreign exchange market and to limit the expectations of depreciation.

Stability on the foreign exchange market has been shown during May to November 2009 accompanied by some periods of the national currency appreciation. During this period there was an increase in net supply of foreign currency from individuals, the net flow of private external loans, grants and technical assistance, and a slowdown for the converting of the national currency into foreign currency. The average monthly net flow for the period May-November 2009 amounted to U.S. \$ 39.6 million compared with the average monthly negative net flow in the first four months of 2009 (minus U.S. \$ 110.0 million). The real effective exchange rate of the national currency has depreciated by 8.5 percentage points.

In December 2009, the net flow of foreign currency has significantly exceeded the monthly average net flow for the period May-November 2009 and amounted to USD 134.2 million, being determined by the essential increase of net foreign supply of individuals (USD 257.7 million in December 2009 compared with the average monthly value of this indicator for the period May-November 2009 - USD 180.6 million).

**Chart no. 2.37. Evolution of foreign exchange reserves expressed in months of goods and services import**



During this time the official exchange rate of national currency against the U.S. dollar depreciated by 10.8 percent. With deflationary trend, the NBM used this opportunity to reinforce the international reserves by actively purchasing the excess of foreign exchange from the market, thus contributing to enhancing the competitiveness of local products in foreign markets. In December 2009, the real effective rate of national currency depreciated by 6.0 percentage points. Simultaneously, the state's foreign reserves rose to U.S. \$ 105.8 million, or

7.7 percent, representing U.S. \$ 1480.3 million at end of 2009 (chart no. 2.37).

**Foreign exchange market of Moldova. Activity of the NBM in the exchange market**

Moldova's foreign exchange market analysis in 2009 shows the downward trend of the domestic foreign exchange transactions against MDL. The total turnover of the foreign exchange traded against MDL in this period amounted to USD 10487.6<sup>1</sup> million, decreasing by 24.6 percent compared to 2008 (Table no. 2.5).

**Table no. 2.5. Total turnover of the domestic foreign exchange market operations (purchases/sales of the foreign currency against MDL), (equivalent in million USD)**

	Domestic foreign exchange market by transfer						Domestic foreign exchange market in cash			Domestic foreign exchange market
	NBM	Resident banks	Non-resident banks	Legal entities	Miscellaneous	Total	Foreign exchange rate of banks	Foreign currency office	Total	
<i>Equivalent in millions USD</i>										
2008	590.4	521.4	21.2	7626.7	1182.0	9941.7	3309.8	656.6	3966.4	13908.1
<b>2009</b>	<b>857.2</b>	<b>431.1</b>	<b>63.2</b>	<b>4633.1</b>	<b>1099.7</b>	<b>7084.3</b>	<b>2796.1</b>	<b>607.2</b>	<b>3403.3</b>	<b>10487.6</b>
<i>Weight, %</i>										
2008	4.2	3.8	0.2	54.8	8.5	71.5	23.8	4.7	28.5	100.0
<b>2009</b>	<b>8.2</b>	<b>4.1</b>	<b>0.6</b>	<b>44.2</b>	<b>10.4</b>	<b>67.5</b>	<b>26.7</b>	<b>5.8</b>	<b>32.5</b>	<b>100.0</b>
<i>Growth rate compared to the previous year, %</i>										
<b>2009</b>	<b>45.2</b>	<b>-17.3</b>	<b>3.0 times</b>	<b>-39.3</b>	<b>-7.0</b>	<b>-28.7</b>	<b>-15.5</b>	<b>-7.5</b>	<b>-14.2</b>	<b>-24.6</b>

Source: Reports on the operations of buying and selling of foreign currency carried out by banks on the foreign exchange and the balances in the accounts in foreign currency of the banks customers, and the NBM data.

Source: Reports on the amount of purchase-sale of foreign currency registered at the foreign exchange offices and exchange points near hotels, and the NBM data.

<sup>1</sup> This amount does not include the purchases / sales against the MDL, of the NBM, Ministry of Finance and other ministries.

The structure of the total turnover on foreign exchange purchases in the domestic foreign exchange market against MDL constituted USD 5367.3 million, and the sales - USD 5120.3 million.

The volume of foreign exchange transactions conducted in the domestic foreign exchange market during 2009 has registered an upward trend, reaching in the fourth quarter a maximum of USD 2778.6 million.

In 2009, compared with 2008, both the foreign exchange market turnover with transfer and the foreign exchange turnover in cash decreased by 28.7 percent and by 14.2 percent respectively.

The share of the foreign exchange market by transfer to the total turnover in the domestic foreign exchange market has decreased by 4.0 percentage points (from 71.5 percent in 2008 to 67.5 percent in 2009) and the share of the cash foreign exchange market increased in the same proportion (from 28.5 percent in 2008 to 32.5 percent in 2009).

Compared to 2008, during the reporting period, within the structure of the total turnover on the domestic foreign exchange market transactions of key participants of the market rose by 4.0 percentage point, the share of the National Bank of Moldova, exchange offices belonging to banks - by 2.9 percentage point, exchange offices that do not belong to banks - by 1.1 percentage points, of non-resident banks - by 0.4 percentage points, of resident banks - by 0.3 percentage points and the share of legal entities has decreased by 10.6 percentage points.

Chart no. 2.38. Evolution of the official exchange rate of USD/MDL and NBM interventions

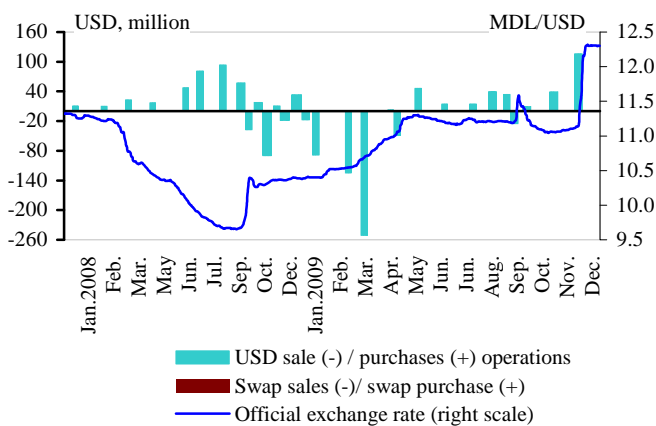
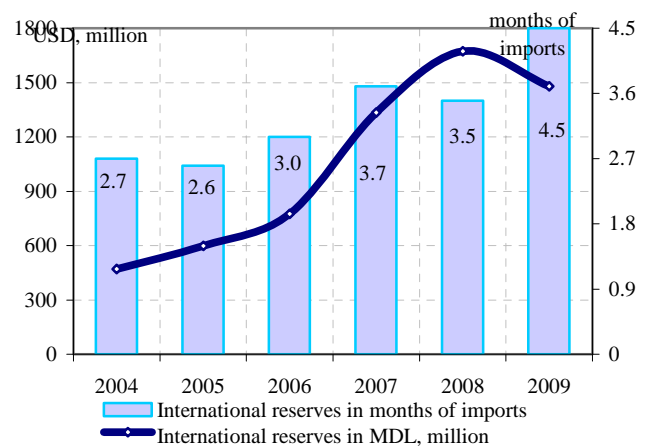


Chart no. 2.39. Dynamics of the foreign exchange reserves expressed in months of imports



To mitigate the excessive fluctuations of the exchange rate of the national currency against the U.S. dollar during 2009, the National Bank of Moldova intervened on the domestic foreign exchange market using

Table no. 2.6. Structure of turnover of foreign exchange transactions on domestic foreign exchange market by major currencies

	Non-cash foreign exchange market		Cash foreign exchange market		Total foreign exchange market		In total turnover
	purchases	sales	purchases	sales	purchases	sales	
<b>2008</b>	<i>Weight, %</i>						
USD	49.3	71.0	37.6	31.4	43.9	66.0	54.9
EUR	25.5	25.8	55.3	61.5	39.3	30.3	34.8
RUB	25.0	2.8	6.0	3.4	16.2	2.9	9.5
Other currencies	0.2	0.4	1.1	3.7	0.6	0.8	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>2009</b>	<i>Weight, %</i>						
USD	70.0	68.3	31.1	35.3	50.6	63.1	57.0
EUR	27.7	29.1	64.3	59.9	46.0	34.0	39.8
RUB	2.2	2.5	3.9	2.7	3.0	2.5	2.8
Other currencies	0.1	0.1	0.7	2.1	0.4	0.4	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

currency operations in the net amount of minus USD 222.8 million, including USD purchasing operations - USD 315.9 million, USD sales operations - USD 538.7 million (chart no. 2.38).

State's foreign exchange reserves decreased during

2009 to USD 192.1 million, or 11.5 percent, from USD 1672.4 million to USD 1480.3 million, which covers 4.5 months of imports (chart no. 2.39).

The analysis of the total turnover structure of foreign exchange transactions on the domestic foreign exchange market during the years 2008 and 2009 revealed the prevalence of transactions in free convertible currencies. In 2009, the total turnover by type of structure has evolved as follows: USD - 57.0 percent, EUR -39.8 percent, Russian ruble - 2.8 percent and other currencies - 0.4 percent (table no. 2.6).

During 2009, the U.S. dollar maintained its dominance in both total turnover of foreign exchange transactions on domestic foreign exchange market and the total turnover of foreign exchange transactions conducted on the foreign exchange market by transfer.

Compared to 2008, a ratio increase of the U.S. dollar of 20.7 percentage points was recorded (from 49.3 percent in 2008 to 70.0 percent in 2009) as for purchase by transfer on the foreign exchange market and a ratio decrease of the Russian ruble of 6.7 points percentage was recorded of the total turnover of foreign exchange transactions on domestic foreign exchange market as a result of a significant decline in the weight of Russian ruble as for purchases by transfer on the foreign exchange market.

As for cash purchases in foreign exchange market the euro has increased by 9.0 percentage points (from 55.3 percent in 2008 to 64.3 percent in 2009).

Compared with 2008, the foreign currency purchases made by Moldovan banks in the domestic foreign exchange market in 2009 fell by U.S. \$ 1691.6 million, or 25.0 percent (table no. 2.7). This decrease was mainly due to decrease of

**Table no. 2.7. The main sources of foreign currency purchase by the licensed banks from Moldova in the domestic foreign exchange market (the equivalent in millions USD).**

	Foreign exchange purchases on the foreign exchange market against MDL from:							TOTAL
	NBM	Resident banks	Non-resident banks	Legal entities	Exchange offices	Individuals	Various	
<i>Equivalent in millions USD</i>								
2008	176.0	255.4	20.6	2625.7	0.0	3005.2	670.9	6753.8
2009	538.7	215.8	32.6	1273.2	0.0	2343.6	658.3	5062.2
<i>Weight, %</i>								
2008	2.6	3.8	0.3	38.9	0.0	44.5	9.9	100.0
2009	10.6	4.3	0.6	25.2	0.0	46.3	13.0	100.0
<i>Growth rate, compared to the previous year, %</i>								
2009	3.1 times	-15.5	58.3	-51.5	-	-22.0	-1.9	-25.0

Source: Reports on foreign currency buying selling operations made by banks on the foreign exchange market and balances of the accounts in foreign currency of banks customers, and the NBM data.

purchases from legal entities by USD 1352.5 million (by 51.5 percent) and individuals - with USD 661.6 million (by 22.0 percent). It should be mentioned that a significant increase of USD 362.7 million (or by 3.1 times) of foreign exchange purchases of the licensed banks from the NBM was recorded. In 2009, the foreign currency purchases by banks on the domestic foreign exchange market were mostly carried out by

individuals (with 46.3 percent), legal entities (with 25.2 percent), the NBM (with 10.6 percent) and resident banks (with 4.3 percent).

**Table no. 2.8. The main directions of foreign currency sale by the licensed banks from Moldova in the domestic foreign exchange market (the equivalent in millions USD)\***

	Foreign exchange sales on the foreign exchange market against MDL							TOTAL
	NBM	Resident banks	Non-resident banks	Legal entities	Exchange offices	Individuals	Various	
<i>Equivalent in millions USD</i>								
2008	414.4	266.0	0.6	5001.0	0.0	612.2	203.5	6497.7
2009	318.5	215.3	30.6	3359.9	0.0	652.6	241.3	4818.2
<i>Weight, %</i>								
2008	6.4	4.1	0.0	77.0	0.0	9.4	3.1	100.0
2009	6.6	4.5	0.6	69.7	0.0	13.6	5.0	100.0
<i>Growth rate, compared to the previous year, %</i>								
2009	-23.1	-19.1	51.0 times	-32.8	-	6.6	18.6	-25.8

\* Source: Reports on foreign currency buying selling operations made by banks on the foreign exchange market and balances of the accounts in foreign currency of banks customers, and the NBM data.

Compared to the previous year, during the reporting period, the share of the purchases from the NBM has increased (by 8.0 percentage points) from

individuals (by 1.8 percentage points), resident banks (by 0.5 percentage points) and from non-resident banks (by 0.3 percentage points). However, there was a decrease of the share of purchases from legal entities (by 13.7 percentage points).

Foreign exchange sales made by banks from Moldova in 2009 in the domestic foreign exchange market decreased compared with 2008 by USD 1679.5 million, or 25.8 percent (table no. 2.8), being particularly determined by the decrease of sales to legal entities - by U.S. \$ 1641.1 million (32.8 percent) to the NBM - by USD 95.9 million (23.1 percent) and to resident banks - by USD 50.7 million (19.1 percent).

The sale of foreign exchange by banks on the domestic foreign exchange market was mostly made for legal entities (69.7 percent), individuals (13.6 percent), the NBM (6.6 percent), resident banks (4.5 percent).

In 2009, compared with 2008, the share of foreign exchange sales to legal entities (with 7.3 percentage points) has decreased.

Also, it should be mentioned that the share of foreign exchange sales for individuals (by 4.2 percentage points), non-resident banks (by 0.6 percentage points), resident banks (by 0.4 percentage points) and for the National Bank of Moldova (by 0.2 percentage points) has increased.

The excess of foreign exchange on the domestic foreign exchange market in the total amount of USD 2330.7 million (derived mainly from individuals - USD 1691.0 million, or 72.6 percent), purchased by banks in 2009, was sold to legal entities - USD 2086.7 million. The net balance of transactions of sale / purchase of foreign exchange against MDL in 2009 was USD 244.0 million (Table no. 2.9).

