



National Bank of Moldova

ANNUAL REPORT

2002

CONTENTS

| | |
|---|------------|
| 1. Economic Situation of the Republic of Moldova | 3 |
| World Economy in 2002..... | 3 |
| Real Sector | 6 |
| Evolution of Prices and Public Living Standard..... | 12 |
| Public Sector Finances | 13 |
| Balance of Payments | 15 |
| External Debt..... | 22 |
| 2. Activity of the National Bank of Moldova | 25 |
| Monetary Policy Implementation in 2002 | 25 |
| Monetary Policy Objectives and Results | 25 |
| Monetary Indicators Dynamics | 29 |
| Monetary Policy Instruments..... | 36 |
| Deposit Operations | 36 |
| Open Market Operations..... | 37 |
| Interest Rate Policy | 38 |
| Required Reserves | 38 |
| State Debt to the NBM | 39 |
| Lending Activity | 40 |
| Financial Markets | 41 |
| Primary Market of State Securities | 41 |
| Secondary Market of State Securities..... | 44 |
| Trends in the Foreign Exchange Market | 46 |
| Banking Supervision and Regulation | 61 |
| Functioning and Development of the Payments System..... | 72 |
| NBM Personnel and Professional Training | 73 |
| NBM Organizational Chart..... | 74 |
| 3. Financial Statement of the National Bank of Moldova | 75 |
| Comment of Comptroller General Service | 75 |
| Report of Independent External Auditors | 76 |
| 4. Annexes..... | 103 |

1. Economic Situation of the Republic of Moldova

World Economy in 2002

Initial estimates envisioned a solid revival of the world economy in 2002 following the tangible slowdown of the growth rate in the previous year. Yet, the world economy recovery proved to develop according to an uneven trend due to the persistence of an increased volatility in the equity markets. Nevertheless, despite shocks and uncertainties, the global economic growth evolved positively, developments varying by world regions.

The world real GDP growth is estimated at 3.1% in 2002 as compared to 2.2% in 2001 and 4.7% in 2000.

According to preliminary data, the economic growth in the USA constituted 2.4% due to incentive actions within monetary and fiscal policies. On November 6, 2002, after an 11-month interval, the Federal Reserve Bank reduced the base rate down to 1.25% per year, reaching the lowest level in the last 50 years. The average annual inflation rate accounted for 1.6% in 2002 as against 2.8% in the previous year, while the unemployment rate rose to 5.8%.

The Euro zone is expected to record a moderate economic growth of 0.8% (1.4% in 2001), though the unemployment rate remained at a high level of 8.3%. The risks of intensified inflationary pressures forced the Central European Bank to hold unchanged the base rate in the first half of the year. The base rate was lowered by 0.5 p.p. to 2.75% only on December 5, 2002. The average annual inflation rate reduced from 2.4% in 2001 to 2.2% in 2002, partially reflecting the effect of Euro appreciation in the 4th quarter of 2002. The share of the European Union countries within the overall volume of Moldova's trade with goods recorded a significant value of 24.6% in 2002.

According to estimates, economic growth in Central European countries kept the same level of 2.2% as in the previous year, on the background of reducing inflation rate from 6.2% in 2001 to 3.2% in 2002. The Central and Eastern Europe region accounted for 19.9% of Moldova's trade with goods, including 10.6% to Romania.

The economic growth in Romania was estimated at 4.7% in 2002. The year-end inflation rate constituted 17.8%, which is by 12.5 p.p. lower than in 2001.

The pace of economic growth in the Commonwealth of Independent States slowed down to 4.6%, as compared with 6.3% in 2001. At the same time, the ratio of current account balance to GDP in CIS states reduced to 4.9% in 2002 as compared with 7.5% in 2001. Traditionally, CIS countries hold the largest weight (45.3% in 2002)

of Moldova's commercial transactions with goods, including Russia – 23.4% and Ukraine – 16.8%.

The Russia's domestic aggregate demand kept a high level during 2002, contributing to a 4.3% real GDP growth against a 15.1%-inflation at the period-end.

In Ukraine the economic growth is estimated to account for 4.6% as compared with 9.1% in 2001 against an annual deflation of 0.6%.

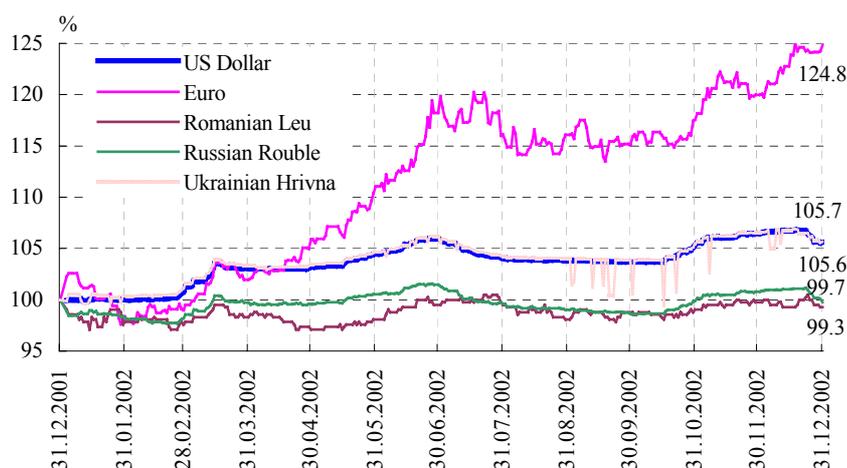
The foreign exchange market in 2002 was significantly affected by geopolitical evolutions that resulted in Euro increase in nominal terms by 18.22% as against USD (table no.1). This rise generated a significant appreciation by 24.8% of the Euro as against MDL (chart no.1). Thus, Euro became an attractive currency both for savings and lending purposes. Out of currencies in the region, only Ukrainian Hrivna (UKH) appreciated as against MDL by 5.7%, while Russian Rouble and Romanian Leu have, following insignificant fluctuations in 2002, kept the values recorded at the beginning of the year. The depreciation of the national currency as against Euro and UKH fostered Moldova's exports towards Ukraine and Euro countries.

Table no. 1. Dynamics of exchange rate of currencies as against USD in 2002

| | 31.12.2001 | 31.12.2002 | Percentage change, % |
|-------------------------|------------|------------|----------------------|
| Moldovan Leu | 13.0909 | 13.8220 | -5.59 |
| Russian Rouble | 30.1634 | 31.9289 | -5.85 |
| Ukrainian Hrivna | 5.3391 | 5.3340 | 0.1 |
| Romanian Leu | 31468.51 | 33467.31 | -6.35 |
| Euro* | 0.8811 | 1.0416 | 18.22 |

* Indirect quotation (US\$ for 1 Euro)

Chart no. 1. Dynamics of nominal exchange rate of currencies as against Moldovan Leu in 2002 (31 Dec.2001=100)



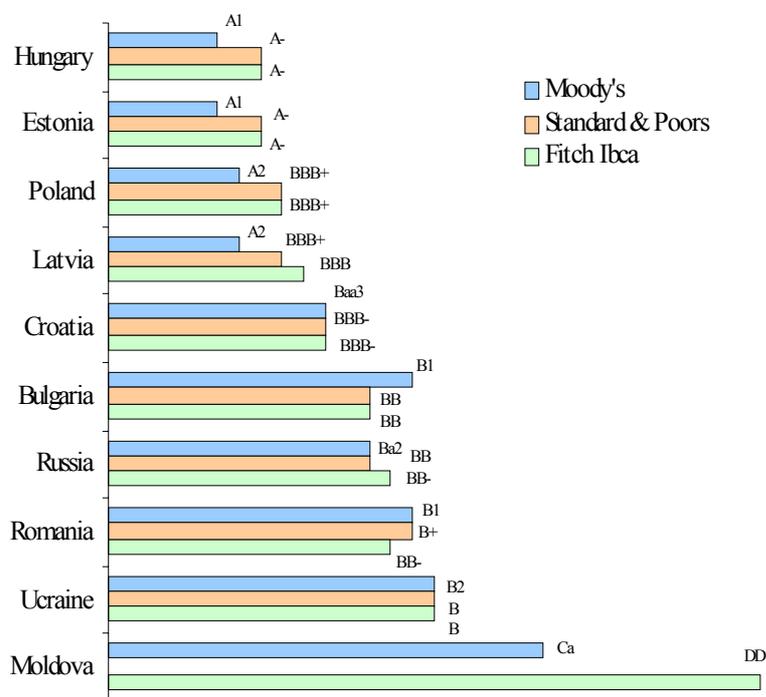
On December 13, 2002 Copenhagen, Denmark, hosted an important event – the Summit of the European Union on adherence of new members. On May 1, 2004 the list of EU members shall be supplemented with 10 new states: Poland, Czech Republic, Hungary, Slovakia, Slovenia, Lithuania, Latvia, Estonia, Cyprus and Malta. Moreover, Bulgaria and Romania are expected to join European Union in 2007. The EU extension is viewed as a very important process that shall enhance the community's economic potential, although certain problems related to social and fiscal policies of the new members are still to be settled.

The rating companies showed immediate reaction to this event, increasing the rating of those 10 countries adhering to EU. Romania's

and Bulgaria's ratings also went up (chart no. 2).

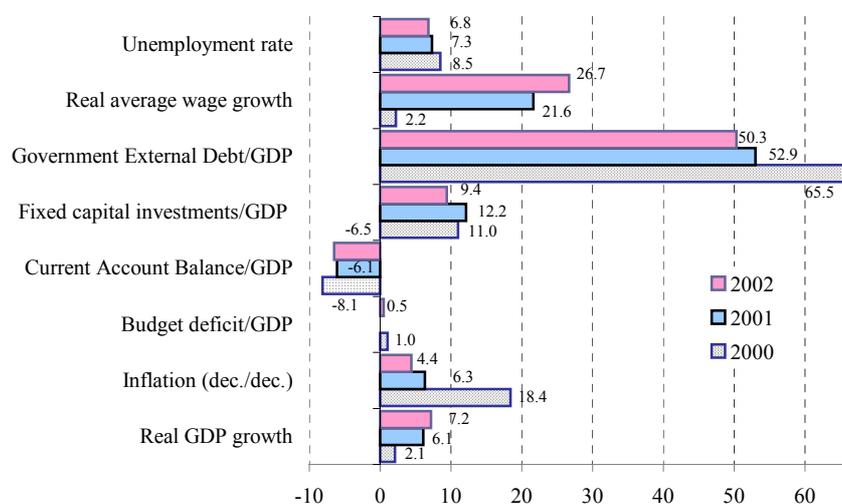
On June 28, 2002 Fitch IBCA reduced the country rating of the Republic of Moldova. Further on, following the completion of the restructuring process of Eurobonds issued by the Republic of Moldova, Fitch IBCA modified Moldova's rating into a positive one on November 18, 2002. In February 2003 Fitch IBCA increased the long- and short-term foreign currency rating to B- and B, respectively.