*Table no. 2.9. The net balance of foreign currency purchase/sale transactions against MDL (the equivalent in millions USD)*

	Net balance							TOTAL
	NBM	Resident banks	Non-resident banks	Legal entities	Exchange offices	Individuals	Various	
<i>Equivalent in millions USD</i>								
<i>Q I</i>	-42.8	-0.6	2.6	-535.2	0.0	522.6	78.5	25.1
<i>Q II</i>	-65.4	-0.4	9.1	-624.6	0.0	627.3	91.0	37.0
<i>Q III</i>	-194.2	-6.9	4.6	-601.0	0.0	731.6	136.3	70.4
<i>Q IV</i>	64.0	-2.7	3.7	-614.5	0.0	511.5	161.6	123.6
<b>2008</b>	<b>-238.4</b>	<b>-10.6</b>	<b>20.0</b>	<b>-2375.3</b>	<b>0.0</b>	<b>2393.0</b>	<b>467.4</b>	<b>256.1</b>
<i>Q I</i>	464.3	1.6	-21.8	-529.8	0.0	59.6	112.0	85.9
<i>Q II</i>	-16.1	0.1	0.4	-476.3	0.0	461.4	102.7	72.2
<i>Q III</i>	-63.1	-0.3	1.8	-572.3	0.0	580.0	88.7	34.8
<i>Q IV</i>	-164.9	-0.9	21.6	-508.3	0.0	590.0	113.6	51.1
<b>2009</b>	<b>220.2</b>	<b>0.5</b>	<b>2.0</b>	<b>-2086.7</b>	<b>0.0</b>	<b>1691.0</b>	<b>417.0</b>	<b>244.0</b>

### *Dynamics of banks' assets and liabilities in foreign currency*

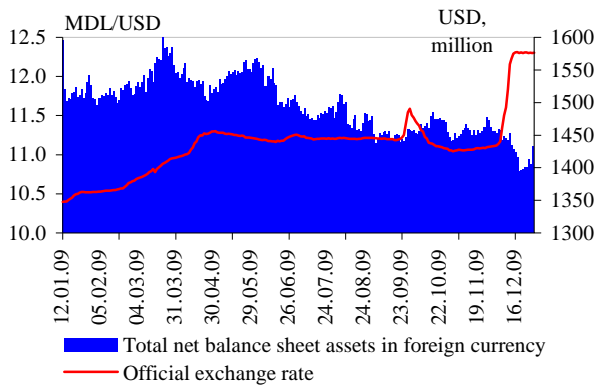
*Table no. 2.10. Balance sheet assets in foreign currency of banks (the equivalent in millions USD)*

	Balance as of 31.12.2008	Weight in total, %	Balance as of 31.12.2009	Weight in total, %	Change against as of 31.12.2008, %
Granted loans	988.3	62.5	844.4	59.6	-14.6
Available funds in foreign currency	246.7	15.6	437.3	30.9	77.3
Required reserves in foreign currency	284.0	18.0	111.6	7.9	-60.7
Other assets in foreign currency	61.2	3.9	22.8	1.6	-62.7
<b>Total of balance sheet assets in foreign currency</b>	<b>1580.2</b>	<b>100.0</b>	<b>1416.1</b>	<b>100.0</b>	<b>-10.4</b>

As of December 31, 2009 the banks' **balance sheet assets in foreign currency**<sup>2</sup> (granted loans, available funds, required reserves and other assets in foreign currency) decreased as compared to as of December 31, 2008 by the equivalent of USD 164.1 million (from USD 1580.2 million to USD 1416.1 million), or by 10.4 percent, which was conditioned mainly by a decrease of

<sup>2</sup> Excluding the adjustment position in foreign currency assets

**Chart no. 2.40. Evolution of balance sheet assets in foreign currency of banks and of the official foreign exchange rate of the national currency against USD**



**Table no. 2.11. Loans in foreign currency within the banking system (equivalent in million USD)**

	Balance as of 31.12.2008	Weight in total, %	Balance as of 31.12.2009	Weight in total, %	Change against as of 31.12.2008, %
EUR	626.2	63.4	496.9	58.9	-20.6
USD	361.9	36.6	347.4	41.1	-4.0
RUB	0.2	0.0	0.1	0.0	-50.0
<b>Total</b>	<b>988.3</b>	<b>100.0</b>	<b>844.4</b>	<b>100.0</b>	<b>-14.6</b>

by the equivalent of USD 14.5 million (from USD 361.9 million to USD 347.4 million), or 4.0 percent.

On December 31, 2009 the share of the *available funds in foreign currency* constituted 30.9 percent in total balance sheet assets in foreign exchange of banks. This indicator has varied during the year from the minimum level of 15.3 percent to the maximum level of 31.3 percent.

At the end of the reporting period, the funds in foreign currency, as compared to December 31, 2008, have increased in absolute values with the equivalent of USD 190.6 million (from USD 246.7 million to USD

**Table no. 2.12. Available funds in foreign currency of banks (equivalent in million USD)**

	Balance as of 31.12.2008	Weight in total %	Balance as of 31.12.2009	Weight in total %	Change against as of 31.12.2008, %
„Nostro” accounts opened abroad	98.6	40.0	163.5	37.4	65.8
Placements abroad of licensed banks	38.2	15.5	125.6	28.7	3.3 times
Cash	69.1	28.0	93.2	21.3	34.9
Placements and overnight credits	40.8	16.5	55.0	12.6	34.8
State securities	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>246.7</b>	<b>100.0</b>	<b>437.3</b>	<b>100.0</b>	<b>77.3</b>

currency from 17.5 to 8.0 percent (Table no.2.12).

The available funds in foreign currency of banks at December 31, 2009 had the following structure: “Nostro” accounts opened abroad – 37.4 percent, overseas placements of banks from Moldova – 28.7 percent, foreign currency cash – 21.3 percent, and overnight placements – 12.6 percent.

credit balance in foreign currency as a result of economic recession and the impact of global financial crisis (table no. 2.10, chart no. 2.40). Out of the total balance sheet assets in foreign currency, the balance of *credits granted in foreign currency* held the highest weight and constituted 59.6 percent at December 31, 2009, which is less by 2.9 percentage points since the end of 2008. This indicator during 2009 ranged from minimum of 57.5 percent to the maximum level of 62.6 percent. Compared with December 31, 2008, the balance of credits granted in foreign currency decreased by the equivalent of USD 143.9 million (from USD 988.3 million to USD 844.4 million), or 14.6 percent.

As for the currency structure, the balance of loans granted in foreign currency at December 31, 2009 has recorded the following share by types of currencies: EUR - 58.9 percent, USD - 41.1 percent (table no. 2.11). The balance of credits in euro decreased in higher proportion, with the equivalent of USD 129.3 million (from USD 626.2 million to USD 496.9 million), or 20.6 percent, compared with balance of credits in USD that decreased

by the equivalent of USD 14.5 million (from USD 361.9 million to USD 347.4 million), or 4.0 percent. increased by 15.3 percentage points (from 15.6 to 30.9 percent), which was determined by the gradual reduction of obligatory reserves from the attracted funds in freely convertible

**Table no. 2.13. Available funds in foreign currency of commercial banks, by types of currency (equivalent in million USD)**

	Balance as of 31.12.2008	Weight in total %	Balance as of 31.12.2009	Weight in total %	Change against as of 31.12.2008 %
EUR	116.4	47.2	297.8	68.1	2.6 times
USD	116.0	47.0	125.9	28.8	8.5
RUB	10.4	4.2	10.3	2.4	-1.0
Other currencies	3.9	1.6	3.3	0.7	-15.4
<b>Total</b>	<b>246.7</b>	<b>100.0</b>	<b>437.3</b>	<b>100.0</b>	<b>77.3</b>

On December 31, 2009 the balance of available funds in foreign currency has recorded the following structure by types of currency: EUR - 68.1 percent, USD - 28.8 percent, Russian rubles - 2.4 percent, other currencies - 0.7 percent (table no. 2.13).

The balance of *required reserves in foreign currency* constituted 7.9 percent of total balance sheet assets in foreign currency of banks at December 31, 2009 and during the reporting period ranged from the minimum level of 7.8 percent and the maximum level

of 17.9 percent.

The assets attached to the foreign currency<sup>3</sup> constituted the equivalent of USD 43.9 million at December 31, 2009, registering an increase of USD 0.3 million compared to March 31, 2009. The attached credits constituted 99.5 percent of the total attached assets. The share of attached credits in the total granted credits constituted 5.2 percent at the end of 2009, increasing by 0.4 percentage points compared with the end of March 2009.

**Table no. 2.14. Balance sheet liabilities in foreign currency of banks (equivalent in million USD)**

	Balance as of 31.12.2008	Weight in total %	Balance as of 31.12.2009	Weight in total %	Change against as of 31.12.2008, %
Customers term deposits	792.0	50.4	736.7	51.1	-7.0
Customers different deposits	219.1	14.0	265.2	18.4	21.0
Received credits	325.6	20.7	261.6	18.1	-19.7
Term deposits of banks from abroad	155.6	9.9	136.0	9.4	-12.6
„LORO” accounts of banks from abroad	5.7	0.4	1.2	0.1	-78.9
Other liabilities	72.1	4.6	42.4	2.9	-41.2
<b>Total</b>	<b>1570.1</b>	<b>100.0</b>	<b>1443.1</b>	<b>100.0</b>	<b>-8.1</b>

The banks' *balance sheet liabilities in foreign currency* recorded during the reporting period a decrease by the equivalent of USD 127.0 million (from USD 1570.1 million at December 31, 2008 to USD 1443.1 million at December 31, 2009), or by 8.1 percent, conditioned mainly by the reduction of the balance of credits received by the licensed banks by the equivalent of USD

64.0 million (Table no. 2.14).

The clients' *term deposits in foreign currency* held at December 31, 2009 the most significant weight in total balance sheet liabilities in foreign currency (51.1%). The balance of such deposits decreased at the end 2008 by the equivalent of USD 55.3 million (from USD 792.0 million to 736.7 million), or by 7.0 percent.

The *term deposits of non-residents*<sup>3</sup>, which is an integral part of deposits in foreign currency at December 31, 2009 showed a decrease of USD 19.7 million (from USD 40.2 million at March 31, 2009 to USD 20.5 million at December 31, 2009), or 49.1 percent. During the analyzed period, the minimum value of this indicator constituted USD 17.6 million and the maximum value - USD 43.7 million.

At the end of the reporting period, the share of customers' *various deposits in foreign currency* represented 18.4 percent of total balance sheet liabilities in foreign currency, increasing in absolute values by the equivalent of USD 46.1 million dollars (from USD 219.1 million at December 31, 2008 to USD 265.2 million at December 31, 2009), or by 21.0 percent.

*Various deposits of non-residents*<sup>3</sup>, which are included in the category *various deposits in foreign currency*, decreased slightly, with 0.4 million dollars (14.9 million USD from 31 March 2009 to 14.4 million USD at

<sup>3</sup> The licensed banks report this indicator to the NBM within the Report on the Bank's open currency position starting with 03/25/2009.

December 31, 2009) or 2.7 percent. During the period analyzed, this indicator ranged from a maximum of USD 19.4 million and the minimum of USD 13.5 million. The share of deposits of non-residents of the total customers' deposits amounted to 3.5 percent, decreasing by 1.7 percentage points compared to March 31, 2009.

On December 31, 2009 the share of balance of *credits received in foreign currency* in the total balance sheet liabilities in foreign currency of banks was 18.1 percent, decreasing in absolute values by the equivalent of USD 64.0 million (from USD 325.6 million to USD 261.6 million), or 19.7 percent compared to the end of 2008.

The balance of *term deposits in foreign currency of banks from abroad* at December 31, 2009 decreased compared to the end of 2008 by the equivalent of USD 19.6 million (from USD 155.6 million to USD 136.0 million), or 12.6 percent. Their share in total foreign liabilities in the balance sheet at December 31, 2009 was 9.4 percent.

*Balance sheet liabilities in foreign currency* of banks (customers term deposits and sight deposits) have decreased by the equivalent of USD 9.2 million (from USD 1011.1 million at December 31, 2008 to USD 1001.9 million at December 31, 2009), or 0.9 percent (table no. 2.15).

**Table no. 2.15. Total deposits in foreign currency of banks customers (equivalent in million USD)**

	Balance as of 31.12.2008	Weight in total %	Balance as of 31.12.2009	Weight in total %	Change against as of 31.12.2008, %
EUR	714.3	70.6	704.3	70.3	-1.4
USD	290.6	28.7	288.9	28.8	-0.6
RUB	2.6	0.3	6.5	0.7	2.5 times
Other currencies	3.6	0.4	2.2	0.2	-38.9
<b>Total</b>	<b>1011.1</b>	<b>100.0</b>	<b>1001.9</b>	<b>100.0</b>	<b>-0.9</b>

The share of the balance of deposits in EUR in total of customers' deposits in foreign currency constituted 70.3 percent at the end of 2009, decreasing by 0.3 percentage points compared to

December 31, 2008, the minimum share in 2009 being of 66.8 percent and the maximum of 71.9 percent.

The balance of customers' deposits in EUR decreased by the equivalent of USD 10.0 million, or 1.4 percent compared to December 31, 2008, constituting the equivalent of USD 704.3 million at the end of 2009.

On December 31, 2009 the share of balance of customers' deposits in U.S. dollars increased by 0.1 percentage points compared to the end of 2008 (from 28.7 to 28.8 percent). During 2009, the maximum weight of these deposits was 32.7 percent, and the minimum of 27.5 percent. The balance of deposits in U.S. dollars at the end of period constituted USD 288.9 million, dropping by USD 1.7 million, or 0.6 percent compared to December 31, 2008.

Deposits in RUB and other currencies have been an insignificant part of total customers' deposits in foreign currency. At end of period, deposits in RUB constituted the equivalent to USD 6.5 million, their share in total customers' deposits constituting 0.7 percent.

*Off-balance sheet assets and liabilities* in foreign currency of banks showed a significant increase at the end of 2009 compared to December 31, 2008. Off-balance sheet assets rose by 2.6 times and off-balance sheet liabilities – by 2.8 times (Table no. 2.16).

On December 31, 2009 the off-balance sheet assets in foreign currency had the following structure: purchases within current operations - 92.4 percent, purchases within term operations - 3.8 percent, and the receipt of credit / purchase of financial instruments - 3.8 percent. Simultaneously, the structure of off-balance sheet liabilities in foreign currency was as follows: sales within current operations - 95.8 percent, sales within term operations - 4.2 percent.

The difference between off-balance sheet assets and liabilities in foreign currency reported to the total regulatory capital reached the level of 1.5 percent at December 31, 2009.

**Table no. 2.16. Off-balance sheet assets and liabilities in foreign currency of banks** (equivalent in million USD)

	Balance as of 31.12.2008	Weight, %	Balance as of 31.12.2009	Weight, %	Change against as of 31.12.2008, %
<b>Off-balance sheet assets in foreign currency</b>					
Current purchases	22.9	25.9	211.0	92.4	9.2 times
Term purchases	59.5	67.4	8.6	3.8	-85.5
Receiving credit / purchase of financial instruments	5.9	6.7	8.8	3.8	49.2
Total off-balance sheet assets in foreign currency	88.3	100.0	228.4	100.0	2.6 times
<b>Off-balance sheet liabilities in foreign currency</b>					
Current sales	22.8	28.6	211.0	95.8	9.3 times
Term sales	56.3	70.6	9.2	4.2	-83.7
Granted loans / sale of financial instruments	0.6	0.8	0.0	0.0	-100.0
Total off-balance sheet liabilities in foreign currency	79.7	100.0	220.2	100.0	2.8 times
Total normative capital (TNC)	642.8		531.5		
(Off-balance sheet assets – Off-balance sheet liabilities)/TNC (%)	1.3		1.5		

Long open foreign exchange position<sup>4</sup> of banks in all currencies at December 31, 2009 decreased compared with the end of March 2009 with 43.7 percent (from USD 53.1 million to USD 29.9 million), including the EUR - with 78.2 percent (from USD 13.3 million to USD 2.9 million) and USD - with 39.7 percent (from USD 37.5 million to USD 22.6 million).

This decrease is explained by the fact that in the inclusion of attached assets and liabilities, the banks had to adjust their open foreign exchange position within three months from the effective date of the Decision no.33 of February 5, 2009 on amending and supplementing the Regulation on the Bank's open foreign exchange position.

The long open foreign exchange position with no attached assets and liabilities recorded the same decreasing trend. Thus, compared with the end of 2008, the foreign exchange position in all currencies fell by 52.0 percent (from USD 29.8 million to USD 14.3 million). The long open foreign exchange position on the EUR fell by 82.8 percent (from USD 5.8 million to USD 1.0 million) and in USD - with 49.1 percent (from USD 17.5 million to USD 8.9 million).

## **International cooperation of the Republic of Moldova**

### *International Monetary Fund (IMF)*

The Republic of Moldova is a member of the International Monetary Fund from August 12, 1992. At the end of 2009, the share subscription of the Republic of Moldova at IMF constituted 123.2 million Special Drawing Rights (SDRs) (about USD 192.4 million).

In 2009, the total payments related to servicing the IMF loans constituted USD 15.8 million (the equivalent of SDR 10.3 million), of which the principal payments on loans that were – USD 14.9 million (the equivalent of SDR 9.7 million) and the interest payments - USD 0.9 million (the equivalent of SDR 0.6 million). Thus the loan granted by the Extended Financing Facility (EFF) has been fully reimbursed.

**Table no. 2.17. Financial arrangements with the IMF**

Facility Type	Approved amount (million SDRs)	Amount disbursed until 31.12.2009 (million SDRs)	Disbursements share in the total approved amount (%)	Stock at 31.12.2009 (million SDRs)	Stock at 31.12.2009 (million USD)
Extended Financing Facility (EFF)	135.0	87.5	64.8	0.0	0.0
Facility for Poverty Reduction and Economic Growth Facility (PRGF)	221.8	115.7	52.2	98.2	153.3

<sup>4</sup> Including assets and liabilities attached to the foreign exchange rate. The licensed banks report this indicator to the NBM in the Report on the Bank's open currency position, starting with 03/25/2009.

During 2009, the NBM relations with the IMF took place in the context of IMF missions of evaluating the performance in terms of achieving the commitments under the PRGF<sup>5</sup> program and the annual bilateral consultations under the Article IV of the IMF Status.

Between 12 to 14 of February 2009, a working mission of the European Department of the International Monetary Fund was in Moldova, within which were analyzed recent macroeconomic developments in the region and appropriate policy measures, the discussion being focused on minimizing the impact of economic development prospects less favorable for the economic growth in the region and alleviating the social consequences on the population.

A mission of the European Department of the International Monetary Fund was in Moldova in the period of May 28 to June 10, 2009. The purpose of this mission was to initiate discussions on signing a new IMF program in the context of worsening economic situation in the region; the previous program has been expired. In the context of the IMF mission in the period of May-June, the urgent need to rectify the state budget by Parliament has occurred, to balance the government spending and the available resources. Also, the opportunity to adjust the monetary policy with fiscal situation was mentioned in the context of the challenges conditioned by the crisis. The International Monetary Fund is available to assist Moldova by providing technical assistance, policy advice and financial support.

Also, two missions of technical assistance were undertaken by the IMF (experts of the Fiscal Affairs Department (FAD) and the Department of Monetary Policy and Capital Markets (MCM)).

On August 28, 2009 Moldova received SDR 91.3 million under the general allocation of SDRs, to strengthen the foreign exchange reserves and to increase the foreign exchange liquidity necessary for the promotion of foreign exchange policy, according to the decision of August 7, 2009, approved by IMF Board of Governors.

SDR allocation was made without the imposition of certain conditions established within the financial arrangements with the IMF and was granted for an indefinite term at a floating rate interest related to the current account in SDRs.

In October 2009, a new mission of the International Monetary Fund and the Moldovan authorities have reached a preliminary agreement on a new economic program, supported by a financial agreement for three years, totaling SDR 369.6 million (equivalent to about USD 588 million) based on the combination of the Extended Credit Facility (ECF), granted with concessional rates, and the External Financing Facility (EFF), granted with the market rates.

The main objectives of the program were: the macroeconomic stabilization, economic recovery and social spending increase to protect the poor people, under an economic and financial policy framework for the years 2010-2012. The members of the mission welcomed the government's commitment to restore the fiscal sustainability and external budget, to maintain the financial stability and sustain the economic growth driven by the investment.

This new program will follow the previous one held by the Financing Facility for economic growth and poverty reduction, which was approved by the IMF Board of Executive Directors in May 2006 and which has expired in May 2009.

### *European Union (EU)*

The legal framework for conducting relations with the EU is the Partnership and Cooperation Agreement (PCA), signed on November 28, 1994 (in force for Moldova from July 1, 1998) concluded for an initial period of 10 years. Moreover, by the Presidential Decree of the Republic of Moldova to initiate negotiations on the draft Agreement between Moldova and the European Communities of 17 November 2009,

<sup>5</sup> Financing mechanism for economic growth and poverty reduction (PRGF) is the lending mechanism of the IMF with preferential treatment for low-income states. The interest rate for loans under the PRGF is 0.5 percent annually. The loans are offered for a term of 10 years with a grace period of 5.5 years.



negotiations on a new association agreement between Moldova and the European Communities have started.

In July 2008, the European Commission and the Government of Moldova signed a financing agreement to support the budget of the social sector. In this context, in April 2009 an amount of EUR 15.0 million was disbursed, being the second tranche of the total amount of EUR 20.0 million to Moldova to support the social sector budget and to reform the social system, the first tranche in the amount of EUR 5.0 million was disbursed by the European Commission in September 2008.

In May 2009, the EU launched a program designed to strengthen the relations with six countries in Eastern Europe and South Caucasus, including Moldova. The Eastern Partnership (EP) provides to the partner countries the perspective of a more detailed bilateral engagement, including the ongoing integration into the EU economy, mobility, including visa facilitation and cooperation in energy security.

Within the multilateral framework of the EP, Moldova will be able to participate in the five major initiatives (flagship initiatives) in the following areas: border management program, integration of electricity markets, energy efficiency and recoverable energy, facilities for SMEs, South Corridor, and response to natural disasters.

In November 2009, the first tranche of EUR 15.0 million in the Financial Support Program for Sectoral Policies was disbursed: Medicine, of the total amount of EUR 42.0 million granted to Moldova.

On December 21, 2009, the European Commission has allocated EUR 12.0 million to Moldovan Government within the Road Sector Program Support Project.

Also, in 2009 Moldova and the European Commission concluded technical negotiations for the accession to the Energy Community Treaty (TEC), which includes bonds for gradual convergence with the internal rules of the energy market.

#### *Collaboration with other international bodies*

In 2009, the National Bank of Moldova has collaborated with a number of international bodies such as the World Bank (WB), IMF, European Bank for Reconstruction and Development (EBRD) and Group Banking Supervisors from Central and Eastern Europe (SBECE) to providing information relating to the development of the national banking system.

However, in 2009 the National Bank of Moldova has received technical assistance from the International Monetary Fund.

Thus, as a result of the recommendations made by the International Monetary Fund mission in June 2009, the National Bank of Moldova asked banks to make studies by the independent audit companies, and to examine the findings of these companies to include them later in the strategies and policies related to the financial activity of the banks in the future. Also, within the mission of August 2009 which purpose was to analyze the Moldovan legislation and practice regarding the regulation of problematic banks, the International Monetary Fund presented a number of proposals for improvement in this respect the domestic banking legislation.

During September 28 to October 2, 2009 the IMF technical assistance mission on combating money laundering and terrorist financing was at the National Bank of Moldova. Within this mission, on September 29, 2009 there was a seminar with experts from the NBM and licensed banks. The seminar aimed to enhance the knowledge in combating money laundering and terrorist financing and to approach practical issues based on risk assessment of money laundering and terrorist financing. Also, there were discussions held with employees of the National Bank of Moldova in combating money laundering and terrorist financing on September 28, 1 - 2 October 2009.

A seminar on banking supervision in combating money laundering and terrorist financing, with the participation of experts from the National Bank of Ukraine was organized, with the support of the Project



against corruption, money laundering and terrorist financing in Moldova (MOLICO), within the National Bank of Moldova during 13 – 14 of July 2009. The seminar aimed to enhance the knowledge and to exchange experience on banking supervision in combating money laundering and terrorist financing and regulatory framework in this context. An international seminar on "Banking supervision in preventing and combating money laundering and terrorist financing" was organized by the Euro-Asian Group and the International Center for Training and Methodology of Financial monitoring of the Russian Federation during 2 - 3 November 2009.

This seminar was attended by representatives of central banks, law enforcement agencies, and financial investigation institutions members of the Euro-Asian Group and from Moldova.

The seminar aimed to covering topics related to combating money laundering and terrorist financing, such as transparent conduct of combating activity of money laundering by banks in order to minimize the risks, undertaking appropriate precautionary measures in the implementation of new information technologies; risk based approach to customers; at the seminar were presented the main modalities of finding out the operations that have to be controlled, etc..

#### *Group of Banking Supervisors from Central and Eastern Europe (SBECE)*

The National Bank of Moldova continued to work with the Group of Banking Supervisors from Central and Eastern Europe. Considering that the aim of the Group, among others, includes the mutual support in banking supervision and assistance in its effective implementation, an exchange of information related to banking supervision took place, including within the 22nd Annual Conference of the Group of Banking Supervisors from Central and Eastern Europe within which, among other things, they discussed issues related to banking supervision in the context of the global financial crisis.

#### *Collaboration with central banks from other countries*

Within the process of authorization, the National Bank of Moldova has worked closely with supervisors from other countries to exchange relevant information on authorization of banks activity (confirming banks managers).

In 2009, the National Bank of Moldova employees participated in trainings and seminars organized by: Deutsche Bundesbank, Banque de France, National Bank of Poland, the Czech National Bank, Central Bank of the Netherlands.

---

## Supervision and regulation of banks' activity<sup>1</sup>

---

### *General Information*

On December 31, 2009 in Moldova there were operating 15 banks, licensed by the National Bank of Moldova, including four branches of foreign banks and financial groups. The total number of banks institutions constituted 1146, of which 288 are branches and 858 representative offices. On June 19, 2009, the license for conducting financial activities of BC "InvestPrivatBank" was withdrawn, as a result of the insolvency, which was caused by an inappropriate management of the bank.

This was manifested by an excessive concentration of loans in the industry "building / construction and development", contrary use of funds to the intended in credit contracts, setting the deadline for repayment of loans at maturity and loans to repay the outstanding debts to the same customers and resulted in drastic worsening of the quality of loan portfolio (the share of expired loans in total loan portfolio constituted 52.0 percent).

On March 31, 2009 the bank had no capital, recording a negative value (minus 117.8 million lei, the normative is 100.0 million lei). Also, the bank did not maintain the current liquidity as required by the BM. The current liquidity ratio was 9 percent, compared to the normative which is at least 20 percent.

The withdrawal of the license for conducting financial activities of BC "InvestPrivatBank" on June 19, 2009 has not significantly influenced the financial indicators characterizing the banking system. BC "InvestPrivatBank" was not a systemically important bank because it belonged to the group of average banks with assets less than 3000 million lei. Thus, the share of assets of BC "InvestPrivatBank" in total assets of the system as of June 17, 2009 constituted 3.4 percent of gross loans share in total gross loans system - 4.4 percent, the share of deposits in total deposits in the system - 3.7 percent, the share of liabilities in total liabilities on the system - 3.6 percent, the share of the shareholders' equity in the total shareholders' equity in the system - 2.8 percent.

The liquidation process of BC "InvestPrivatBank" is ongoing, according to the situation at December 31, 2009 all the debts to individuals amounting to 622.3 million lei have been paid, including from a loan in the amount of 589.9 million lei granted to BC "InvestPrivatBank" by the BC "Banca de Economii" after the withdrawal of license, which was intended to take over the assets and liabilities of the given bank. Subsequently, the BC "Banca de Economii" has revised its intention, the liquidator resorting to the classic liquidation with the debt repayment to the BC "Banca de Economii".

Also, the assets inventory of the BC „INVESTPRIVATBANK - in liquidation process" was conducted, and the list of receivables was validated. Moreover, the immovables were evaluated, as well as lots of land, cars, and other goods for auctions.

In addition, the credit portfolio management takes place and were repaid loans amounting to 73.6 million lei and sold assets in an amount of 0.64 million lei as of December 31, 2009.

The total number of staff employed in the banking system as of December 31, 2009 was 10,884, decreasing during the year with 435 people. On average, each employee in the banking sector has assets in the value of 3.7 million lei, which is 5.7 percent more than at the end of 2008.

### *Assets of banks*

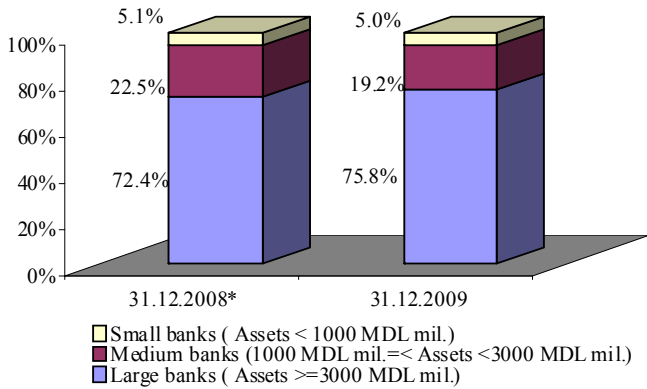
In 2009, the banking system in Moldova has registered general involuntary trends, conditioned largely by the global financial crisis and the uncertain forecasting by the economic agents of their activity on medium term.