Chart no. 2. Classification of countries according to the rating at 2002 end



Real Sector *

Chart no. 3. Macroeconomic indicators, %



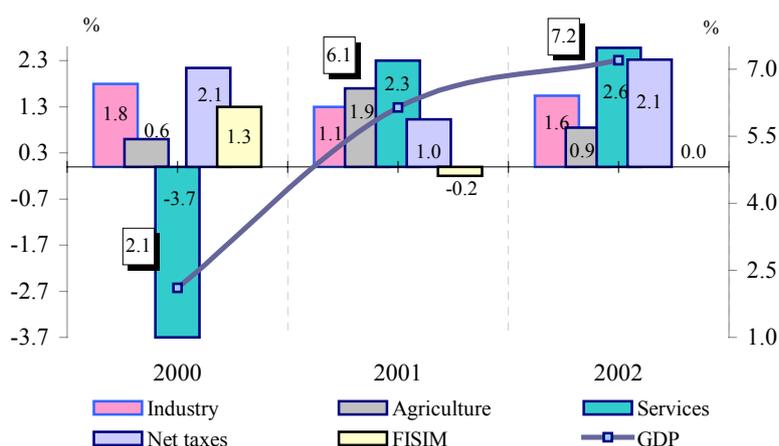
The positive development trends within the main branches of the national economy consolidated in 2002. According to preliminary data, the nominal gross domestic product (GDP) amounted to lei 22040.4 million, registering an increase by 7.2% in real terms (chart no. 3).

The results of basic economic activities reflected a 10.6%-increase in industrial output and a 3.0%-rise in agricultural output as compared to the previous year. Investments in fixed capital went up by 4.0%; the inflation

rate at the year-end accounted for 4.4%.

Real GDP growth relied on the 5.7% upturn in the gross added value, including of industry – by 8.3%, of services – by 5.2% and of agriculture – by 4.0%. **The GDP breakdown by resource category** remain unchanged as compared to the preceding year: services held the largest weight – 49.5%; agriculture – 21.0%; industry – 18.6%; net

Chart no. 4. Dynamics of GDP components' contributions



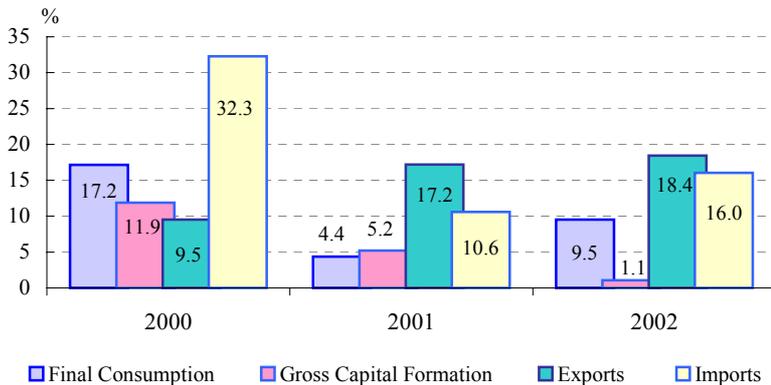
taxes on goods and import – 12.9% and financial intermediation services indirectly measured (FISIM) – minus 2.0%. Thereafter, the supply components recorded a favourable evolution in 2002. Their contributions to 7.2% real GDP growth were accounted as follows: services for 2.6 p.p.; industry – 1.6 p.p.; agriculture – 0.9 p.p. and net taxes – 2.1 p.p. (chart no. 4).

The domestic aggregate demand went up in 2002, resulting from the 9.5%-increase in final consumption (as against 4.4% in 2001) and the 1.1%-increase in gross capital formation, including the growth by 4.1% of fixed capital formation (chart no. 5). These developments generated an increase in

* Source: Statistics and Sociology Department of Republic of Moldova

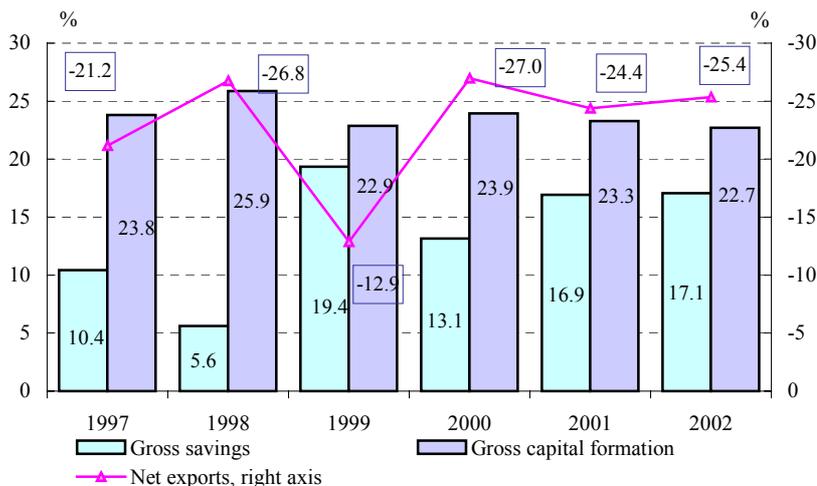
the negative balance of net exports, resulted from the acceleration as compared to 2001 of imports growth rate (by 5.4 p.p.) against the exports one (by 1.2 p.p.).

Chart no. 5. Real growth rate of GDP components by use



net exports – minus 25.4%. Investment rate (*ratio of gross fixed capital formation to gross added value*) kept in 2002 the same level of 19.0% as in the previous year (17.6% in 2000).

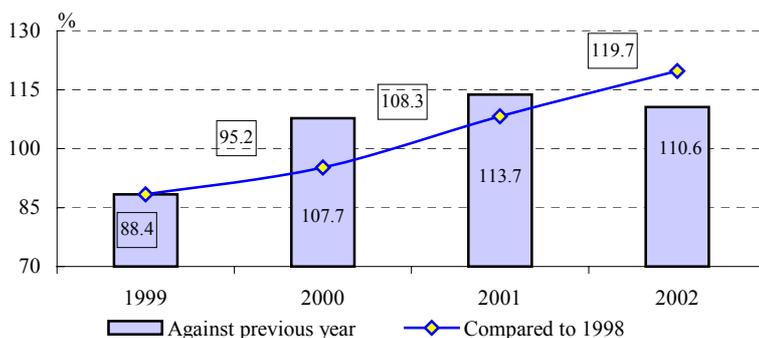
Chart no. 6. Evolution of gross savings and investments (weights in GDP)



The larger weight of net exports' negative balance in GDP after 1999 did not determine a relevant increase of the weight of gross capital formation; yet, it has been reflected in the ascendant dynamics of final consumption. At the same time, the moderate increase of gross savings did not turn into investments' growth (chart no. 6).

In 2002 the *industrial output* produced by enterprises of all property forms amounted to lei 11870.8 million, which is, in average prices, by 10.6% more than in the previous year (chart no. 7).

Chart no. 7. Industrial output index (in average prices of the previous year)

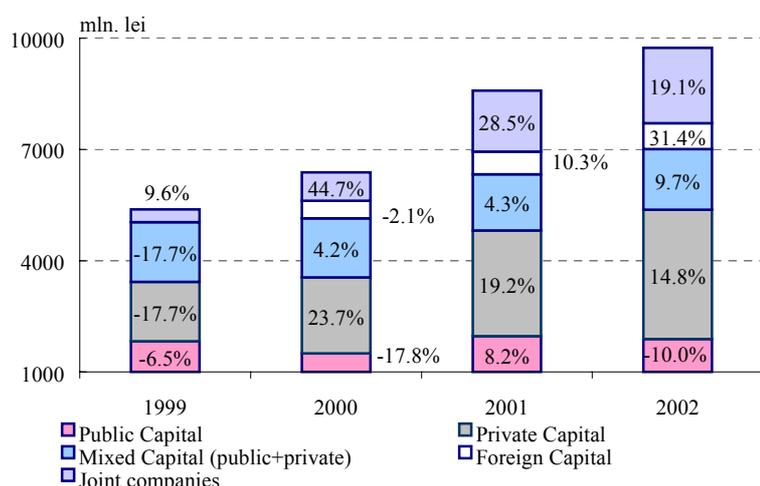


In 2002 the industrial output commercialised in current prices increased by 16.3%. The share of traded output exported abroad accounted for 35.7% of the total and surpassed by 2.5 p.p. the value of the previous year.

The industrial output generated by large and medium enterprises subject to monthly statistics increased by

10.6% in real terms as compared to 2001 and amounted to lei 9737.6 million. Such increase was mainly due to processing industry (84.0% of total industrial output), which real value increased by 12.4%. The operations of quarries improved by 24.4%; the supply with electricity, gas and water increased by 0.3%.

Chart no. 8. Structure of industrial output value and growth rate by property forms



The output produced as a result of basic activities within processing industry (textiles, food and beverage, non-metal production), which holds a cumulate weight of 68.1% of total industrial output, increased within 8.8% to 34.2%.

Food industry (58.8% of total industrial output) recorded an increase by 9.7%, including wines and sugar production – by 21.4%. Tobacco and fruit-growing industries dropped their value by 34.1% and 24.9% respectively as compared to the preceding year.

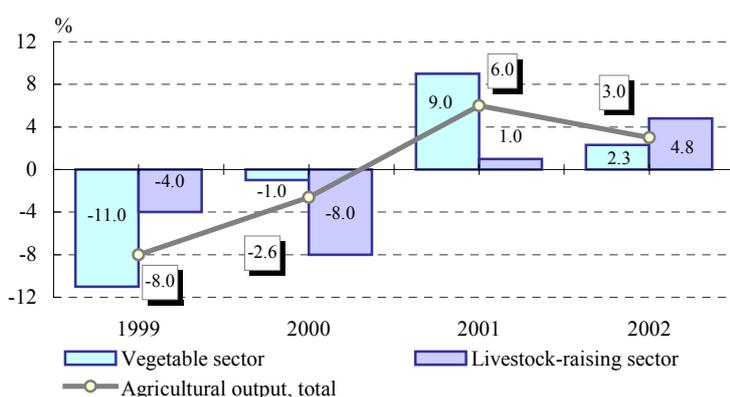
All property forms (chart no. 8) recorded higher production values in real terms, except public property (minus 10.0%).

On the background of a larger industrial output by 10.6% and a lower number of staff employees within the industrial sector by 2.5% (676 enterprises), labour productivity increased by 13.4% during 2002.

Out of enterprises subject to monthly recording, 45.0% reduced the industrial output and 36.4% decreased labour productivity.