---

<sup>1</sup> According to the balance of sheet balances of credit and deposit accounts established in the Instruction regarding the way of preparation and presentation of reports by banks on financial activity, approved by the Decision of the Council of administration no. 36 of August 8, 1997 (Official Monitor of RM, 1997, no.64-65, 103), with subsequent amendments.

The total assets of the banking system as of December 31, 2009 totaled 39,915.0 million lei, increasing by 848.0 million lei (2.2 percent) as compared to December 31, 2008. Also, their weight in GDP has increased from 62.1 to 66.5 percent (chart no. 2.43). The asset growth was determined in particular by the increase of

**Chart no. 2.41 Assets of the banking sector of the Republic of Moldova by groups of banks in the period of 31.12.2008 - 31.12.2009 (%)**



\* Data as of 31.12.2008 in the text are adjusted according to the external audit results

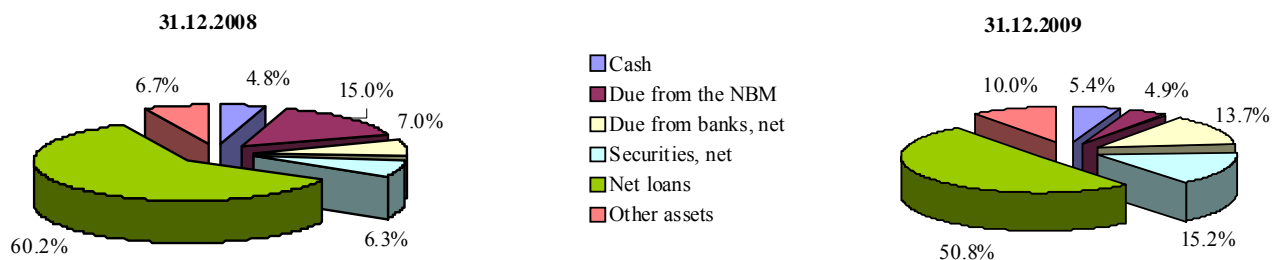
banks' liabilities by 922.3 million (2.9 percent). Simultaneously, the shareholders' equity has reduced by 74.3 million lei (1.1 percent).

The concentration of banking assets during the analyzed period is shown in chart no. 2.41.

At the end of 2009, in the group of large banks there were 6 banks, in the group of medium banks - 4 banks and in the group of small banks - 5 banks.

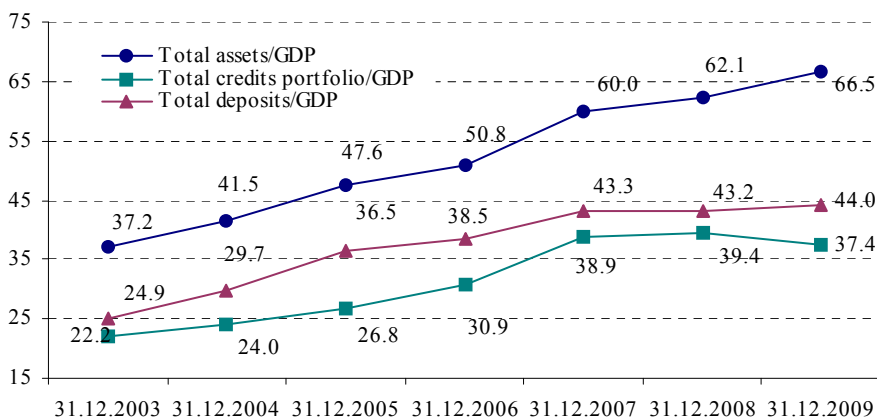
In 2009 growths were recorded within the assets' structure by all items: net securities - with 3590.4 million (145.8 percent), due from banks and overnight placements, net- to 2731.0 million lei (99.9 percent), other assets, net - with 1387.8 million (52.9 percent) and cash - with 306.8 million (16.4 percent).

**Chart no. 2.42. Structure of assets of the banking sector of the Republic of Moldova in the period of 31.12.2008 - 31.12.2009 (%)**



Simultaneously, the due from the National Bank of Moldova decreased - by 3908.0 million lei (66.8 percent) and net loans and financial leasing - by 3260.0 million lei (13.9 percent).

**Chart no. 2.43. Dynamics of assets, credits and deposits to GDP (%)**



Net credits held the highest weight in total assets - 50.8 percent, with 9.4 percentage points lower than the end of 2008. Net securities held a share of 15.2 percent, due from banks and overnight placements, net - by 13.7 percent, other assets, net - by 10.0 percent, cash - by 5.4 percent and the due from the National Bank of Moldova - by 4.9 percent (chart no. 2.42). The weight of extended credits in GDP went down from 39.4

percent as of December 31, 2008 to 37.4 percent as of December 31, 2009 (chart no. 2.43).

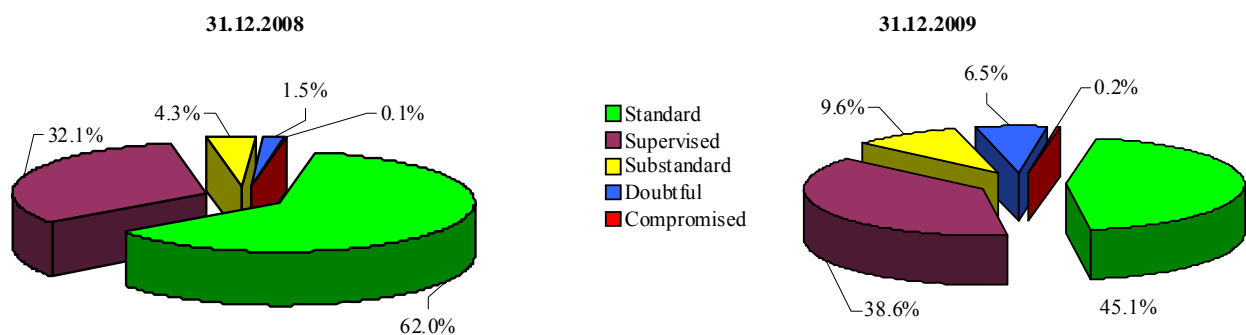
In the context of the distribution of risks and of the destination of investment operations, credits to industry and trade held the highest weight in the total credit portfolio – 51.6 percent, being followed by the credits to agriculture and food industry – 15.9 percent, credits for real estate, construction and development – 12.5 percent, consumer credits – 8.7 percent and other credits - 6.4 percent. Credits to the Government and to banks held the lowest weight in total credits – 0.1 percent.

The structure of loan portfolio has changed as compared to the end of 2008 under the increase of weight loans granted to agriculture and food industry by 2.6 percentage points. This conditioned the placement of credits granted to agriculture and food industry in the second place, after the industry and trade credits. During 2009, an increase of loans to agriculture and food industry with 271.8 million (8.3 percent) was recorded as well as loans to energy and fuel industry - by 248.4 million lei (50.6 percent).

In other categories of loans granted by destination were recorded decreases. The largest decrease recorded the consumer loans - by 1242.0 million lei (38.8 percent), followed by loans for real estate, construction and development - by 812.6 million (22.4 percent), loans to industry and trade - by 493.7 million (4.1 percent).

The weight of bad loans (substandard, doubtful and compromised), (chart no. 2.44) in total loans constituted 16.3 percent at December 31, 2009, or 10.4 percentage points more than at the end of 2008. Respectively, the weight reductions for loan losses in total loans increased by 4.7 percentage points and at December 31, 2009 constituted 9.7 percent.

**Chart no. 2.44. Structure of credit portfolio and financial leasing of the banking sector of the Republic of Moldova according to the level of investment operations risk as of 31.12.2008 and 31.12.2009 (%)**



The total amount of compromised credits, which was canceled in 2009 from the account of reductions for loan losses, amounted to 210.8 million lei, credit returns - 40.8 million lei. Thus, the credit returns constituted 19.4 percent of canceled loans, indicating the need to improve banks' activity on the repayment of bad loans that were previously considered as losses. It should be mentioned that, at December 31, 2008 the credit returns of canceled loans constituted 44.2 percent.

The total amount of banks' exposures to affiliates accounted as of December 31, 2009 for 793.1 million lei, and held an insignificant weight in total credits – 3.5% and 12.3% of Tier I Capital (maximal limit – 100.0% of Tier I Capital).

Credits extended to banks' employees represented 99.7 million lei, or 0.4% of total credit portfolio and 1.5% of the total regulatory capital of banks (maximal limit shall not exceed 10.0% of the total regulatory capital).

The total value of large exposures constituted 6373.3 million lei, which is 28.4% of total credit portfolio and 96.8% of the total regulatory capital of banks (maximal limit shall not exceed 500.0% of the total regulatory capital). The amount of the top ten net debts on credits accounted for 34.9% of net credits within the system (maximal limit – 30.0% of the total value of net credits). According to the Regulation on large exposures,

non-compliance with the maximum provided limits until December 31, 2011 shall not be considered breach, if this non-compliance occurred because of bank exposures before the entry into force of the nominated Regulation.

Banks' investments in long-term tangible assets at the end of 2009 to total regulatory capital amounted to 23.7% (maximal limit – 50.0%). Investments in long-term tangible assets and equity interest in the capital of economic units to total regulatory capital constituted 25.7% (maximal limit – 100.0%).

The weight of net assets in foreign currency in total assets constituted 43.6%, the weight of net liabilities in foreign currency in total assets accounted for 44.5%. The insignificant difference as compared to the weight of assets in foreign currency, which accounted for 0.9 percentage point, revealed that the foreign exchange risk was minimal and did not affect considerably the financial stability of the banking system. As compared to December 31, 2008, the weight of assets and the weight of liabilities in foreign currency advanced by 1.5 and 2.7 percentage point, respectively. Within the structure of net assets in foreign currency, credits in foreign currency held the highest weight – 59.6%.

Off-balance sheet commitments (credit conditional accounts) equalled to 4833.8 million lei, or 12.1% of total assets. Compared to the end of 2008, off-balance sheet commitments decreased by 1231.6 million lei, or by 34.2%, while their weight in total assets increased by 2.9 percentage points. Within the structure of off-balance sheet commitments, followed by lending liabilities – by 22.3% (1079.7 million lei) and issued letters of credit and guarantees – 21.2% (1022.9 million lei).

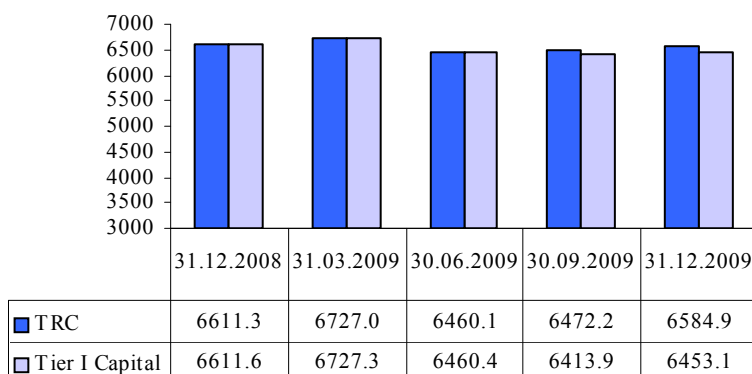
### Capital of banks

Tier I Capital represents the part of total regulatory capital for which the minimum required amount for performing financial activities is established as in accordance with Article 26 of the Law on Financial Institutions.

Tier I Capital reached the level of 6453.1 million lei and decreased by 158.5 million lei (2.4%) during 2009. The decrease in capital was conditioned by the license withdrawal of the BC “InvestPrivatBank” and by the losses recorded at some banks related to the supplement of reserves for credit risks. It should be mentioned that at the end of 2009, in all banks the size of Tier I Capital complied with the minimum set level.

In all banks, the indicator in question exceeds the minimum regulated value and withstands the resilience of their risk.

**Chart no. 2.45. Dynamics of banking capital during 2008 - 2009 (million, lei)**



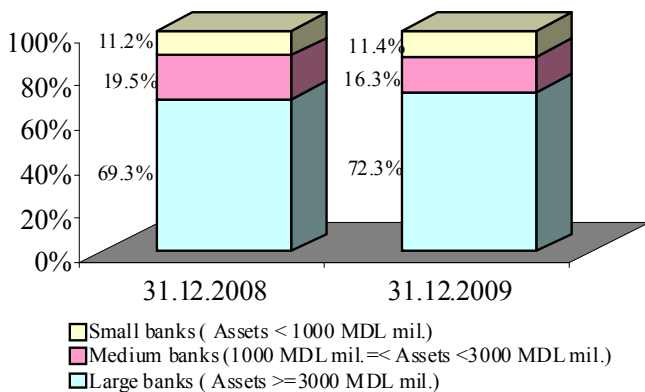
The total regulatory capital (TRC) includes Tier I Capital and Tier II Capital not exceeding the size of Tier I Capital excluding the equity interest in other banks holding the license of the National Bank of Moldova.

Total regulatory capital decreased by 26.4 million lei, or 0.4 percent compared with the end of 2008 (chart no. 2.45).

The average risk weighted capital adequacy (ratio of total regulatory capital to risk-weighted assets) is maintained at a high level - 32.3 percent (the minimum

level in Moldova is 12.0 percent, while the level as set up for banking supervision by the Basel Committee indicates even a more reduced adequacy - 8.0 percent), indicating a high degree of safety of banks determined by the existence of a potential of making risky operations without affecting the capital.

**Chart no. 2.46. Concentration of first order capital belonging to the banking sector of the RM on groups of banks on 31.12.2008 and 31.12.2009 (%)**



The share of total regulatory Tier I Capital of large and small banks in total regulatory capital of the banking system totaled 72.3% and 11.4% respectively, increasing as compared to December 31, 2008 by 3.0 and 0.2 percentage points. The share of total regulatory Tier I Capital of medium-sized banks decreased by 3.2 percentage points and amounted to 16.3% (chart no. 2.46).

During the analyzed period foreign investors were attracted to the banking sector, which is confirmed by the significant share of foreign investments in the banks' capital, which constituted 77.6 percent at December 31, 2009, with 3.5 percentage points higher than at the

end of 2008.

Foreign investors' participation in capital formation in the banks of the Republic of Moldova included as follows: the European Bank for Reconstruction and Development, banks from Italy, France, Romania and Slovenia, as well as corporate investors from Austria, Germany, USA, Russian Federation, Greece, the Netherlands, the United Kingdom, Czech Republic, Cyprus and other countries.