Agricultural output (as in accordance with preliminary estimates for 2002) for all categories of farms amounted to lei 9408.0 million in current prices and surpassed by 3.0% in real terms the value of the

Chart no. 9. Real agricultural output dynamics



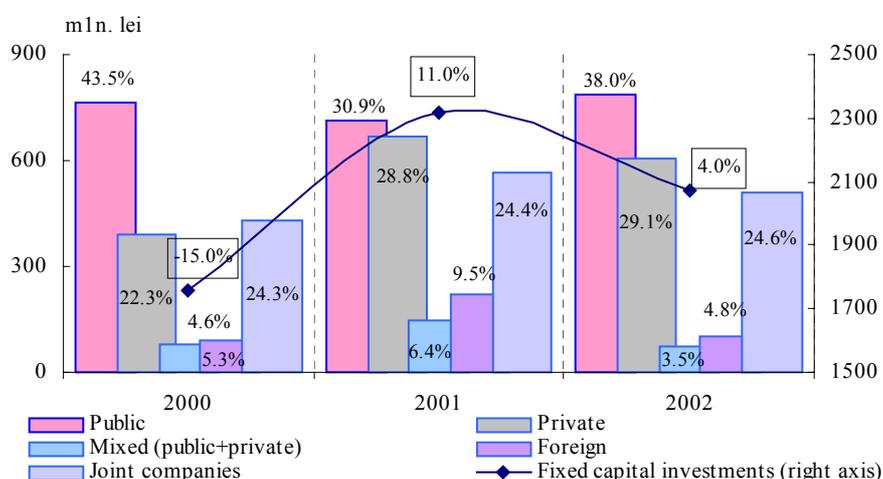
previous year. Vegetal and livestock output increased by 2.3% and 4.8%, respectively (chart no. 9). The vegetal output share in the total agricultural output accounted for 70.0%, within which: the harvest of cereals and beans accounted for 31.0%, grapes – for 10.0%, potatoes – for 7.0%, sunflower and vegetables – for 5.0% each. Thus, the agricultural output growth was mainly due to a larger harvest of grapes (by 31.0%), of

sunflower (by 25.0%) and of corn beans (by 7.0%). At the same time, the harvest of potatoes, wheat and vegetables was lower as compared to the previous year.

The share of the agricultural output traded in 2002 by farms and public accounted for 71.0% of total output and by agricultural enterprises – for 29.0%. Since the beginning of the privatization process over 617.0 thousand people received land under private property. The number of established and registered farmers' entities in 2002 increased by 9.0 thousand or by 3.4%.

Investments in fixed capital in 2002 amounted to lei 2074.7 million, exceeding by 4.0% in real terms the level of the previous year. At the same time, investments in construction and assembly (which account

Chart no. 10. Structure and value of fixed capital investments by property forms



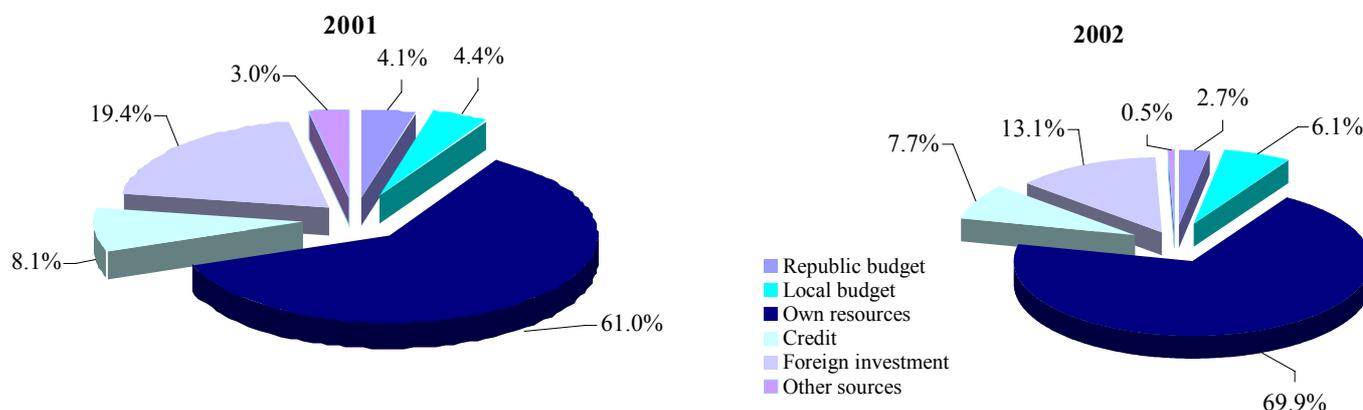
for 41.6% of total) constituted 93.0% of the value of 2001. Investments in equipment, utensils and inventory (amounting to lei 1143.8 million or 55.1% of total) increased by 17.0% as compared to the previous year.

A share of 67.1% of total investments was directed to the public and private sector (chart no. 10); the private sector recorded the largest increase in investments in fixed capital – by 24.0%.

The value of investments allocated in the productive sector increased by 17.0% in real terms as compared to 2001 and amounted to lei 1572.6 million; out of this figure, 31.5% went into the property of mixed enterprises (by 23.0% more).

Investments in non-productive sector amounting to lei 502.1 million

Chart no. 11. Structure of investment sources in fixed capital

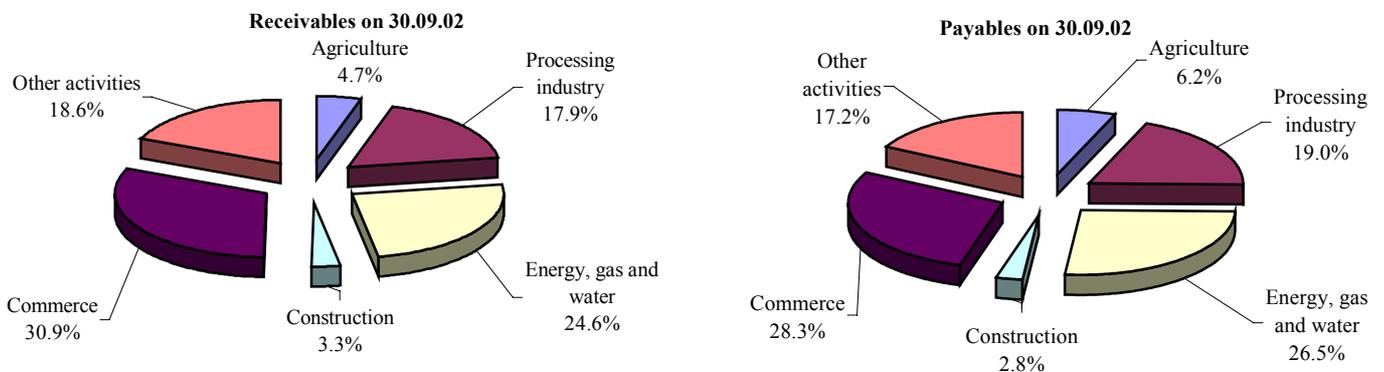


dropped by 23.0% as compared to 2001.

According to sources of investment in 2002, self-funding (including individuals' resources) predominated with 69.9% of total and amounted to lei 1451.2 million, which is by 8.9 p.p. more than in 2001. The second important source – foreign investments – accounted for 13.1% and reduced by 6.3 p.p. as compared to the previous year. Investments on account of state and local budgets constituted 8.8% (chart no. 11).

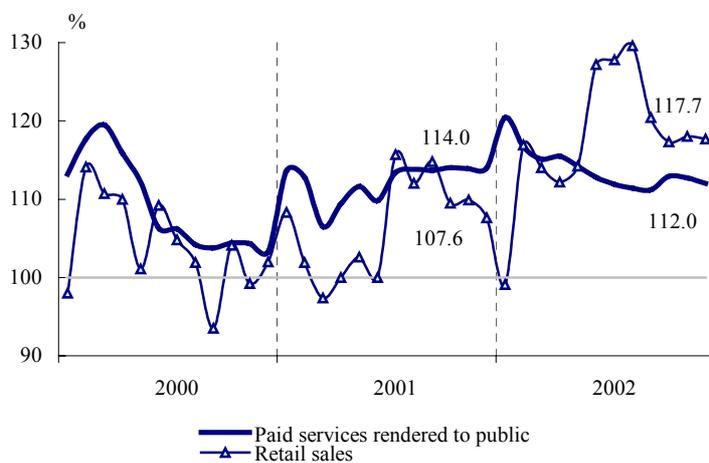
Short-term account receivables as on September 30, 2002 amounted to lei 16941.0 million and reduced by 33.6% as compared to the end of 2001; out of this value, commercial invoices held 62.6%.

Chart no. 12 . Structure of Accounts Receivables and Payables of enterprises by type of activity



Short-term account payables of enterprises as at the same date reduced by 19.5% as compared to the end of 2001 and amounted to lei 32646.0 million. Commercial debts, holding 57.9% of the total, decreased by 19.5%. At the overall level, short-term account payables almost doubled short-term account receivables. The energy complex and wholesale and retail selling held the largest shares related to both short-term account receivables and payables (chart no. 12).

Chart no. 13. Dynamics of domestic trade (indices as against corresponding period of the previous year)



Retail sales amounted to lei 4778.1 million, exceeding by 17.7% in real terms the value of the previous year (chart no. 13). According to estimations, retail sales of goods in local markets during the year totaled lei 5328.7 million (52.7 of total sales), surpassing by 26.9% the value in 2001.

The larger value of retail sales was recorded in all forms of property; the commercial units under private

property recorded the largest increase -by 20.1%.

Consumer services rendered to the public increased by 12.0% in real terms as compared to 2001 and amounted to lei 3355.7 million. Public entities recorded the largest increase – by 18.0% and accounted for 45.7% of total services. The value of services rendered by joint capital units with foreign participation reduced by 2.0% in real terms as compared to 2001.

The **average employee wage** in the national economy in 2002 increased by 26.7% in real terms (chart no. 14). Wages within trade, industry, transportation, depositing and telecommunications increased

the mostly; yet, the average wage within these sectors remained below the average employee wage in the national economy.

Arrears of wages as on December 31, 2002 totaled lei 137.8 million, which is by lei 84.9 million less than in the same period of the previous year.

The **minimum consumer budget** in 2002 increased by 8.0% in nominal terms and constituted lei 1137.4. Foodstuffs held the major share of 42.3%; non-food articles and services held 29.2% and 28.5%, respectively.

The increase in wages for all types of

activities in 2002 allowed a rise in the coverage level of the minimum consumer budget with the nominal average wage from 51.6% in 2001 to 62.1% in 2002.

Evolution of Prices and Public Living Standard

In 2002 consumer prices have displayed the lowest growth trend (4.4%) since the introduction of the national currency. Inflation was smaller and had a well-defined seasonal character. The reduction of the annual inflation rate by 1.9 p.p. was generated by the maintenance of a low level (of 2.8%) of prices for foodstuffs (chart no. 15).

The increase in prices for non-food products (by 8.2%) was especially determined by the 11.0%-rise in prices for ready-made clothes, footwear and pharmaceuticals.