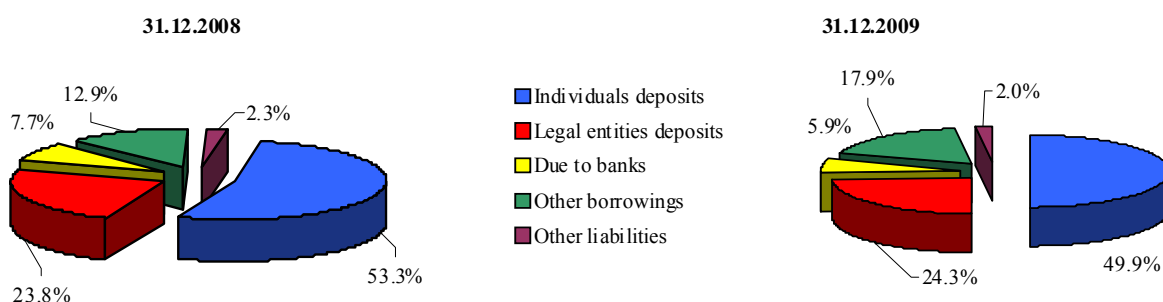
Out of total number of banks, 4 banks have a capital formed of foreign investments (3 of them are branches of foreign banks), 1 bank – a capital formed of local investments and 11 banks – a capital formed of foreign and local investments.

**Liabilities of banks**

As of December 31, 2009 the liabilities of banks accounted for 33008.3 million lei or by 922.3 million lei (2.9%) as compared to the end of 2008. The increase of liabilities occurred mainly on the account of deposits' growth by 1772.3 million lei, or by 42.8%. In 2009, a trend of increase was recorded in deposits of legal entities with 374.2 million (4.9 percent), up to 8011.8 million lei, other loans - with 1772.3 million lei (42.8 percent), up to 5915.1 million lei.

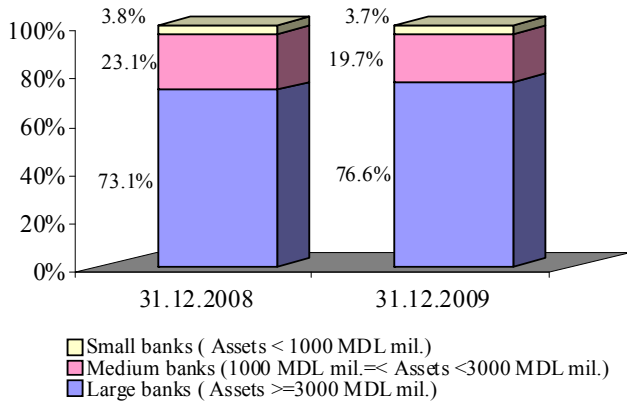
Simultaneously, individuals' deposits dropped by 630.4 million (3.7 percent) and constituted 16465.8 million lei, funds due to banks - by 523.9 million lei (21.3 percent) and constituted 1938.8 million lei and other liabilities - with 69.9 million (9.3 percent), up to 676.8 million lei. The deposits held the largest share of bank liabilities at December 31, 2009 - 80.1 percent, decreasing as compared to the end of 2008 by 4.7 percentage points. Their weight in GDP increased compared to December 31, 2008, constituting 44.0 percent (chart no. 2.43). In the total liabilities the deposits of individuals held 49.9 percent, deposits of legal entities - 24.3 percent, deposits of banks - 5.9 percent, other loans and other liabilities - 17.9 percent and 2.0 percent respectively (chart no. 2.47).

**Chart no.2.47. Structure of liabilities of the banking sector of the Republic of Moldova from 31.12.2008 to 31.12.2009 (%)**



Foreign currency deposits rose to 1534.7 million lei (12.2 percent), reaching the level of 14157.2 million lei, while deposits in MDL decreased by 2314.8 million (15.9 percent) constituting 12259.3 million lei at December 31, 2009.

**Chart no. 2.48. Distribution of banking liabilities by groups of banks from 31.12.2008 to 31.12.2009 (%)**



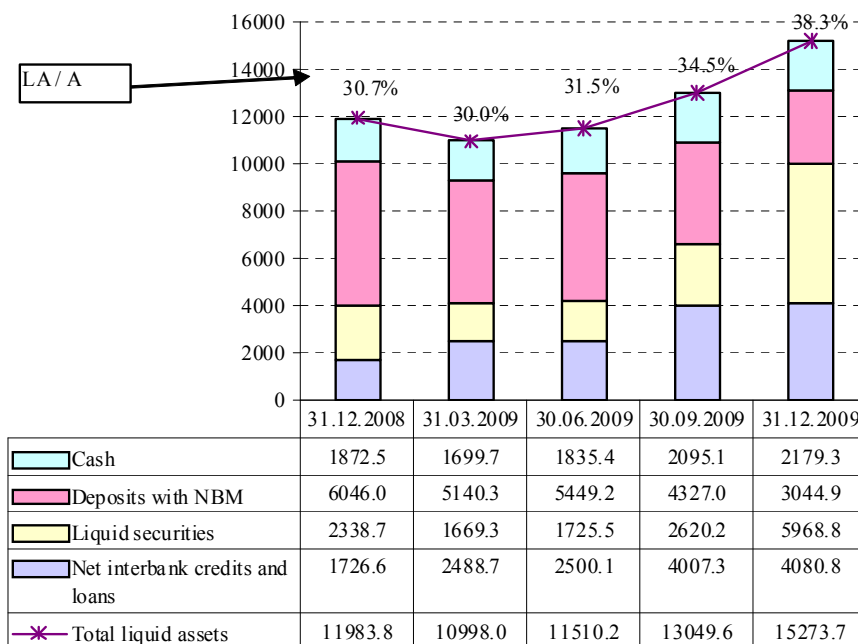
3.7 percent respectively of total liabilities (chart no. 2.48).

**Liquidity of banks**

The observance by banks of liquidity indicators revealed the existence of sources for covering short-term and long-term potential needs.

Thus, the long-term liquidity (assets with the reimbursement term over 2 years/financial resources with the potential withdrawal term of over 2 years ≤1) accounted as of December 31, 2009 for 0.6.

**Chart no. 2.49. Dynamics of liquid assets (million, lei) and of the liquid assets' weight in total assets (%) in the period of 31.12.2008 – 31.12.2009**



The current liquidity (liquid assets expressed in cash, deposits with the NBM, state securities, net interbank credits with the term of up to 1 month/total assets x100% ≥ 20.0%) equaled at the end of 2009 to 38.3%.

Liquid assets totaled 15273.7 million lei, and increased as compared to the end of 2008 by 3289.9 million lei, or by 27.5%. This increase was due to the growth of cash and precious metals by 306.7 million lei (16.4%), of liquid state securities – by 3630.1 million lei (155.2%) and of net interbank credits and loans with the reimbursement term of up to 1 month – by 2354.2 million lei (136.3%). Simultaneously, the

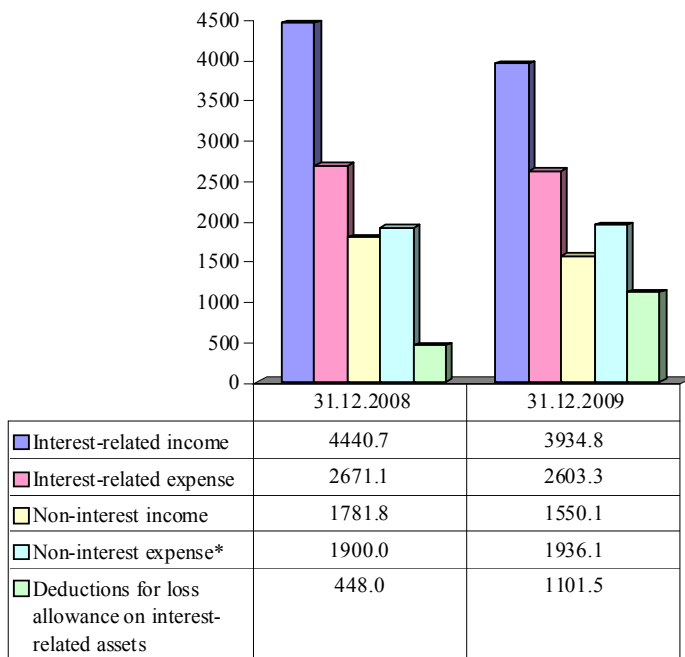
deposits with National Bank of Moldova have reduced by 3001.1 million lei (49.6 percent), (chart no. 2.49). The continued growth of liquid assets will contribute to the maintenance by banks of the liquidity indicators.

The state securities held as of December 31, 2009 the highest weight in liquid assets – 39.1%, followed by net interbank credits and loans with reimbursement term due in less than 1 month – 26.7%, deposits with the NBM – 19.9%, cash and precious metals – 14.3%.

**Income and expense of banks**

Banking system losses in 2009 were 145.5 million lei. Losses incurred by the system were determined by

**Chart no. 2.50. Dynamics of banking income and expense in 2008-2009 (million, lei)**



\* Non-interest expense include deductions for loss allowance on non-interest assets and deductions for loss provisions on conditional commitments

the incurred losses of some banks due to the performance of breakdowns for losses reductions on assets related to the interest and to the reflection of losses of acquired material assets in return for repayment of loans.

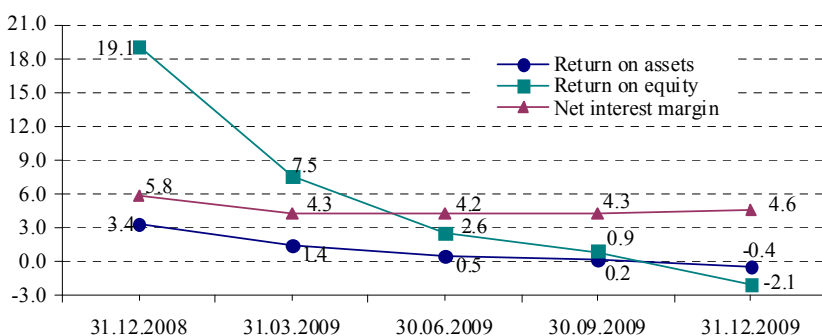
Thus, the year of 2009 recorded an increase in interest-related income as compared to 2008 by 505.9 million lei, or by 11.4% and in non-interest income by 231.7 million lei, or by 13.0%. Interest-related expense decreased by 67.8 million lei, or by 2.5%. At the same time, the non-interest expenses grew by 36.1 million lei, or by 1.9%, and breakdowns for losses on interest-related assets decreased by 653.5 million lei, or by 145.9% (chart no. 2.50).

Banks' income during 2009 originated mainly from the banks' basic activity (investments in interest-bearing assets). Respectively, interest related income constituted 3934.8 million lei, or 71.7% of total income derived by banks. Within the structure of interest-

related income, interest-related income and loan commission held the highest share – 3548.5 million lei (90.2%).

Non-interest income constituted 1550.1 million lei, or 28.3% of total income. Commission related income and income from foreign currency operations held the highest share in total non-interest income and constituted 717.7 million lei (46.3% of total income), and 646.4 million lei (41.7% of total income), accordingly.

**Chart no. 2.51. Dynamics of net interest margin, the return on assets and shareholders' equity for 2008-2009 (%)**



The total amount of expense equaled to 5640.9 million lei, of which 2603.3 million lei, or 46.2% represented interest-related expense, 1936.1 million lei, or 34.3% - non-interest expense and 1101.5 million lei, or 19.5% - breakdowns for losses on interest-related assets.



Taking into account that in 2009 the banking system registered losses amounting to 145.5 million lei, the profitability of assets and shareholders' entity had negative values at the end of year (-0.4) percent and (-2.1) percent, respectively (chart no. 2.51).

The absolute value of interest-bearing assets during 2009 decreased to 1405.6 million lei, or 4.3%, constituting 30926.6 million lei on December 31, 2009. Their weight in total assets was reduced compared with the end of 2008 by 5.3 percentage points, representing 77.5 percent on December 31, 2009. This significant weight in total banking assets indicates the ability of banks to generate income in the future.



---

## Payment system

---

According to the Law on National Bank of Moldova no. 548-XIII of 21.07.1995 the National Bank of Moldova has the attribution to supervise the payment system of the Republic of Moldova and to facilitate the efficient functioning of the payment system.

During 2009, the efficient and stable functioning of the automated interbank payment system (AIPS) was insured, which is composed of real time gross settlement system (RTGS system) and the designed-time net settlement system (DNS).

The volume of processed payments in AIPS in 2009 was at the level of 12.4 million payments, recording an increase of 2.7 percent compared to the previous year. The same trend was recorded for the amount of payments that at the end of 2009 totalled 798.6 billion lei, the recorded growth being of almost two times (127.5 percent). The cause of this substantial variation is the increase of overnight deposits placed by licensed banks through AIPS to the National Bank of Moldova.

The distribution of number of payments between the RTGS and DNS system in 2009 represented 5.0 percent and 95.0 percent respectively. The proportion of the two AIPS component systems is changing in the case of the amount of payments, in the RTGS system 96.0 percent of total amount of payments was processed, and in the DNS system - 4.0 percent. This is explained by the destination of the two systems: in the RTGS system large-value and urgent payments are processed, and in the DNS system the ones with reduced amount.

The number of cards in circulation until the end of 2009 has increased by 1.8 percent (745 600 cards) as compared to the previous year.

In 2009, the local card payment system MoldCardSystem has ceased to exist, so that at the end of 2009 the cards market was split between two international payment card systems (MasterCard Worldwide and Visa International). The value of transactions with cards issued by the licensed banks from Moldova exceeded MDL 13.4 billion, increasing by 7.4 percent compared with 2008. In particular, through them, cash withdrawal transactions have been made (92.8 percent of total number and 94.8 percent of the total amount of transactions made with cards issued by the licensed banks from Moldova). Preference for using the card to withdraw cash in 2009 is seen at its use in Moldova (94.4 percent of total number and 97.7 percent of the total amount traded in Moldova). In the foreign banks network, the cards issued by the banks from Moldova are primarily used for cashless payments (72.0 percent of total number and 59.1 percent of the total amount of transactions carried out abroad).

Holders of cards issued abroad during 2009 have carried out 675 500 transactions in the network of banks in Moldova (up by 9.8 percent compared to 2008), their amount being of MDL 1.2 billion and decreased as compared to the previous year by 13.9 percent.

In order to increase the degree of cards security and to expand the area of supervision of the licensed banks activity in bank card payment system, in 2009 has been amended and supplemented Regulations on bank cards (approved by the Council of administration of the National Bank of Moldova no. 62 of February 24, 2005).

---

## Information technology

---

The 2009 was a year of consolidation of information technology (IT) in the NBM. The activity plans for the reported year focused in particular on projects to enhance the IT infrastructure and services that ensures the necessary support for activity processes of the NBM.

One of the major IT projects undertaken in the NBM refers to the corporate database migration to the Oracle 11g databases management system. These works have involved an increased volume of work review,

optimization and testing of computer systems of the NBM for a proper migration process and achieving the intended results. However, at the level of infrastructure there were undertaken and other important works such as those related to upgrading the server subsystem and electronic communications subsystem. All works which have been made to increase the performance, reliability and security of information system of the NBM. In the same context, important works were carried out to test the level of availability of interbank payment system (AIPS) in case of major incidents which assured the passage on the functionality of this exclusive system on the backup node located in the Reserve Centre of the NBM.