Chart no. 14. Evolution of indicators as compared to the corresponding period of the previous year

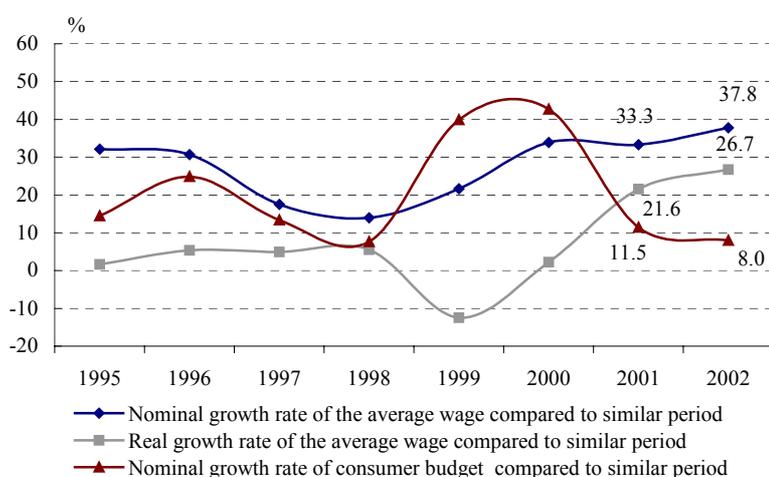
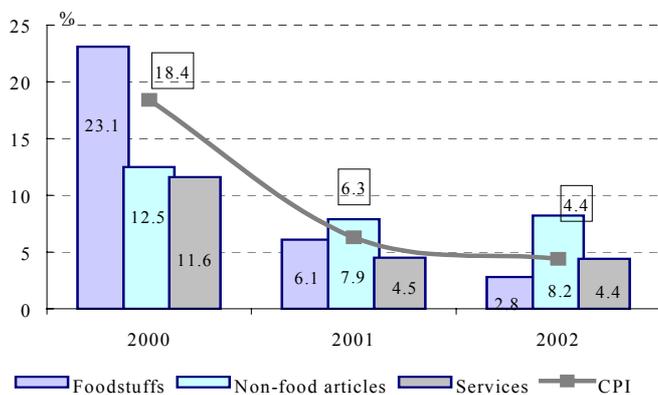


Chart no. 15. Dynamics of inflation in structure



Paid services to the public rose as follows: for communal services – by 5.5%, inclusive for water and sewerage – by 39.6%; for centralized heating – by 7.5%.

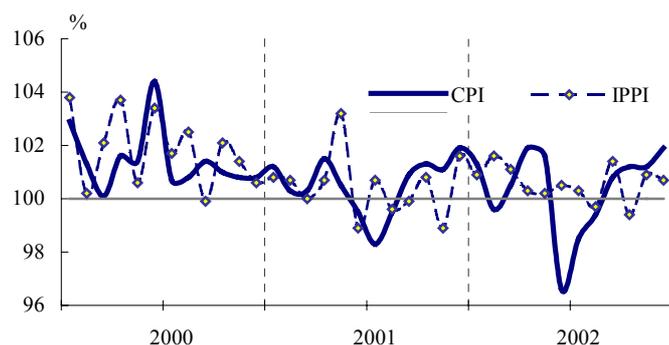
Table no. 2. Components contribution to CPI

| | Growth in 2001 | Contribution (percentage points) | Weight in CPI (%) | Growth in 2002 | Contribution (percentage points) | Weight in CPI (%) |
|--------------------------|----------------|----------------------------------|-------------------|----------------|----------------------------------|-------------------|
| CPI | 6.3 | | 100 | 4.4 | | 100 |
| <i>Foodstuffs</i> | 6.1 | 3.5 | 55.5 | 2.8 | 1.6 | 36.0 |
| <i>Non-food articles</i> | 7.9 | 2.1 | 32.6 | 8.2 | 2.1 | 48.0 |
| <i>Paid services</i> | 4.5 | 0.7 | 11.9 | 4.4 | 0.7 | 16.0 |

Prices for non-food items significantly impacted the CPI level (48.0% of total) and reflected an increased public demand (table no. 2).

Industrial producers prices rose by 6.7% as compared to December 2002 and exceeded the growth rate of consumer price (chart no. 16).

Chart no. 16. Monthly dynamics of Consumer Price Index (CPI) and Industrial Producers Price Index (IPPI)



The increase by 8.0% in prices within processing industry, including of production prices of textiles – by 18.2% and of ready-made clothes – by 27.6% generated inflationary tensions. Prices within the extraction industry recorded a more moderate growth (by 1.9%).

The *minimum subsistence value* in 2002 totaled lei 538.4, which is by 9.2% more in real terms than in 2001. The variation of this index during the year was largely determined by seasonal fluctuations in

prices for foodstuffs included in the food basket and by the change of consumer expenditures' structure.

The nominal average employee wage in the national economy (lei 691.9) exceeded by 21.4% the annual value of the minimum of subsistence for labour force (lei 569.7). The share of disadvantaged persons (with income lower than the minimum of subsistence) accounted for 80.9%, which is by 4.4 p.p. less than in the similar period of the previous year.

The average monthly disposable income totaled lei 321.6 and increased by 26.8% in real terms as against in 2001. Income in kind in the urban area (equivalent in lei) constituted only 3.7% of disposable income, while in the rural area 51.2%, as against the overall average level of 32.4%.

The average monthly expenses totaled lei 325.8 per person, or by 24.5% in real terms more than in the previous year. Foodstuffs accounted for 58.4% of total expenses (as compared to 63.9% in 2000). The weight of this component during the last three years followed a descendent trend to the advantage of other expenses.

Public Sector Finances¹

The **consolidated budget** for 2002 was envisioned as follows: budget revenues – lei 5128.6 million; and budget expenditures – lei 5365.8 million.

According to preliminary data, consolidated budget revenues amounted to lei 5084.4 million, or 99.1% of projections, which is by lei 759.5 million or 17.6% more than in 2001. Consolidated budget expenditures totalled lei 5194.1 million, or 96.8% of annual projections. Consolidated budget deficit amounted to lei 109.7 million and constituted 0.5% of GDP.

Tax collections amounted to lei 4284.0 million or 100.2% of projections. The weight of these revenues in total revenues accounted for 84.3% as compared to 79.5% in 2001.

Within fiscal revenues: direct taxes constituted 26.0%; indirect taxes – 70.6%; and other taxes – 3.4%.

Non-fiscal revenues amounted to lei 609.5 million, or 92.1% of projections. The weight of these revenues in total collected revenues of the consolidated budget accounted for 12.0%.

The net income of the National Bank of Moldova totalling lei 138.5 million constituted 22.7% of non-fiscal revenues.

Privatization proceeds and sales of state property amounted to lei 117.5 million and exceeded by 1.6% set projections.

Consolidated budget expenditures allocated to the social sector totaled lei 2816.5 million (54.2% of total expenditures); foreign debt service payments amounted to lei 486.3 million (9.4%); allocations to national economy valued lei 416.6 million lei (8.0%); implementation of the investment programme constituted lei 257.7 million (5.0%).

Total **state budget** revenues in 2002 amounted to lei 3371.2 million (96.2 of provisions stipulated in the Law on the Budget no. 681-XV of 27.11.2001), exceeding by lei 589.5 million the collections in 2001.

In 2002 the European Union allocated to the state budget a grant within the Food Security Program in an amount of lei 69.2 million.

¹ Based on information submitted by the Ministry of Finance of the Republic of Moldova

State budget expenditures in 2002 totalled lei 3555.6 million (or 96.3% of annual projections); expenditures' financing was not ensured in a value of lei 138.3 million.

The state budget deficit in 2002 was financed as follows: loans from the National Bank of Moldova – lei 237.0 million; revenues from sales of state securities – lei 184.0 million; external loan from the World Bank - lei 144.9 million; and other internal sources.

Payments of foreign credits in 2002 amounted to lei 460.0 million.

Revenues raised in 2002 for *budgets of territorial-administrative units* amounted to lei 2437.0 million (including transfers from the state budget in a value of lei 723.8 million), or 103.9% of annual projections. Expenditures constituted 98.7%. At the overall level, budgets of territorial-administrative units recorded a surplus of lei 77.3 million, considering the state budget loans in a value of lei 2.6 million.

Domestic public debt as on December 31, 2002 amounted to lei 2821.4 million and conformed to the limit stipulated in the Law on the State Budget for 2002 (lei 2837.5 million).

Out of total domestic debt, loans extended by the National Bank of Moldova amounted to lei 1744.1 million; issued state securities – lei 1077.3 million (including NBM holding of state securities – lei 400.0 million).

As compared to December 31, 2001 domestic public debt rose in 2002 by lei 421.0 million. This increase was due to the larger value of issued state securities (lei 184.0 million) and the loans extended by the National Bank of Moldova (lei 237.0 million).

Balance of Payments

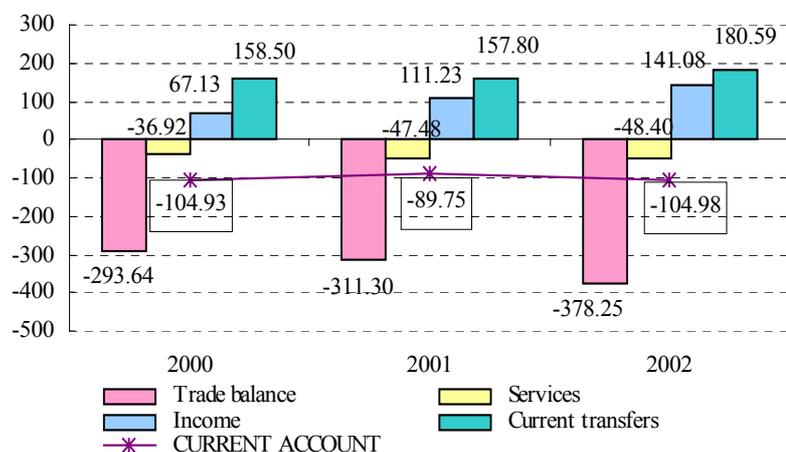
Table no. 3. Balance of Payments of Moldova – main aggregates – standard presentation (US\$ mln.)

| | 2000 | 2001 | 2002 provisional data |
|---|----------------|----------------|-----------------------------|
| CURRENT ACCOUNT | -104.93 | -89.75 | -104.98 |
| Balance of goods and services | -330.56 | -358.78 | -426.65 |
| Trade balance | -293.64 | -311.30 | -378.25 |
| Exports (FOB) | 476.82 | 567.26 | 659.80 |
| Imports (FOB) | -770.46 | -878.56 | -1038.05 |
| of which: | | | |
| energy resources (exc. electricity) | -192.37 | -201.07 | -194.24 |
| Balance of Services | -36.92 | -47.48 | -48.40 |
| Exports | 165.36 | 171.62 | 210.76 |
| Imports | -202.28 | -219.10 | -259.16 |
| Income (net) | 67.13 | 111.23 | 141.08 |
| of which: | | | |
| Compensation of Moldovan employees | 157.97 | 223.00 | 267.00 |
| Interest payable on loans | -46.96 | -54.57 | -66.8 |
| Interest payable on debt securities | -14.18 | -14.16 | -9.69 |
| Current transfers (net) | 158.50 | 157.80 | 180.59 |
| CAPITAL AND FINANCIAL ACCOUNT | 123.06 | 76.28 | 78.63 |
| Capital transfers (net) | 4.27 | -1.99 | -0.81 |
| Direct investments (net) | 142.90 | 159.74 | 107.67 |
| of which: <i>in national economy</i> | <i>142.98</i> | <i>159.82</i> | <i>108.08</i> |
| Equity capital and reinvested earnings | 95.32 | 129.30 | 71.08 |
| Loans from parent companies | 47.66 | 30.52 | 37.00 |
| Portfolio investments (net) | 92.46 | -25.39 | -21.26 |
| of which: <i>assets – bonds and notes</i> | <i>0.00</i> | <i>-3.17</i> | <i>-1.01</i> |
| <i>liabilities</i> | <i>92.46</i> | <i>-22.22</i> | <i>-20.25</i> |
| Equity securities | 2.58 | 3.56 | 1.72 |
| Debt securities | 89.88 | -25.78 | -21.97 |
| Other investments (net) | -69.15 | -46.61 | 19.99 |
| <i>Assets</i> | <i>-35.43</i> | <i>-26.15</i> | <i>-71.86</i> |
| <i>Liabilities</i> | <i>-33.72</i> | <i>-20.46</i> | <i>91.85</i> |
| Long-term loans * | 153.03 | -5.88 | -5.64 |
| disbursed | 285.54 | 93.51 | 133.53 |
| reimbursed | -132.51 | -99.39 | -139.17 |
| Arrears at external debt service ** | -99.93 | 21.92 | 70.89 |
| Arrears on imports of energy resources ** | -97.85 | -30.91 | 14.40 |
| Others | 11.03 | -5.59 | 12.20 |
| Reserve assets *** | -47.42 | -9.47 | -26.96 |
| Errors and omissions | -18.13 | 13.47 | 26.35 |

* - including rescheduled loans. ** (+) – increase, (-) - decrease. *** (-) – increase, (+) – decrease.