It should be mentioned that, during 2009 a number of major IT projects for the NBM were initiated on the development of information systems and implementation of new IT services, to serve the basic processes and activities of the NBM. In this connection may be mentioned the projects related to electronic documents management, documentation and internal control system management, creating a centralized data warehouse to facilitate the data reporting and analysis process.

Also, more than 200 modification and development work of the application software for computer systems have been made: "Balance of payments", "Statistics", "BOSS", "Staff and wages", "State securities", "Foreign exchange operations" etc.

Other major actions were to continue the developing process of the normative and methodological framework regarding the analysis and IT risk management and information security incident management, implementation of security solutions to ensure an adequate level of information security in relation to the set requirements, development of a more transparent framework regarding the monitoring requirements in information technology and information security to commercial banks, etc.

## Cash operations

As of December 31, 2009 cash in circulation amounted to 9 884 908 955 lei, including banknotes – 9 820 392 030 lei, and coins – 64 516 925 lei, increasing by 12.0 percent compared to the end of 2008.

During 2009 cash withdrawals from the National Bank of Moldova constituted 4 620 269 370 lei, increasing by 3.0 percent compared to the previous year, of which banknotes in an amount of 4 614 526 000 lei, and the coins – 5 743 370 lei. At the same time, the National Bank of Moldova placed cash in the amount of 3 538 195 000 lei.

In 2009, the National Bank of Moldova issued five commemorative and jubilee coins, as payment and for numismatic purpose.

The jubilee coins: "Moldova – 650 years", „Moldovan chronicles from XV-XVIII centuries”, „The Rule of Vasile Lupu - the first Code of Laws of the Land of Moldova”, „Assumption of the Virgin” Church from Căușeni” were dedicated to 650 years jubilee of the foundation of the Moldovan state.

Also, the series of coins "Holidays, Culture, Traditions of Moldova" were completed with a commemorative coin, which reflects one of most ancient folk crafts - weaving.

The recently inaugurated coin series "Monuments of Moldova" was continued with a commemorative coin dedicated to the Rudi Point of Geodezic Arch Struve, which is under state protection and is included in the Register of state protected monuments of Moldova and under the aegis of UNESCO World Heritage List.

During 1996 – 2009, the National Bank of Moldova issued 61 jubilee and commemorative coins dedicated to various topics, with different denominations.

## NBM Personnel and Professional Training

The staff of the National Bank of Moldova was made up as of December 31, 2009 at the level of 98.3 percent (455 employees of 463 according to the staff). Seven doctors of economy and technical sciences are currently working within the National Bank of Moldova.



In 2009, 48 bank's employees were promoted. The bank's staff is mainly made up of the persons aged below 40: 252 employees or 54.4%.

During the reporting year, 88 employees of the National Bank of Moldova participated in training courses, which contributed to the improvement and the modernization of the activity of the National Bank of Moldova.

### Internal audit

In 2009, as in the previous years, the internal audit activity was performed according to the plan developed according to the risks ranking associated with *activity processes*. As a result of missions, 15 reports of financial audit, compliance, operational and information technology regarding the NBM activity were prepared. These mainly concerned the audit, audited issues, procedures and techniques, conclusions, submitted findings and recommendations.

In order to minimize the risk exposure, the internal audit activity aims at obtaining a reasonable insurance regarding the functionality of control systems and risk management, including:

- efficiency and adequacy of the applicable regulatory framework;
- legality and efficiency of operations;
- confidentiality, integrity, availability and reliability of data of used information systems;
- accuracy of accounting evidence and financial reporting;
- documentation and Internal Control System functionality;

In accordance with the *Law on National Bank of Moldova*, during the reporting year the internal audit has checked and approved the annual financial statements for the year of 2008, quarterly financial statements for 2009 and the NBM budget execution for the same period. In addition, there were assured the registration and evidence of statements regarding the loans for employees of National Bank of Moldova from Financial Institutions, except the NBM.

In parallel with the planned activities according to its statutes, the internal audit activity included a series of consultative type - exposure of opinions on draft laws initiated by the bank's organizational structures, at their request; approval of draft documents addressed to the BNM; exposure of views on some specifications as the basis for optimization and development of the Information System of the NBM, cooperation in the development and implementation project of the Information System for Documentation and Management of the Internal Control System of the Bank.

In the context of the *Policy of the IMF on the Assessment of Central Bank Credibility and Reliability*, in November 2009 the internal audit elaborated and presented to the IMF the information package on the assessment of credibility and reliability of the National Bank. Therefore, at the request of the IMF team, the department has received and sent the electronic correspondence, organized and held telephone conferences on issues related to the field of activity of the NBM.

In accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (*Institute of Internal Auditors - IIA*), in 2009 the *Quality assurance and improvement program of the internal audit activities within the NBM* was implemented and developed.

The process of audit activity improvement has resulted in a series of new procedures developed and / or undertaken activities, the most important being the regulatory and methodology framework strengthening in line with best international practices in this area and development of internal assessment procedure of conducted audit quality / quality of the audit report to identify the improvement opportunities.



### **Activity of the Council of administration**

---

During 2009, 63 meetings of the Council of administration of the National Bank of Moldova were convened, where 297 decisions were put into discussion and were adopted with regard to the activity of the financial and banking system, and acts were approved and modified in the fields, as follows:

- monetary and foreign exchange activity;
- payment system oversight policy;
- accounting policy of the National Bank of Moldova;
- banking regulation and supervision;
- accounting record;
- balance of payments;

During 2009, 43 general decisions of the Council of administration of the National Bank of Moldova were submitted for publication in the Official Monitor of the Republic of Moldova.

---

## Completion and amendment of normative acts in 2009

---

### *Foreign exchange regulations*

In 2009, the amendment by the National Bank of Moldova (NBM) of the legal framework in the foreign exchange was conditioned mainly by the following three factors:

- entry into force on January 18, 2009 of Law no. 62-XVI of March 21, 2008 on foreign exchange regulation that determined the NBM to adopt the normative acts in order to execute the law in question;
- situation of the country foreign exchange;
- establishment of rapid alert system (RAS), which involves a process of monitoring the indicators characterizing the macro-prudential risk for volatile capital movements.

**I. Law no. 62-XVI of March 21, 2008 on foreign exchange regulation** (hereinafter - Law) was developed in order to execute the Moldovan Parliament Decision no.300-XVI of 24.11.2005 “The legislative program for the years 2005-2009”.

Taking account of the Civil Code no.1107-XV of 06.06.2002, in the context of the reform of the state regulatory framework of entrepreneurial activity and the need to adjust the foreign exchange legislation to the EU legislation standards, there were set by law legal standards for the conduct and reporting of foreign currency operations, licensing and performance of foreign exchange offices, as well as regarding the controls on foreign exchange, which is set to implement the foreign exchange policy of the state and to assure the domestic foreign exchange market stability. Moreover, the Law established the NBM rights regarding the foreign exchange regulation.

The Law transposed the main regulations from the normative acts of the NBM to the law provisions. However, the Law contains new rules relating to foreign exchange domain (e.g., payments and transfers in foreign currency in Moldova, safeguard measures, export and import of securities and payment instruments).

In drafting the Law, it was taken into account the costs of implementing the safeguard measures of the Treaty establishing the European Community and the provisions of Annex I to the Council Directive of June 24, 1988 for implementation of Article 67 of the Treaty (88/361/EEC), these being adjusted, including taking into account the provisions of the International Monetary Fund. It has also been consulted the legislation of foreign countries regarding the foreign exchange field, including some EU member states, as well as has been taken into account the recommendations of the International Monetary Fund within the technical assistance mission.

The Law provides the basic concepts and definitions in order to regulate the foreign exchange, specifying not only the payments and transfers performed within foreign exchange operations but also, where appropriate, the completion and performance of transactions and operations from which such payments and transfers arise from. The Law classified the foreign exchange operations (maintaining the principle of distinction of the foreign exchange operations between residents and non-residents within the current foreign exchange operations and capital foreign exchange operations) and set the rules for performing them.

Foreign exchange operations are subject to approval from the NBM, where it is required by the Law in question. Simultaneously, the Law regulates the procedure for granting the NBM authorization to the foreign exchange operations, setting the reasons for refusal to grant the authorization. Except some operations related to export and import of foreign exchange values, the authorization regime applies to residents, particularly on capital foreign exchange operations involving capital flow out of Moldova. It should be mentioned that compared with previous regulations, the Law includes a small number of foreign exchange operations, which are made with the NBM approval.

Regarding the capital foreign exchange operations, which are part of the country's external debt, the Law provides for application to residents of the system of notification to the NBM of some of those operations.

In respect of current foreign exchange operations, the Law stipulates expressly that the residents and non-residents make payments and transfers without any restrictions.

The Law establishes the cases for payments and transfers in foreign currency in Moldova among residents, between residents and non-residents, among non-residents. Simultaneously, the unilateral transfers, payments and transfers to / from abroad among residents are separately regulated as well as the use of cash, traveler's checks and cards within foreign exchange operations.

Regarding the capital foreign exchange operations related to export and import of foreign exchange values, the Law regulates the aspects regarding the introduction, removal, sent to / from Moldova of all types of foreign exchange values and by all people.

The Law allows the granting of loans / credits in foreign currency by residents for other residents only to licensed banks and individuals. Concomitantly, the Law establishes the cases for granting loans in foreign currency by the licensed banks to residents, gives the NBM the right to set conditions for granting loans in foreign currency by the licensed banks and enable resident individuals to grant loans in foreign currency to another resident individual.

The Law regulates the country's foreign exchange market: authorized participants of the foreign exchange market, the legal framework for conducting foreign exchange operations by residents and non-residents (with or without restrictions), the NBM powers on the regulation of foreign exchange operations, exchange rates settings etc. The Law also defines the foreign exchange entities, regulates the conditions of activity of the foreign exchange entities, the process of licensing the activity of these entities, as well as the control features of the activity of the foreign exchange entities and the penalties.

The Law specifies the authorities and agencies for foreign exchange control, their powers, rights and obligations of residents and non-residents in the context of foreign exchange control.

The Law gives to the National Bank of Moldova the right to introduce, through consultations with the Government, safeguard measures where the capital movements to / from Moldova causes or might cause serious difficulties in promoting the monetary and / or foreign exchange policy. In the Law there are listed safeguard measures that can be applied (or partially) by NBM and there is established the maximum period of application of these measures (six months).

The Law contains the provisions regarding the reporting to the NBM of foreign exchange operations, including the NBM powers in this context.

Thus, by adopting the Law on foreign exchange regulation, the general principles of foreign exchange regulation in Moldova at the level of a legislative document were established, as well as the rights and obligations of foreign residents and non-related regarding the foreign exchange, the powers of the regulatory and control institutions in this area and the agents' responsible of foreign exchange control.

**II.** In order to execute the provisions of Law no. 62-XVI of March 21, 2008 on foreign exchange regulation, the National Bank adopted a set of normative acts in 2009.

- **Regulation on foreign exchange entities** was elaborated in order to develop and provide more details, within the limits, of Law no. 62-XVI provisions of 21.03.2008 relating to licensing and performance of foreign exchange entities, their reporting to the NBM, the control on foreign exchange entities' activities, and the impose of sanctions against those entities.

- **Regulation on the official exchange rate determination of the MDL against foreign currencies** establishes the list of foreign currencies against which the Moldovan lei is quoted, the method of determining the official exchange rate of the MDL against foreign currencies, the way of reporting by licensed banks to the NBM the purchase / sale transactions, regulates the communication of the rate by NBM to the licensed banks, public, through various media, the official exchange rate of MDL against foreign currencies.

• **Regulation on conditions for granting loans in foreign currency to residents by licensed banks** is applied on certain types of foreign currency lending by licensed banks and established, in terms of foreign currency regulation, the conditions for granting to residents by licensed banks loans in foreign currency (for example, foreign currency loans, general requirements for granting loans in foreign currency from the account of loans / lines of credit received by licensed banks under the loan agreements concluded between the Government of Moldova and non-residents; between the licensed banks and international financial organizations; borrowers' compulsory to use loans for the stated purposes).

• **Regulation on authorization of foreign exchange operations by the National Bank of Moldova** is applied on residents performing some foreign exchange operations subject to authorization under the Law no. 62-XVI of 21.03.2008 (e.g. operations with foreign financial instruments, donations, foreign exchange operations carried out abroad, certain payments and transfers of residents of Moldova abroad for residents, transfers by residents in favor of non-residents necessary for the provision of services by non-residents).

The Regulation contains provisions covering all aspects of foreign currency operations subject to authorization under the Law no. 62-XVI of 21.03.2008, i.e. the authorization process of those operations by the NBM, methods of making payments / transfers within the authorized operations, the way of reporting to the NBM those operations with the purpose of compliance with the requirements of authorizations issued by the NBM.

• **Regulation on the NBM authorizations /permissions to export funds from the Republic of Moldova** determines the way of issuance of authorizations by the NBM as specified where individuals wishing to export funds from Moldova and thus to get the NBM authorization, meet the following conditions:

- a) the resident individuals establishing his /her permanent residence abroad and holding the respective funds under right of property;
- b) the non-resident individual holding the respective funds under right of property;

• **Regulation on the NBM authorizations /permissions to export funds from the Republic of Moldova** establishes:

- a) the way of issuance by the licensed banks of permits to export funds from Moldova, in case of exporting cash in national currency and foreign currency and of traveler's cheques in foreign currency;
- b) the mode of keeping record on issued permissions to export funds from Moldova.

The Regulation provisions are applied on legal entities (excluding banks), which intend to export funds from Moldova and thus to get the permit from the licensed banks in cases referred to Article 31 para. (3) of the Law no. 62-XVI of 21/03/2008.

**III.** In connection with the establishment of the rapid alert system, 2009 there were drafted normative acts listed below, which require submission of reports by licensed banks containing the necessary indicators.

Thus, by the **Decision of the Council of administration of the NBM no.33 of 05.02.2009 "Completion and amendment of the Regulation on open foreign exchange position of the bank"** was established a new form of the Report on open foreign exchange position of the bank, the way of submitting the reports was amended and completed as well as the concepts used in the Regulation and other relevant provisions.

Report on the Bank's open currency position was detailed:

- the information on accepted deposit balances and the received loans of the licensed banks has been divided into categories of residents and non-residents;
- the information on assets and liabilities of the licensed bank attached to the foreign exchange rate was specified.

The amendments have allowed the operational (daily) information necessary for monitoring and analysis of certain factors that influence the situation of foreign exchange market from Moldova.