The balance of payments shows all economic transactions between residents and non-residents during the reported period. The value of current international transactions (without current transfers) performed in 2002 increased by 17.4% as against in the previous year and amounted to US\$ 2.5 billion. Under existent restrained circumstances, Moldova's economic agents managed to slightly enlarge their exports to European countries and the USA; yet, the imports growth exceeded the exports one. Thus, exports of goods and services rose by 17.8%; imports – by 18.2%. The coverage of imports by exports accounted for 67.1% (as compared to same indicators of 15.1%, 12.8% and 67.3% respectively in the previous year).

Chart no. 17. Current account yearly dynamics (US\$ mln.)



The main aggregates of the balance of payments of the Republic of Moldova in 2002 are shown in table no. 3 (provisional data).

The current account of the balance of payments registered a deficit of US\$ 104.98 million in 2002 and exceeded by 17.0% the value in the previous year. This increase was due to larger imports of goods and services, which generated the increase of trade deficit. Thus, the negative balance of trade with goods rose by 21.5%, that of

trade with services – by 1.9%. Income and transfers covered 75.4% of the enhanced deficit of trade with goods and services of US\$ 426.7 million; this indicator followed its ascendant trend observed in the last 3 years (75.0% in 2001 and 68.3% in 2000).

Chart no. 18. Exports and imports of goods yearly dynamics

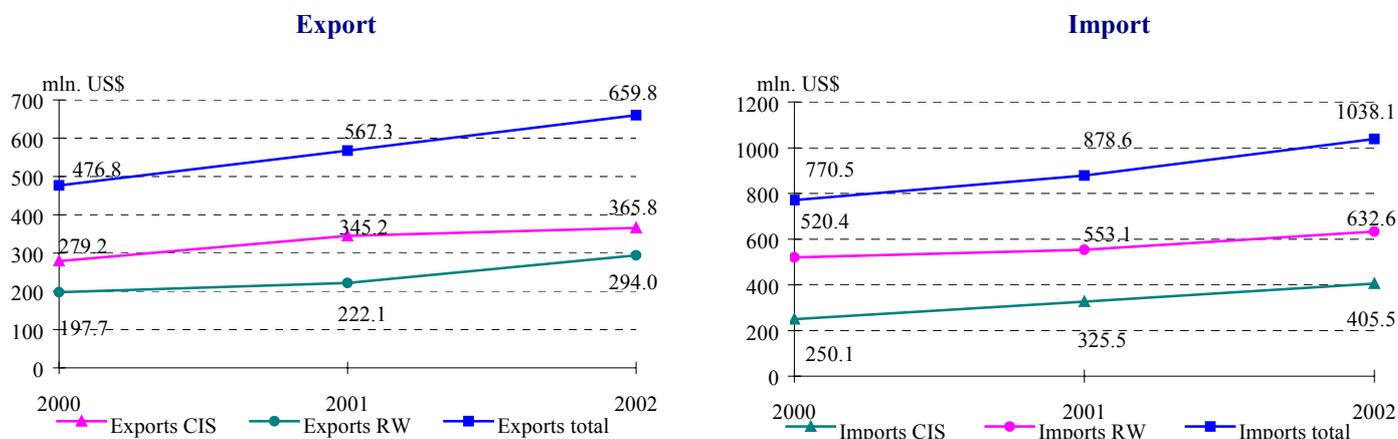


Table no. 4. Exports by countries

| | 2000 | | 2001 | | 2002 | | 2002 versus 2001, % |
|-----------------------------------|---------------|--------------|---------------|--------------|---------------|--------------|------------------------------|
| | US\$ mln. | weight, % | US\$ mln. | weight, % | US\$ mln. | weight, % | |
| EUROPEAN UNION | 102.20 | 21.7 | 120.95 | 21.4 | 143.80 | 22.33 | 118.9 |
| including: | | | | | | | |
| Austria | 5.64 | 1.2 | 8.50 | 1.5 | 7.22 | 1.1 | 84.9 |
| France | 7.92 | 1.7 | 8.38 | 1.5 | 11.36 | 1.8 | 135.6 |
| Germany | 36.2 | 7.7 | 40.01 | 7.1 | 46.14 | 7.2 | 115.3 |
| Greece | 2.37 | 0.5 | 2.72 | 0.5 | 3.11 | 0.5 | 114.3 |
| Italy | 36.32 | 7.7 | 45.45 | 8.1 | 56.82 | 8.8 | 125.0 |
| Great Britain | 5.40 | 1.1 | 5.62 | 1.0 | 5.31 | 0.8 | 94.5 |
| Netherlands | 3.22 | 0.7 | 3.99 | 0.7 | 3.04 | 0.5 | 76.2 |
| Spain | 1.95 | 0.4 | 1.27 | 0.2 | 3.18 | 0.5 | 250.4 |
| CENTRAL and EASTERN EUROPE | 63.28 | 13.4 | 61.90 | 11.0 | 88.90 | 13.81 | 143.6 |
| including: | | | | | | | |
| Baltic states | 9.79 | 2.1 | 6.85 | 1.2 | 9.36 | 1.5 | 136.6 |
| Bulgaria | 3.63 | 0.8 | 3.67 | 0.7 | 3.39 | 0.5 | 92.4 |
| Poland | 2.00 | 0.4 | 1.67 | 0.3 | 2.67 | 0.4 | 159.9 |
| Romania | 37.82 | 8.0 | 37.94 | 6.7 | 56.71 | 8.8 | 149.5 |
| Hungary | 4.61 | 1.0 | 7.23 | 1.3 | 9.17 | 1.4 | 126.8 |
| CIS | 276.09 | 58.6 | 342.15 | 60.7 | 350.50 | 54.43 | 102.4 |
| including: | | | | | | | |
| Belarus | 21.82 | 4.6 | 30.16 | 5.3 | 39.02 | 6.1 | 129.4 |
| Russia | 209.95 | 44.5 | 244.26 | 43.3 | 238.94 | 37.1 | 97.8 |
| Ukraine | 35.47 | 7.5 | 57.17 | 10.1 | 61.37 | 9.5 | 107.3 |
| OTHER COUNTRIES | 29.9 | 6.3 | 38.96 | 6.9 | 60.69 | 9.43 | 155.8 |
| including: | | | | | | | |
| Canada | 2.12 | 0.4 | 2.33 | 0.4 | 6.34 | 1.0 | 272.1 |
| SUA | 15.57 | 3.3 | 25.65 | 4.5 | 34.93 | 5.4 | 136.2 |
| Turkey | 2.02 | 0.4 | 2.26 | 0.4 | 4.12 | 0.6 | 182.3 |
| TOTAL | 471.47 | 100.0 | 563.96 | 100.0 | 643.89 | 100.0 | 114.2 |

Source: SSD data (estimations on shuttle trade not included; with some adjustments on coverage of machines and equipment)

The value of external trade with goods accounted for a deficit of US\$ 378.25 million, surpassing by US\$ 66.95 million the value in the previous year. The substantially increased deficit in the value of trade with Ukraine determined the reappearance of the negative balance (of -US\$ 39.68 million) in the value of external trade with CIS countries.

Total exports of goods rose by 16.3% as compared to the previous year (exports to CIS – by 6.0%; exports to the rest of the world – by 32.4%). Imports increased by 18.2% (from CIS countries – by 24.6%;

from the rest of the world – by 14.4%).

Table no. 5. Exports by main groups of goods

| | 2000 | 2001 | 2002 | Weight in total exports of 2002 | 2002 versus 2000 | 2002 versus 2001 |
|------------------------------------|---------------|---------------|---------------|---------------------------------|------------------|------------------|
| | US\$ million | | | | | |
| Livestock products | 22.79 | 18.27 | 15.29 | 2.4 | 67.1 | 83.7 |
| Vegetable products | 65.86 | 79.1 | 106.07 | 16.5 | 161.1 | 134.1 |
| Fats and oils | 3.87 | 8.59 | 16.82 | 2.6 | 4.3 times | 195.8 |
| Foodstuffs, beverages, tobacco | 198.43 | 251.68 | 267.36 | 41.5 | 134.7 | 106.2 |
| Mineral products | 2.93 | 6.41 | 11.39 | 1.8 | 3.9 times | 177.7 |
| Chemical products | 8.21 | 8.15 | 7.17 | 1.1 | 87.3 | 88.0 |
| Plastic materials | 1.98 | 3.1 | 2.55 | 0.4 | 128.8 | 82.3 |
| Raw and tanned leather, furs | 13.06 | 11.46 | 23.35 | 3.6 | 178.8 | 2.0 times |
| Wood and charcoal | 0.81 | 1.51 | 0.98 | 0.1 | 121.0 | 64.9 |
| Wood pulp, paper, cardboard | 2.01 | 3.67 | 5.33 | 0.8 | 2.7 times | 145.2 |
| Textiles | 83.39 | 104.13 | 107.54 | 16.7 | 129.0 | 103.3 |
| Footwear, hats | 3.90 | 5.74 | 9.55 | 1.5 | 2.4 times | 166.4 |
| Gypsous, glass and stone articles | 14.65 | 13.7 | 14.08 | 2.2 | 96.1 | 102.8 |
| Precious stones and metals, pearls | 0.16 | 0.12 | 0.15 | 0.0 | 93.8 | 125.0 |
| Common metals | 11.66 | 3.05 | 7.01 | 1.1 | 60.1 | 2.3 times |
| Machinery and equipment | 23.90 | 27.52 | 24.83 | 3.9 | 103.9 | 90.2 |
| Vehicles, aircrafts, transport | 5.35 | 7.54 | 13.38 | 2.1 | 2.5 times | 177.5 |
| Optical tools and equipment | 3.24 | 6.19 | 6.72 | 1.0 | 2.1 times | 108.6 |
| Other goods and products | 5.27 | 4.03 | 4.32 | 0.7 | 82.0 | 107.2 |
| TOTAL | 471.47 | 563.96 | 643.89 | 100.0 | 136.6 | 114.2 |

Source: SSD data (estimations on shuttle trade not included; with some adjustments on coverage of machines and equipment)

Table no. 6. Imports by countries (CIF prices)

| | 2000 | | 2001 | | 2002 | | 2002 versus 2001 % |
|---------------------------------------|---------------|--------------|---------------|--------------|----------------|--------------|--------------------|
| | US\$ mln. | Weight, % | US\$ mln. | Weight, % | US\$ mln. | Weight, % | |
| EUROPEAN UNION including: | 220.77 | 28.4 | 243.11 | 27.4 | 260.04 | 25.1 | 107.0 |
| Austria | 7.89 | 1.0 | 14.00 | 1.6 | 13.47 | 1.3 | 96.2 |
| Belgium | 6.52 | 0.8 | 13.12 | 1.5 | 14.75 | 1.4 | 112.4 |
| France | 20.84 | 2.7 | 20.66 | 2.3 | 18.47 | 1.8 | 89.4 |
| Germany | 95.60 | 12.3 | 92.22 | 10.4 | 90.14 | 8.7 | 97.7 |
| Greece | 12.18 | 1.6 | 5.76 | 0.6 | 12.42 | 1.2 | 215.6 |
| Italy | 44.10 | 5.7 | 56.38 | 6.3 | 74.88 | 7.2 | 132.8 |
| Great Britain | 6.42 | 0.8 | 6.21 | 0.7 | 5.80 | 0.6 | 93.4 |
| Netherlands | 10.08 | 1.3 | 18.25 | 2.1 | 13.96 | 1.3 | 76.5 |
| Spain | 4.67 | 0.6 | 4.63 | 0.5 | 3.47 | 0.3 | 74.9 |
| Sweden | 6.77 | 0.9 | 1.36 | 0.2 | 1.48 | 0.1 | 108.8 |
| CENTRAL and EASTERN EUROPE including: | 210.20 | 27.1 | 225.26 | 25.3 | 247.34 | 23.8 | 109.8 |
| Baltic states | 13.57 | 1.7 | 14.24 | 1.6 | 17.6 | 1.7 | 123.6 |
| Bulgaria | 14.83 | 1.9 | 22.19 | 2.5 | 26.46 | 2.5 | 119.2 |
| Poland | 10.98 | 1.4 | 18.53 | 2.1 | 24.43 | 2.4 | 131.8 |
| Romania | 134.51 | 17.3 | 116.93 | 13.2 | 122.67 | 11.8 | 104.9 |
| Hungary | 16.84 | 2.2 | 22.76 | 2.6 | 21.82 | 2.1 | 95.9 |
| CIS | 257.26 | 33.1 | 337.9 | 38.0 | 417.52 | 40.2 | 123.6 |
| including: | | | | | | | |
| Belarus | 32.69 | 4.2 | 39.09 | 4.4 | 38.83 | 3.7 | 99.3 |
| Russia | 110.20 | 14.2 | 134.56 | 15.1 | 159.31 | 15.3 | 118.4 |
| Ukraine | 111.43 | 14.4 | 160.38 | 18.1 | 217.43 | 20.9 | 135.6 |
| OTHER COUNTRIES including: | 88.19 | 11.4 | 82.24 | 9.3 | 113.66 | 10.9 | 138.2 |
| USA | 42.59 | 5.5 | 21.24 | 2.4 | 44.16 | 4.3 | 207.9 |
| Turkey | 18.86 | 2.4 | 18.80 | 2.1 | 27.66 | 2.7 | 147.1 |
| TOTAL | 776.42 | 100.0 | 888.51 | 100.0 | 1038.56 | 100.0 | 116.9 |

Source: SSD data (following the principle of exporting country; estimations on shuttle trade not included; with some adjustments on coverage of machines and equipment)

External trade did not display essential modifications in 2002. Exports to Moldova's main trade partners accounted for 82.9% and had the following structure: exports to Russia accounted for 37.1%; to Ukraine – for 9.5%; to Italy – for 8.8%; to Romania – for 8.8%; to Germany – for 7.2%; to Belarus – for 6.1% and to the USA – for 5.4%.

Structurally, four items of exported goods supported Moldova's offer accounting for 78.6% of total exports. Of these, increased weights, as compared to the previous year were recorded by: "foodstuffs, beverages and tobacco" – by 6.2%; "textiles" – by 3.3%; "vegetal products" – by 34.1%. The item "machinery and equipment" reduced by 9.8%.

Of total imports 71.9% is held by

acquisitions from: Ukraine (20.9%); Russia (15.3%); Italy (7.2%); Romania (11.8%); Germany (8.7%); the USA (4.3%); and Belarus (3.7%).

Imports of goods from CIS countries accounted for 40.2% of total imports into Moldova.

Increased values were recorded by the following imported items: “machinery and equipment” (by 22.2%); “chemical products” (by 44.1%); and “textiles” (by 9.3%). Imported “mineral products” reduced by 2.3%. Agricultural products and foodstuffs accounted for a significant share of 14.2% of total imports in 2002 (as compared to 6.5% in 1999; 14.1% in 2000; and 16.1% in 2001).

Table no. 7. Imports by main groups of goods

| | 2000 | 2001 | 2002 | Weight in total imports of 2002 | 2002 versus 2000 | 2002 versus 2001 |
|------------------------------------|---------------|---------------|----------------|---------------------------------|------------------|------------------|
| | US\$ million | | | % | | |
| Livestock products | 10.74 | 23.88 | 23.86 | 2.3 | 2.2 times | 99.9 |
| Vegetable products | 25.35 | 37.64 | 43.47 | 4.2 | 171.5 | 115.5 |
| Fats and oils | 2.41 | 3.01 | 7.07 | 0.7 | 2.9 times | 2.3 times |
| Foodstuffs, beverages, tobacco | 71.23 | 78.87 | 72.63 | 7.0 | 102.0 | 92.1 |
| Mineral products | 256.05 | 242.58 | 237.07 | 22.8 | 92.6 | 97.7 |
| Chemical products | 74.89 | 80.40 | 115.86 | 11.2 | 154.7 | 144.1 |
| Plastic materials | 23.77 | 34.22 | 49.35 | 4.7 | 2.1 times | 144.2 |
| Raw and tanned leather, furs | 2.46 | 3.82 | 16.23 | 1.6 | 6.6 times | 4.2 times |
| Wood and charcoal | 9.94 | 13.46 | 16.14 | 1.6 | 162.4 | 119.9 |
| Wood pulp, paper, cardboard | 27.78 | 34.46 | 44.64 | 4.3 | 160.7 | 129.5 |
| Textiles | 77.47 | 92.06 | 100.59 | 9.7 | 129.8 | 109.3 |
| Footwear, hats | 2.41 | 4.45 | 4.53 | 0.4 | 188.0 | 101.8 |
| Gypsous, glass and stone articles | 16.66 | 32.01 | 30.71 | 3.0 | 184.3 | 95.9 |
| Precious stones and metals, pearls | 1.45 | 1.35 | 2.28 | 0.2 | 157.2 | 168.9 |
| Common metals | 31.59 | 37.67 | 48.97 | 4.7 | 155.0 | 130.0 |
| Machinery and equipment | 98.58 | 119.77 | 146.38 | 14.0 | 148.5 | 122.2 |
| Vehicles, aircrafts, transport | 15.47 | 21.83 | 50.72 | 4.9 | 3.3 times | 2.3 times |
| Optical tools and equipment | 19.17 | 15.52 | 14.87 | 1.4 | 77.6 | 95.8 |
| Other goods and products | 9.00 | 11.51 | 13.19 | 1.3 | 146.6 | 114.6 |
| TOTAL | 776.42 | 888.51 | 1038.56 | 100.0 | 133.8 | 116.9 |

Source: SSD data – CIF prices (estimations on shuttle trade not included; with some adjustments on coverage of machines and equipment)

Table no. 8. Services dynamics (US\$ mln.)

| | 2000 | | | 2001 | | | 2002 | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | exports | imports | balance | exports | imports | balance | exports | imports | balance |
| Transportation including: transit of gas | 81.87 | 60.05 | 21.82 | 83.48 | 67.37 | 16.11 | 105.96 | 75.71 | 30.25 |
| Travel | 27.41 | | 27.41 | 23.32 | | 23.32 | 28.26 | | 28.26 |
| Communications | 46.06 | 79.30 | -33.24 | 45.86 | 88.25 | -42.39 | 54.88 | 102.26 | -47.38 |
| Construction | 16.54 | 7.61 | 8.93 | 16.74 | 8.58 | 8.16 | 16.53 | 8.58 | 7.95 |
| Other services | 0.94 | 11.25 | -10.31 | 0.54 | 2.43 | -1.89 | 0.89 | 2.44 | -1.55 |
| | 19.95 | 44.07 | -24.12 | 25.00 | 52.47 | -27.47 | 32.5 | 70.17 | -37.67 |
| Balance of services | 165.36 | 202.28 | -36.92 | 171.62 | 219.10 | -47.48 | 210.76 | 259.16 | -48.40 |

amounted to US\$ 23.6 million (kW/h 987.2 million).

The value of external trade with services increased by 20.3% as compared to 2001: both revenues from exports and imports related

Imports of energy resources reduced by 3.4% as compared to the previous year and amounted to US\$ 194.24 million. The majority of energy resources were imported from CIS countries; the relevant weight increased by 6.9 p.p. as against in 2001. The volume of natural gas and coal (which are imported only from CIS region) registered a slight reduction (by 0.3% and 1.5% respectively) as compared to the previous year. Net imports of electricity accounted for a quantitative increase of 44.1% as against 2001 and

payments recorded increases (by 22.8% and 18.3% respectively). The deficit of the balance of services totalled US\$ 48.4 million, increasing by around US\$ 1 million as compared to 2001.

Income in 2002 amounted to US\$ 141.1 million. The increase as compared to the previous year of the relevant surplus accounted for 26.8% or US\$ 29.9 million.