**Instruction on the reporting of foreign currency operations by the licensed banks** sets the forms and regulates the preparation and presentation by licensed banks of a number of reports that reflect some foreign exchange operations carried out by licensed banks, including the customer orders, i.e. operations related to buying and selling of the foreign currency by licensed banks, loans, credits and foreign exchange guarantees of the licensed banks, international transfers of individuals, licensed bank operations in cash and travelers checks in foreign currency, information on foreign currency accounts of residents and non-residents and accounts in domestic currency of non-residents.

The reports are presented to the NBM in order to analyze the foreign exchange market situation of Moldova and to evaluate the potential risks related to capital movements.

The Instruction includes reports prepared on the basis of reports from the instructions that have been repealed; these reports have been amended or supplemented. It also contains a new report instruction needed for the analysis of cash foreign exchange market.

Considering that the aim of creating the rapid alert system appeared the necessity of having the information more operational than the annual one, the annual reports were replaced with the monthly and quarterly reports.

By the **Decision of the Council of administration of the NBM no.231 of 15.10.2009**, the Instruction on the reporting of foreign exchange operations by the licensed banks was completed with two reports on the need to collect the information more detailed on loans / credits related to direct investment in Moldova received by the licensed banks, in order to compile the external debt of Moldova and the forecast of payments regarding the private external debt servicing of the country.

#### ***Prudential regulation***

The banking regulation and supervision improving was still promoted during 2009.

Thus, to ensure the consumer's right to complete information regarding the banking services field provided by the national law, changes were made to the **Regulation on disclosure of information by the licensed banks from Moldova regarding their financial activity** (the Decision of the Council of administration of the National Bank of Moldova no. 167 of 02.07.2009) by which the banks were required to use on their official web-page a cost simulator to determine the total cost of loan granted to the individual. This contributes to enhancing the information disclosure requirements related to the issue of loan for individuals, offering consumers full information on the total cost of loan.

In order to decrease the level of risks related to assumed exposures by banks, by the **Decision of the Council of administration of the National Bank of Moldova no. 201 of 13.08.2009 on completion and amendment of normative acts of the NBM** were made amendments to the Regulation nr.3/09 on "large" exposures to review the limits related to the net exposures assumed by the bank against a person or group of inter-related persons (from 25 to 15 percent of capital) and Net Credit Exposures granted to ten people (from 50 to 30 percent of total loan portfolio). Also, as a result of generalization supervisory practice, the concepts of inter-related persons and net exposure have been refined. Simultaneously, there was established that the banks should have internal policies and procedures for identification, evaluation, monitoring and verification of exposure concentrations from the exposure portfolio, including the knowledge of data on inter-related activity of the person to whom the bank is exposed, with others.

In order to minimize the risks of bank exposure to affiliated persons by the Council of administration of the National Bank of Moldova no. 297 of 30.12.2009 on the approval, amendment and repeal of normative acts of the NBM in the **Regulation on bank transactions with its affiliated persons** has been amended the maximum limit of bank exposure to an affiliated person or group of persons inter-related (from 20 to 10 percent of capital). Simultaneously, it was stipulated that banks should have policies and procedures to identify the bank's exposure to affiliated persons and should carry out their monitoring and reporting through a separate process for managing exposure. It has also been refined the concept of bank exposure to



an affiliated person and the requirement related to the submission of a list of affiliated persons with a detailing description of affiliation criteria, conditions for obtaining loans / issuing placements to persons affiliated to the bank, to indicate in the Transactions Register the persons affiliated to the bank of insurance and insurer of transaction.

In order to direct the banks to effectively manage their liquidity and therefore to reduce the risk of failure in maintaining the level of liquidity within the banking activity by the Council of administration of the National Bank of Moldova no. 265 of 17.12.2009 were made amendments and additions to the **Regulations on bank liquidity** by which the banks were obligated to have adequate internal policies and procedures for identifying, monitoring, controlling and limiting the risk regarding the liquidity. Also, in order to avoid a different treatment of the term "liquid securities" and "Net Interbank Resources", the concepts in question were disclosed as well as the requirements related to inclusion of these items in the calculation of liquid assets were determined.

In order to optimize the control, the regulation and supervisory procedure of the financial institutions' activities, the reporting requirements for banks have been improved. Thus, a number of changes was made to the **Instruction on compilation and submission of reports regarding the financial activity by banks**, by which were extended the reporting requirements regarding the information presented by banks related to the number of depositors and deposits of natural and legal persons (depending on the amount), breaches of contract conditions admitted by banks that may adversely affect the bank capital and / or liquidity, and information pertaining to court actions brought against banks. This will allow assessing more extensive the risks to which the banks are exposed, including liquidity risks due to the concentration of bank deposits (depending on their size and natural and legal depositors).

Simultaneously, for a proper consideration of the internal audit findings as a result of the control in preventing and combating money laundering and terrorist financing have been determined the minimum requirements for the information that has to be included in the audit conclusions, presented at the National Bank of Moldova.

Also, in order to ensure the timely detection of the major problems in banks that may affect their financial situation and timelier responding to the supervisory body to eliminate the detected problems, the deadline for reports on financial activity banks was modified.

**III. Annexes**

Table no. 1. EVOLUTION OF THE MACROECONOMIC INDICATORS

	2007	2008	2009
<b>Nominal Gross Domestic Product</b> (million, lei)	<b>53429.6</b>	<b>62921.5</b>	<b>60043.3</b>
– compared to the same period last year in real terms (%)	103.0	107.8	93.5
GDP deflator (%)	115.9	109.2	102.0
<b>Industrial production</b> (million, lei)	<b>26173.5</b>	<b>29988.4</b>	<b>23266.6</b>
– compared to the same period last year in real terms (%)	98.7	101.5	77.8
Producer price index of industrial production (average)	113.4	110.4	97.0
<b>Agricultural production</b> (million, lei)	<b>12825.0</b>	<b>16503.0</b>	<b>13242.0</b>
– compared to the same period last year in real terms (%)	76.9	132.1	90.1
<b>Investment in fixed capital</b> (million, lei)	<b>15335.8</b>	<b>18123.1</b>	<b>10818.9</b>
– compared to the same period last year in real terms (%)	121.9	101.7	65.1
<b>Deficit (-), surplus (+) public budget</b> (million, lei)	<b>-123.6</b>	<b>-630.0</b>	<b>-4098.6</b>
- compared to GDP (%)	-0.2	-1.0	-6.8
Consumer price index (average)	112.3	112.7	100.0
Consumer price index (at the end of period)	113.1	107.3	100.4
Average scripted number of personnel in the period (thousands)	621.6	618.1	593.4
Number of officially registered unemployed people at the end of the period (thousands)	18.9	17.8	38.7
Unemployment rate according to ILO	5.1	4.0	6.4
<b>Average wage</b> (MDL)	<b>2065.0</b>	<b>2529.7</b>	<b>2747.6</b>
– compared to the same period last year in real terms (%)	108.4	108.7	108.6
Wage arrears at end of the period (million, lei)	<b>72.5</b>	<b>102.0</b>	<b>153.5</b>
<b>Public and publicly guaranteed foreign debt</b> (million, U.S. \$)	<b>944.0</b>	<b>957.4</b>	<b>1139.8</b>
<b>Total external debt</b> (million, U.S. \$) <sup>1</sup>	<b>3355.9</b>	<b>4106.1</b>	<b>4368.8</b>
<b>Internal Debt</b> (million, lei)	<b>3748.7</b>	<b>3509.9</b>	<b>5104.9</b>
– Loans from the NBM with SS guarantee	1932.2	-	-
– State securities in circulation, including SS in the NBM portfolio	1816.4	3509.9	5104.9
	400.0	2213.4	2213.4

<sup>1</sup> Balance at the end of the period, for 2009 - estimated data

Source: National Bureau of Statistics, Ministry of Finance and the National bank of Moldova

Table no. 2. INFLATION DYNAMICS

	% modifications versus previous month			% modifications versus December of the previous year			% modifications versus the same month of the previous year		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
<b>January</b>	0.8	1.4	-0.1	0.8	1.4	-0.1	12.9	13.9	5.7
<b>February</b>	0.6	1.5	-1.1	1.4	2.9	-1.2	12.0	14.9	3.0
<b>March</b>	0.6	1.1	-0.8	2.0	4.1	-2.0	11.1	15.4	1.0
<b>April</b>	1.0	1.6	0.3	3.0	5.8	-1.7	11.0	16.2	-0.3
<b>May</b>	0.9	1.5	0.2	3.9	7.4	-1.5	10.6	16.9	-1.6
<b>June</b>	0.0	-1.1	-0.3	3.9	6.2	-1.8	10.4	15.6	-0.8
<b>July</b>	1.1	-0.9	-0.6	5.0	5.3	-2.4	12.0	13.4	-0.5
<b>August</b>	2.2	0.7	-1.1	7.3	6.0	-3.4	13.5	11.7	-2.2
<b>September</b>	1.6	0.6	0.6	9.0	6.7	-2.9	14.0	10.7	-2.3
<b>October</b>	1.6	0.8	1.5	10.7	7.5	-1.4	14.0	9.8	-1.6
<b>November</b>	1.3	0.0	1.0	12.1	7.5	-0.5	13.5	8.5	-0.7
<b>December</b>	0.9	-0.2	0.9	13.1	7.3	0.4	13.1	7.3	0.4

Source: National Bureau of Statistics

Table no. 3. GROSS DOMESTIC PRODUCT

	Million, lei, current prices		Real growth, %		Weight, %	
	2008	2009	2008	2009	2008	2009
<i>categories of resources</i>						
<b>Gross domestic product</b>	<b>62921.5</b>	<b>60043.3</b>	<b>7.8</b>	<b>-6.5</b>	<b>100.0</b>	<b>100.0</b>
<b>Gross value added, total</b>	<b>51773.5</b>	<b>50449.5</b>	<b>6.8</b>	<b>-6.4</b>	<b>82.3</b>	<b>84.0</b>
<b>Goods</b>	14281.2	12880.7	17.4	-16.1	22.7	21.5
Agriculture	5544.0	5062.5	41.1	-10.9	8.8	8.5
Industry	8737.2	7818.2	0.7	-19.4	13.9	13.0
<b>Services</b>	38801.4	38573.5	3.3	-3.6	61.7	64.2
Constructions	3115.0	2057.8	0.3	-27.6	4.9	3.4
Wholesale trade	8148.6	7792.2	8.9	-2.3	13.0	13.0
Transport and communications	3684.5	3195.7	4.9	-7.0	12.1	12.3
Other services	23853.3	25527.8	0.9	1.0	31.7	36.5
Services of the financial intermediaries indirectly measured	-1309.1	-1004.7	26.8	-29.1	-2.1	-1.7
<b>Net taxes on products and imports</b>	<b>11148.0</b>	<b>9593.8</b>	<b>13.1</b>	<b>-7.0</b>	<b>17.7</b>	<b>16.0</b>
<i>categories of uses</i>						
<b>Final consumption</b>	<b>71451.4</b>	<b>67738.5</b>	<b>5.7</b>	<b>-6.0</b>	<b>113.6</b>	<b>112.8</b>
households	57804.4	52353.9	5.8	-7.9	91.9	87.2
government and non-profit institutions serving households	13647.0	15384.6	5.0	1.9	21.7	25.6
<b>Gross capital formation</b>	<b>24683.0</b>	<b>14260.4</b>	<b>6.8</b>	<b>-37.2</b>	<b>39.2</b>	<b>23.8</b>
Gross fixed capital formation	21391.4	13490.5	2.2	-31.3	34.0	22.5
Stock changes	3291.6	769.9	46.2	-75.7	5.0	1.0
<b>Net export</b>	<b>-33212.8</b>	<b>-21955.6</b>	<b>2.4</b>	<b>-28.3</b>	<b>-52.8</b>	<b>-36.6</b>
export	25684.0	22114.9	3.4	-7.8	40.8	36.8
import	58896.8	44070.5	2.9	-19.3	93.6	73.4

Source: National Bureau of Statistics, National Bank of Moldova

**Table no. 4. INTEREST RATES ON MONETARY INSTRUMENTS**

Effective date of decision*	Decision
20 January 2009	<ul style="list-style-type: none"> <li>- The base rate (on short term) was reduced from 14.0 to 12.5 percent annually;</li> <li>- The base rate (on long term) was maintained at the level of 10.5 percent annually;</li> <li>- The rate of overnight credits was reduced from 16.5 to 15.0 percent annually;</li> <li>- The rate of overnight deposits was maintained at the level of 2.0 percent annually.</li> </ul>
10 February 2009	<ul style="list-style-type: none"> <li>- The base rate (on short term) was reduced from 12.5 to 11.0 percent annually;</li> <li>- The base rate (on long term) was reduced from 10.5 to 10.0 percent annually;</li> <li>- The rate of overnight credits was reduced from 15.0 to 13.5 percent annually;</li> <li>- The rate of overnight deposits was maintained at the level of 2.0 percent annually.</li> </ul>
19 May 2009	<ul style="list-style-type: none"> <li>- The base rate (on short term) was reduced from 11.0 to 10.0 percent annually;</li> <li>- The base rate (on long term) was maintained at the level of 10.0 percent annually;</li> <li>- The rate of overnight credits was reduced from 13.5 to 12.5 percent annually;</li> <li>- The rate of overnight deposits was maintained at the level of 2.0 percent annually.</li> </ul>
23 June 2009	<ul style="list-style-type: none"> <li>- The base rate (on short term) was reduced from 10.0 to 9.0 percent annually;</li> <li>- The base rate (on long term) was reduced from 10.0 to 9.0 percent annually;</li> <li>- The rate of overnight credits was reduced from 12.5 to 11.5 percent annually;</li> <li>- The rate of overnight deposits was maintained at the level of 2.0 percent annually.</li> </ul>
24 July 2009	<ul style="list-style-type: none"> <li>- The base rate (on short term) was reduced from 9.0 to 8.0 percent annually;</li> <li>- The base rate (on long term) was reduced from 9.0 to 8.0 percent annually;</li> <li>- The rate of overnight credits was reduced from 11.5 to 10.5 percent annually;</li> <li>- The rate of overnight deposits was maintained at the level of 2.0 percent annually.</li> </ul>
14 August 2009	<ul style="list-style-type: none"> <li>- The base rate (on short term) was reduced from 8.0 to 7.0 percent annually;</li> <li>- The base rate (on long term) was reduced from 8.0 to 7.0 percent annually;</li> <li>- The rate of overnight credits was reduced from 10.5 to 9.5 percent annually;</li> <li>- The rate of overnight deposits was maintained at the level of 2.0 percent annually.</li> </ul>
8 September 2009	<ul style="list-style-type: none"> <li>- The base rate (on short term) was reduced from 7.0 to 5.0 percent annually;</li> <li>- The base rate (on long term) was reduced from 7.0 to 5.0 percent annually;</li> <li>- The rate of overnight credits was reduced from 9.5 to 7.5 percent annually;</li> <li>- The rate of overnight deposits was maintained at the level of 2.0 percent annually.</li> </ul>