Table no. 9. Income balance (US\$ mln.)

| | 2000 | | | 2001 | | | 2002 | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|---------------|
| | received | paid | balance | received | paid | balance | received | paid | balance |
| Compensation of employees | 157.97 | 27.04 | 130.93 | 223.00 | 36.50 | 186.50 | 267.00 | 37.83 | 229.17 |
| Income on investment | 14.12 | 77.92 | -63.80 | 12.18 | 87.45 | -75.27 | 8.48 | 96.57 | -88.09 |
| Income on direct and portfolio investment | 5.60 | 31.05 | -25.45 | 3.20 | 33.89 | -30.69 | 2.29 | 49.57 | -47.28 |
| - dividends | 0.06 | 4.10 | -4.04 | | 5.76 | -5.76 | 0.08 | 6.93 | -6.85 |
| - interest | 5.54 | 15.23 | -9.69 | 3.20 | 18.62 | -15.42 | 2.20 | 31.92 | -29.71 |
| - reinvested earnings | | 11.72 | -11.72 | | 9.51 | -9.51 | | 10.72 | -10.72 |
| Income on other investment | 8.52 | 46.87 | -38.35 | 8.98 | 53.56 | -44.58 | 6.19 | 47.00 | -40.81 |
| Total income | 172.09 | 104.96 | 67.13 | 235.18 | 123.95 | 111.23 | 275.48 | 134.4 | 141.08 |

Compensation of Moldovan residents working abroad still generates a significant inflow of foreign currency. According to the estimations it increased by 19.7% as compared to the previous year and amounted to US\$ 267.0 million.

Revenues from investments recorded a negative balance of US\$ 88.1 million, denoting the prevalence of scheduled payments related to the servicing of: governmental bonds – US\$ 9.7 million; IMF loans – US\$ 3.7 million; governmental loans – US\$ 23.3 million; banking loans – US\$ 1.2 million; other sectors' loans – US\$ 38.7 million, including credits from parent companies – US\$ 22.2 million.

Table no. 10. Current transfers dynamics (US\$ mln.)

| | 2000 | | | 2001 | | | 2002 | | |
|--|---------------|--------------|---------------|---------------|--------------|---------------|---------------|--------------|---------------|
| | inflow | outflow | balance | inflow | outflow | balance | inflow | outflow | balance |
| Total current transfers | 173.55 | 15.05 | 158.50 | 175.97 | 18.17 | 157.80 | 199.75 | 19.16 | 180.59 |
| including: | | | | | | | | | |
| - grants and technical assistance | 92.07 | 0.37 | 91.70 | 111.89 | 0.59 | 111.30 | 115.33 | 0.23 | 115.10 |
| - transfers for education and personnel training | 19.40 | 7.00 | 12.40 | 23.28 | 7.48 | 15.80 | 22.31 | 5.89 | 16.42 |
| - humanitarian aids | 49.73 | 0.08 | 49.65 | 29.41 | 0.03 | 29.38 | 41.19 | 0.15 | 41.04 |
| - fees to international organisations | 0.02 | 1.01 | -0.99 | | 1.63 | -1.63 | 0.02 | 2.72 | -2.70 |
| - employers' transfers | 1.39 | 0.21 | 1.18 | 2.14 | 0.39 | 1.75 | 1.15 | 0.65 | 0.50 |
| - other transfers | 10.94 | 6.38 | 4.56 | 9.25 | 8.05 | 1.20 | 19.75 | 9.52 | 10.23 |

The balance of current transfers accounted for the largest figure in the last years – US\$ 180.6 million. Inflows increased by 13.5%, while outflows – by 5.4% as compared to the previous year.

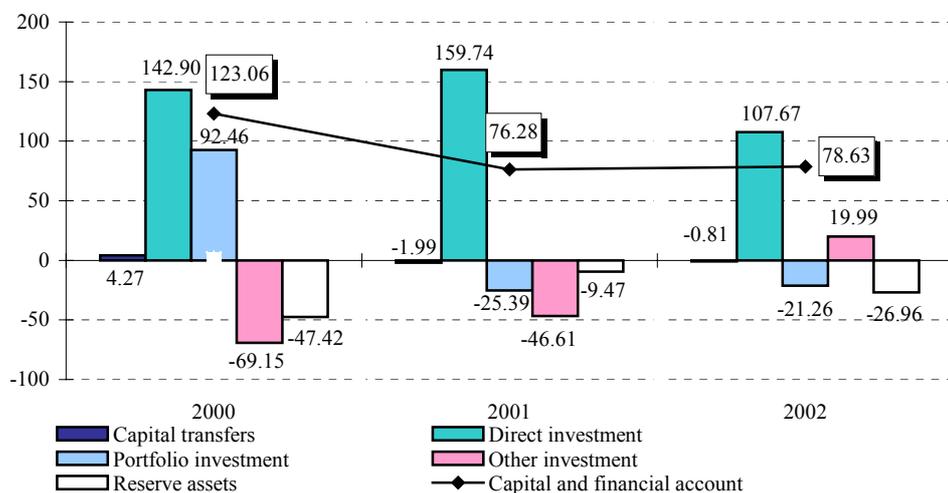
The capital and financial account of the balance of payments closed the year-end with a surplus of US\$ 78.6 million. The main factors that determined the situation of the financial account were as follows:

- Resumption by international financial organisations of Moldova's financing (ceased in March 2002) in the summer of 2002;

- Rescheduling of Eurobonds;
- Privatization of a number of important state enterprises with the participation of non-residents.

The evolution of different components of the capital and financial

Chart no. 19. Capital and financial account yearly dynamics (US\$ mln.)



account of the balance of payments of the Republic of Moldova during the last 3 years is shown in chart no. 19.

Direct external investments allocated in national economy in 2002 were estimated to total US\$ 142.79 million. Such investments were mainly directed to wine-making industry; energy sector; telecommunications; hotel industry; etc.

Non-residents' equity capital in 2002 amounted to US\$ 60.4

million in net terms; the majority of investments (US\$ 56.1 million) were allocated to entities within *other sectors*. The privatization of state property was re-launched in 2002, providing the participation of non-residents that acquired controlling blocks of shares in the JSCs "Moldcarton", "Topaz", "Vismos", Călăraș – Divin".

Table no. 11. Foreign direct investment yearly dynamics (US\$ mln.)

| | 2000 | | | 2001 | | | 2002 provisional data | | |
|---------------------------------|---------------|--------------|---------------|---------------|-------------|---------------|-----------------------|--------------|---------------|
| | inflows | outflows | net | inflows | outflows | net | inflows | outflows | net |
| Direct investment | 159.26 | 16.36 | 142.90 | 167.86 | 8.12 | 159.74 | 142.79 | 35.12 | 107.67 |
| abroad | | 0.08 | -0.08 | | 0.08 | -0.08 | | 0.41 | -0.41 |
| in national economy, including: | 159.26 | 16.28 | 142.98 | 167.86 | 8.04 | 159.82 | 142.79 | 34.71 | 108.08 |
| <i>equity capital</i> | 85.47 | 1.87 | 83.6 | 120.06 | 0.27 | 119.79 | 63.3 | 2.94 | 60.36 |
| banks | 16.07 | 1.80 | 14.27 | 8.14 | 0.25 | 7.89 | 4.23 | | 4.23 |
| other sectors | 69.40 | 0.07 | 69.33 | 111.92 | 0.02 | 111.9 | 59.07 | 2.94 | 56.13 |
| <i>reinvested earnings</i> | 11.72 | | 11.72 | 9.51 | | 9.51 | 10.72 | | 10.72 |
| <i>other capital</i> | 62.07 | 14.41 | 47.66 | 38.29 | 7.77 | 30.52 | 68.77 | 31.77 | 37.00 |

Other capital allocated among subsidiaries in Moldova in form of loans by non-resident shareholders amounted to US\$ 37.0 million.

Portfolio investment recorded a negative balance of US\$ 21.3 million. Such value was conditioned by Eurobonds' rescheduling and servicing of bonds held by the Russian "Gazprom" (according to the schedule).

Other investment denoted a net surplus amounting to US\$ 20.0 million: net assets increased by US\$ 71.9 million; net liabilities – by US\$ 91.9 million.

Other investments – assets side, foreign currency assets increased by US\$ 34.1 million in net terms, of which external assets of commercial banks – by US\$ 15.7 million.

The larger value of financial liabilities was mainly conditioned by the accumulation of new arrears, which are reflected in the balance of payments by other liabilities item.

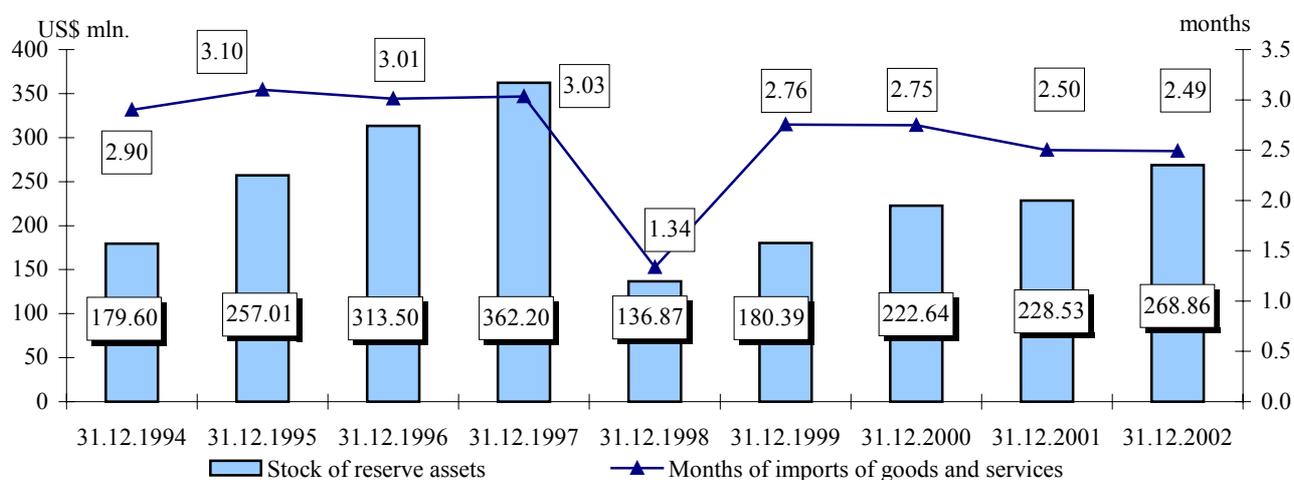
Loan reimbursements as according to the schedule exceeded effective disbursements and registered a negative balance of US\$ 13.0 million. Credits extended by international financial institutions (IMF, WB, EBRD) represented the main inflow of financial resources in national economy in form of loans.

The rescheduling of the loan amounting to ROL 20.0 billion extended in 1993 to the Republic of Moldova by the Government of Romania is regarded as another important transaction concluded in 2002.

The situation of the capital and financial account of the balance of payments was affected by other liabilities (arrears), which increased during the year by around US\$ 84.6 million in net value. Governmental arrears on external debt service accounted to only 26.8% of new accumulated arrears. Arrears on debt for energy resources imports increased by US\$ 14.4 million in net value.

Reserve assets* rose by US\$ 27.0 million and amounted to US\$ 268.9 million as at year-end, covering 2.5 months of current import of goods and services.