\* date of publication of the decision of the Council of Administration in the Official Monitor of the Republic of Moldova

Table no. 5. **MONETARY INDICATORS** (million lei, end of the period)

	2007	2008	2009
<b>Monetary aggregates</b>			
<b>Monetary Base</b>	<b>9537.2</b>	<b>11633.6</b>	<b>10456.3</b>
<b>M0</b> (money in circulation)	<b>6664.9</b>	<b>7578.7</b>	<b>8849.0</b>
Sight deposits	4258.6	4030.5	4357.8
<b>M1</b>	<b>10923.6</b>	<b>11609.2</b>	<b>13206.8</b>
Term deposits	7455.9	10148.0	7733.9
Money market instruments	17.3	16.9	1.3
<b>M2</b>	<b>18396.7</b>	<b>21774.1</b>	<b>20942.0</b>
Deposits in foreign currency	8947.4	9906.7	11742.3
<b>M3</b>	<b>27344.1</b>	<b>31680.7</b>	<b>32684.4</b>
Velocity of money (M2)	3.64	3.06	3.23
Multiplier (M2)	1.93	1.87	2.0
<b>Deposits (total)</b>	<b>20661.9</b>	<b>24085.2</b>	<b>23834.1</b>
Deposits of legal persons	6447.9	6843.2	7224.2
inclusive in foreign currency	1992.1	2062.1	2852.0
Deposits of individuals	14214.0	17242.0	16609.9
inclusive in foreign currency	6955.3	7844.6	8890.3
<b>Credits</b>			
Requests for payment of the NBM from banks	33.5	26.4	1865.4
Requests for payment to the NGO sector, total	20883.8	25122.6	23884.1
In national currency:	11768.9	14779.9	13202.3
– in regard to state enterprises	334.6	246.8	229.9
– in regard to private sector	6395.6	8887.0	8302.3
– in regard to population	4662.0	4648.1	3720.0
– in regard to other financial institutions	376.7	998.0	950.1
In foreign currency	9114.9	10342.7	10681.8

Source: National Bank of Moldova

**Table no. 6. WEIGHTED AVERAGE RATE ON TERM DEPOSITS**

	<b>Deposits</b>				
	<b>Total</b>	in MDL		in foreign currency	
		volume million lei	Interest rate %	volume million lei	Interest rate %
January 2008	<b>2440.1</b>	1382.1	16.10	1058.0	6.62
February	<b>2261.2</b>	1256.6	15.61	1004.6	6.58
March	<b>2272.1</b>	1233.2	15.94	1038.9	6.58
April	<b>2512.1</b>	1384.2	16.41	1127.9	7.26
May	<b>2986.3</b>	1607.2	17.18	1379.1	8.96
June	<b>2903.2</b>	1508.5	18.41	1394.7	10.24
July	<b>3090.7</b>	1672.7	18.69	1418.0	10.32
August	<b>3153.4</b>	1633.6	18.84	1519.8	10.81
September	<b>2764.5</b>	1323.9	18.99	1440.6	10.93
October	<b>2776.2</b>	1500.6	19.38	1275.6	10.69
November	<b>2783.6</b>	1536.0	19.91	1247.6	11.44
December 2008	<b>3822.9</b>	2181.1	19.75	1641.8	12.09
<b>Total 2008</b>	<b>33766.3</b>	<b>18219.7</b>	<b>18.09</b>	<b>15546.6</b>	<b>9.64</b>
January 2009	<b>3004.1</b>	1536.5	20.69	1467.6	11.81
February	<b>2902.8</b>	1360.8	19.84	1542.0	11.67
March	<b>3385.1</b>	1257.5	19.36	2127.6	10.18
April	<b>2650.4</b>	1044.6	18.72	1605.8	9.66
May	<b>3249.6</b>	1660.2	16.04	1589.4	9.70
June	<b>3716.6</b>	1946.2	15.04	1770.4	8.16
July	<b>3188.5</b>	1718.2	14.85	1470.3	6.72
August	<b>3166.8</b>	1467.8	12.99	1699.0	5.62
September	<b>3243.4</b>	1517.1	10.77	1726.3	4.88
October	<b>3025.4</b>	1563.2	10.66	1462.2	4.44
November	<b>2798.5</b>	1520.3	10.56	1278.2	4.20
December 2009	<b>3695.5</b>	1855.3	9.79	1840.2	3.81
<b>Total 2009</b>	<b>38026.7</b>	<b>18447.7</b>	<b>14.66</b>	<b>19579.0</b>	<b>7.61</b>

Source: National Bank of Moldova

Table no. 7. WEIGHTED AVERAGE CREDITS RATE

	Credits				
	Total	in MDL		In foreign currency	
		volume million lei	Interest rate %	volume million lei	Interest rate %
January 2008	1615.8	885.3	19.18	730.5	10.77
February	2732.2	1771.4	18.93	960.8	10.75
March	2937.8	1920.6	19.07	1017.2	11.04
April	2627.8	1666.9	19.53	960.9	11.08
May	2220.6	1409.6	20.12	811.0	11.39
June	2399.8	1452.6	21.11	947.2	11.72
July	2469.4	1355.5	21.45	1113.9	12.27
August	2375.4	1424.2	22.76	951.2	12.39
September	2677.6	1536.2	22.99	1141.4	12.95
October	2035.0	1179.5	22.31	855.5	13.03
November	1502.6	904.8	22.77	597.8	13.34
December 2008	2217.8	1620.6	22.55	597.2	14.56
<b>Total 2008</b>	<b>27811.8</b>	<b>17127.2</b>	<b>20.96</b>	<b>10684.6</b>	<b>12.02</b>
January 2009	870.4	510.3	23.25	360.1	13.20
February	1318.9	803.2	22.93	515.7	14.06
March	1352.5	729.3	23.13	623.2	13.30
April	1035.0	562.8	22.57	472.2	12.85
May	979.2	446.5	22.23	532.7	13.11
June	1093.6	597.7	18.94	495.9	13.09
July	1086.7	651.5	17.97	435.2	12.71
August	1110.7	566.3	17.65	544.4	12.70
September	1366.5	703.0	19.04	663.5	11.89
October	1129.1	611.5	19.63	517.6	12.13
November	1126.7	681.0	18.88	445.6	11.82
December 2009	1777.3	964.9	18.63	812.4	10.58
<b>Total 2009</b>	<b>14246.5</b>	<b>7828.0</b>	<b>20.31</b>	<b>6418.5</b>	<b>12.51</b>

Source: National Bank of Moldova

Table no. 8. PROFIT RATE OF SS ISSUED ON THE PRIMARY MARKET (%)

	Monthly weighted average rate on SS types			Monthly weighted average nominal rate
	91 days	182 days	364 days	
January 2008	15.40	16.10	16.58	<b>15.92</b>
February	15.00	15.63	15.79	<b>15.35</b>
March	15.32	15.42	15.55	<b>15.42</b>
April	16.90	17.13	17.26	<b>17.08</b>
May	16.65	16.49	16.82	<b>16.72</b>
June	18.41	19.33	19.48	<b>18.88</b>
July	20.24	20.93	21.12	<b>20.61</b>
August	20.13	21.20	21.63	<b>20.70</b>
September	18.30	19.90	20.67	<b>19.27</b>
October	17.26	17.71	18.30	<b>17.67</b>
November	19.84	20.09	20.84	<b>20.14</b>
December 2008	18.81	19.18	19.78	<b>19.12</b>
<b>The weighted average annual rate - 2008</b>	<b>17.70</b>	<b>18.10</b>	<b>18.39</b>	<b>17.95</b>
January 2009	16.80	17.47	18.08	<b>17.45</b>
February	12.78	14.00	14.94	<b>13.62</b>
March	15.88	16.22	16.60	<b>16.00</b>
April	23.80	24.36	25.00	<b>23.99</b>
May	14.08	14.36	14.63	<b>13.61</b>
June	12.57	13.56	13.72	<b>12.18</b>
July	9.19	11.38	12.49	<b>9.10</b>
August	3.16	6.62	9.43	<b>4.84</b>
September	4.98	7.42	8.88	<b>5.52</b>
October	6.28	10.81	11.34	<b>8.04</b>
November	5.08	9.95	11.03	<b>7.38</b>
December 2009	2.78	6.08	7.91	<b>4.51</b>
<b>The weighted average annual rate – 2009</b>	<b>9.54</b>	<b>10.49</b>	<b>12.65</b>	<b>9.32</b>

Source: National Bank of Moldova

Table no. 9. OFFICIAL EXCHANGE RATE (lei)

	2007		2008		2009	
	At the end of the period	Average annual	At the end of the period	Average annual	At the end of the period	Average annual
USD (1\$)	11.3192	12.1362	10.4002	10.3895	12.3017	11.1134
EUR (1€)	16.6437	16.5986	14.7408	15.2916	17.6252	15.5248
RUB (1)	0.4619	0.4742	0.3548	0.4196	0.4066	0.3520
RON (1)	4.6187	4.9807	3.6673	4.1571	4.1595	3.6666

Source: National Bank of Moldova

Chart no. 1. Foreign trade balance of goods (f.o.b. – f.o.b.) by geographical area, quarterly presented (million U.S. dollars)

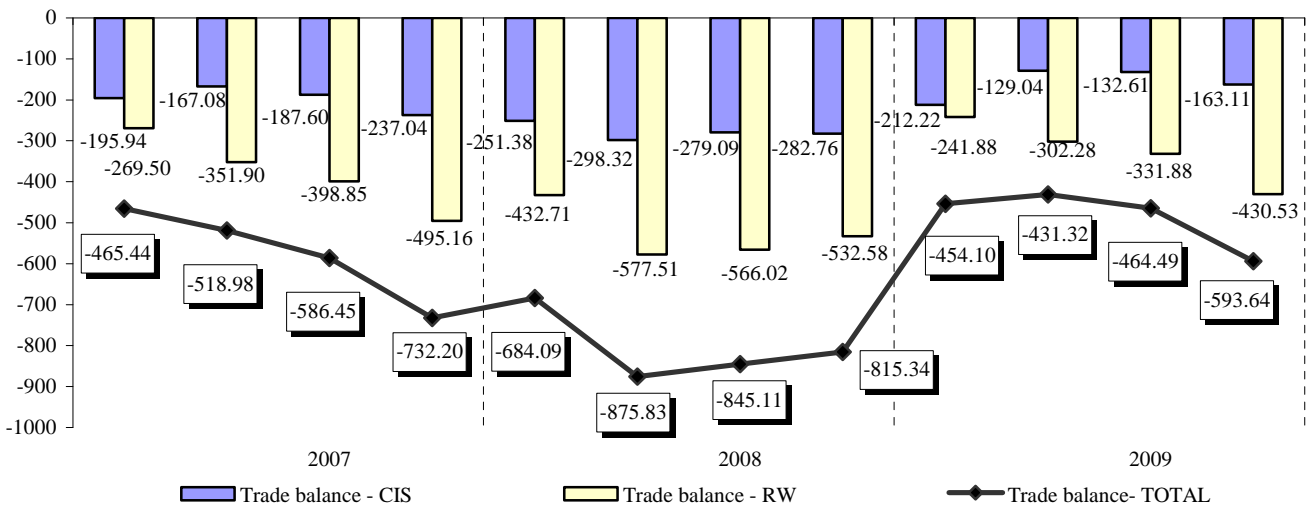
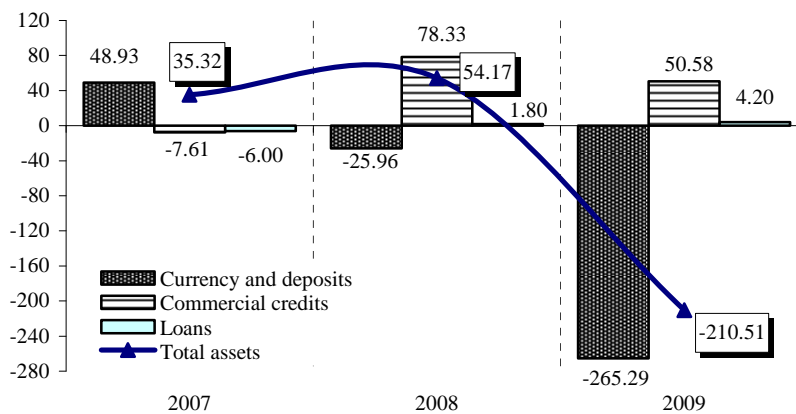
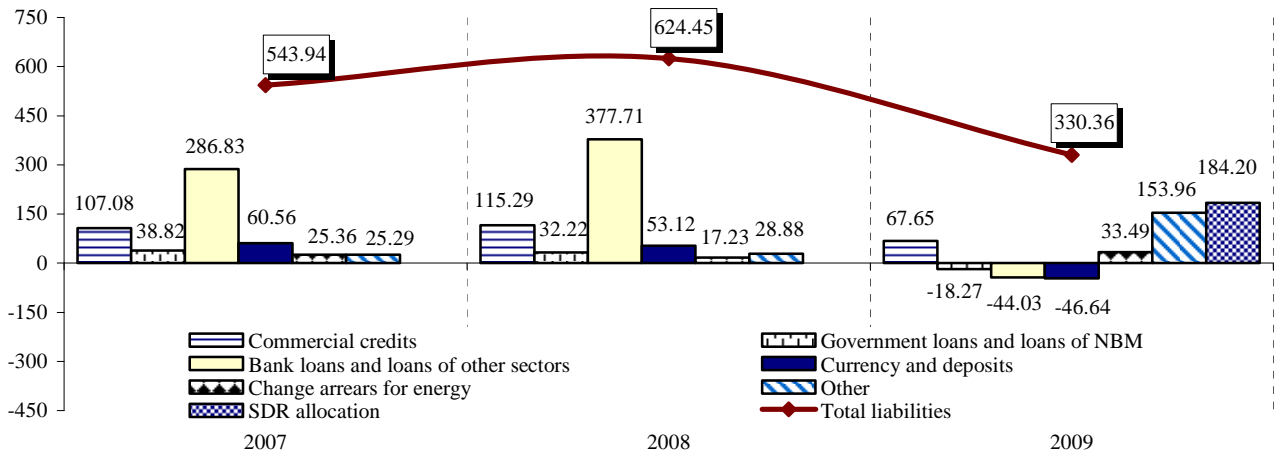


Chart no. 2. Other investments – financial assets (million U.S. dollars)



Note: (-) increase

Chart no. 3. Other investments – liabilities\* (million U.S. dollars)



\* including rescheduled loans