Chart no. 20. Moldova's reserve assets yearly dynamics



* as according to IMF methodology of Balance of Payments, 5th edition

Table no. 12. External sector main indicators

| | Unit of measure | 2000 | 2001 | 2002 |
|---|-----------------|-------|-------|-------|
| Current account / GDP | % | -8.1 | -6.1 | -6.5 |
| Current account excl. transfers / GDP | % | -20.5 | -16.7 | -17.6 |
| Transfers (net) / GDP | % | 12.3 | 10.7 | 11.1 |
| Balance of goods and services / GDP | % | -25.7 | -24.2 | -26.3 |
| Exports of goods and services / Imports of goods and services | % | 66.0 | 67.3 | 67.1 |
| Exports of goods and services / GDP | % | 49.8 | 49.9 | 53.6 |
| Imports of goods and services / GDP | % | 75.5 | 74.1 | 79.9 |
| Direct investment flow (net) in national economy per capita | US\$ | 39.0 | 44.0 | 30.0 |
| Reserve assets / Imports of goods and services | months | 2.75 | 2.50 | 2.49 |

Sources: SSD, NBM

The main indicators that reflect Moldova's international economic activity in the period of 2000 to 2002 display a more open economy; a larger deficit of trade balance and its increased weight in GDP; and, at the same time, a non-sufficient value of external investments in national economy (table no. 12).

External Debt

The external debt of the Republic of Moldova amounted to US\$ 1330.1 million as on December 31, 2002, increasing by 8.6% (or US\$ 105.5 million) as compared to previous year-end. External debt accounted for 81.9% of GDP almost as in 2001.

The dynamics of external debt in 2002 was determined by the following:

1. The resumption of international financial institutions' financing with the view to supporting the balance of payments and structural adjustments: disbursements to the public sector (including loans under state guarantee) amounted to US\$ 50.0 million;
2. Payments in the public sector exceeded actual disbursements of new tranches: the net flow in 2002 totalled minus US\$ 11.6 million;
3. The rescheduling in the public sector of Eurobonds amounting to US\$ 39.7 million; of the loan extended by the Government of Romania – to US\$ 12.4 million. Loans rescheduled in the private sector totalled US\$ 7.3 million;
4. The worse external debt servicing on the background of the state incapacity to redeem Eurobonds determined the reduction by Fitch IBCA in July 2002 of the country rating down to default situation with a further slight appreciation following Eurobonds' rescheduling.

Public debt increased by 4.2% amounting to US\$ 968.3 million and hold a prevalent weight in total debt.

Table no. 13. Stock of external debt at the end of the period (US\$ mln.)

| | 2000 | % of total | 2001 | % of total | 2002 provisional data | % of total |
|-----------------------------------|---------------|--------------|---------------|--------------|-----------------------------|--------------|
| Public debt | 997.6 | 81.1 | 929.5 | 75.9 | 968.3 | 72.8 |
| of which: | | | | | | |
| FMI loans | 154.1 | 12.5 | 145.9 | 11.9 | 151.4 | 11.4 |
| Direct governmental loans | 761.5 | 61.9 | 705.0 | 57.6 | 737.4 | 55.4 |
| loans | 593.1 | 48.2 | 568.6 | 46.5 | 598.7 | 45.0 |
| Debt securities | 168.4 | 13.7 | 136.4 | 11.1 | 138.7 | 10.4 |
| Debt guaranteed by the government | 82.0 | 6.7 | 78.6 | 6.4 | 79.5 | 6.0 |
| Private debt | 232.5 | 18.9 | 295.1 | 24.1 | 361.8 | 27.2 |
| loans | 232.5 | 18.9 | 295.1 | 24.1 | 361.8 | 27.2 |
| Total external debt | 1230.1 | 100.0 | 1224.6 | 100.0 | 1330.1 | 100.0 |
| Debt for energy resources | 316.4 | | 287.2 | | 298.9 | |

Private debt, which includes publicly non-guaranteed external loans to commercial banks and economic agents totalled US\$ 361.8 million, increasing by 22.6% during the year. The weight of private debt in total debt denoted the same ascendant trend as in the previous year, accounting for 27.2% as against 24.1% in 2001. Such evolution evinces the re-direction of external credit resources from the public sector to the private one.

Multilateral and bilateral credits represented the largest part of Moldova' commitments. Loans extended by international financial institutions as accumulated at year-end totalled US\$ 665.9 million representing 50.1% of total debt. IMF credits and World Bank loans accounted for 22.7% and 49.7% respectively of total multilateral loans; other credits were provided by UE, EBRD and International Fund for Agricultural Development (IFAD).

Table no. 14. External debt by creditors (US\$ mln.)

| | 2000 | % of total | 2001 | % of total | 2002 provisional data | % of total |
|--|---------------|--------------|---------------|--------------|-----------------------------|--------------|
| Loans from IMF | 154.1 | 12.5 | 145.9 | 11.9 | 151.4 | 11.4 |
| Direct governmental debt | 761.5 | 61.9 | 705.0 | 57.6 | 737.4 | 55.4 |
| Multilateral credits | 355.8 | 28.9 | 344.4 | 28.1 | 377.2 | 28.4 |
| Bilateral credits | 209.8 | 17.1 | 200.0 | 16.3 | 194.2 | 14.6 |
| Other credits | 27.5 | 2.2 | 24.2 | 2.1 | 27.3 | 2.0 |
| Long-term governmental bonds | 168.4 | 13.7 | 136.4 | 11.1 | 138.7 | 10.4 |
| Debt guaranteed by the government | 82.0 | 6.7 | 78.6 | 6.4 | 79.5 | 6.0 |
| Multilateral credits | 62.5 | 5.1 | 61.1 | 5.0 | 59.5 | 4.5 |
| Other credits | 19.5 | 1.6 | 17.5 | 1.4 | 20.0 | 1.5 |
| Private non-guaranteed debt | 232.5 | 18.9 | 295.1 | 24.1 | 361.8 | 27.2 |
| Multilateral credits | 42.4 | 3.4 | 46.0 | 3.8 | 77.8 | 5.8 |
| Other credits | 190.1 | 15.5 | 249.1 | 20.3 | 284.0 | 21.4 |
| Total external debt | 1230.1 | 100.0 | 1224.6 | 100.0 | 1330.1 | 100.0 |

Bilateral credits accounted for 14.6% of total debt, totalling US\$ 194.2 million (table no. 14). The most important bilateral credits included: loans from governments of Russia and the USA (47.2% and 29.0% respectively in total bilateral credits); Japan, Turkey, Romania.

Medium- and long-term loans accounted for the largest share of 94.7% in the structure of external debt by maturity: credits with the term of 10 to 20 years prevailed (table no. 15).

Within the external debt portfolio by currency liabilities in US\$

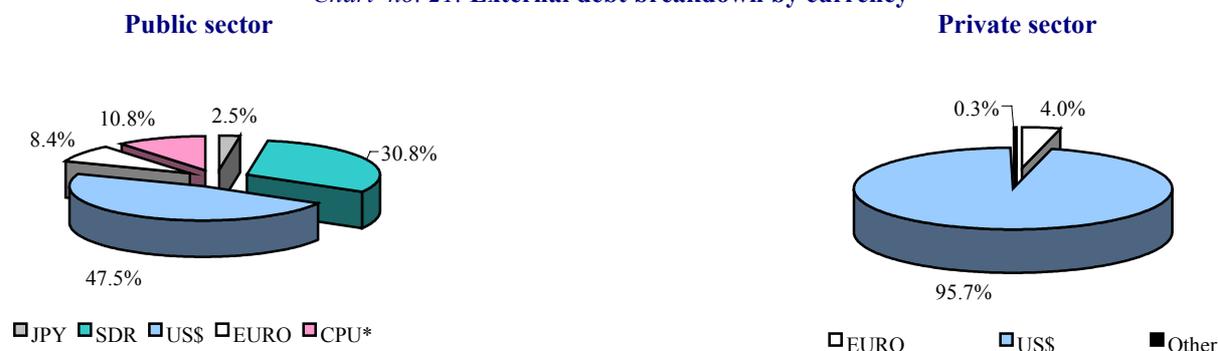
Table no. 15. External debt by sectors and maturity (US\$ mln.)

| Period | Total external debt | External debt by maturity | | External debt by economic sectors | | | |
|------------------------|---------------------|---------------------------|------------|-----------------------------------|----------------------|----------------|---------------|
| | | medium-and long-term | short-term | governmental | monetary authorities | banking sector | other sectors |
| 2000 | 1230.1 | 1218.4 | 11.7 | 761.5 | 154.1 | 15.7 | 298.8 |
| 2001 | 1224.6 | 1209.0 | 15.6 | 705.0 | 145.9 | 16.3 | 357.4 |
| 2002, provisional data | 1330.1 | 1259.1 | 71.0 | 737.4 | 151.4 | 22.0 | 419.3 |

prevailed with 47.5% of public liabilities and 95.7% of private liabilities as at year-end (chart no. 21). Fluctuations of the exchange rates of contracted currencies as against US\$ generated a higher vulnerability of debt portfolio. As a

result, the stock of public external debt increased during the year by US\$ 40.6 million.

Chart no. 21. External debt breakdown by currency



*currency pull units

The evolution of the external debt indicators are as follows:

- the ratio of external debt to GDP practically remained at the level of 2001; while debt per capita increased by 8.5% as compared to the previous year amounting to US\$ 369.0;
- effective payments within public external debt service accounted for 78.6% of scheduled payments;
- the ratio of public external debt real service to exports of goods and services reduced from 17.0% in 2001 to 10.8% in 2002 as a result of larger exports and smaller effective payments as compared to the previous year.

Table no. 16. Moldova's external debt indicators

| | Unit of measure | 2000 | 2001 | 2002 provisional data |
|--|-----------------|--------|--------|-----------------------|
| External debt | US\$ mln. | 1230.1 | 1224.6 | 1330.1 |
| Exports of goods and services | US\$ mln. | 642.2 | 738.9 | 870.56 |
| External debt / GDP | % | 95.5 | 82.7 | 81.9 |
| External debt per capita | US\$ | 342 | 340 | 369 |
| Public sector's drawings | US\$ mln. | 63.1 | 43.4 | 50.0 |
| Public external debt service (according to the schedule) | US\$ mln. | 107.9 | 101.1 | 119.8 |
| Public external debt service (real payments) | US\$ mln. | 102.9 | 125.9 | 94.1 |
| Public sector's drawings / public external debt service (real payments) | % | 61.3 | 34.5 | 53.1 |
| Public external debt service (real payments) / exports of goods and services | % | 16.0 | 17.0 | 10.8 |

2. Activity of the National Bank of Moldova

Monetary Policy Implementation in 2002

Monetary Policy Objectives and Results

Within the framework of the state economic policy, the National Bank of Moldova works out and implements the Monetary and Foreign Exchange Policy, which is targeted to maintain the stability of the national currency by establishing money, credit and exchange markets conditions based on market economy principles.

The Monetary and Foreign Exchange Policy of the NBM for 2002 was subject to co-ordination with the state relevant economic and financial entities and approved by the Council of Administration of the National Bank of Moldova on December 25, 2001.

The underpinnings of the Monetary and Foreign Exchange Policy for 2002 were: the Forecast on the Social and Economic Development of the Republic of Moldova for years 2002–2004; the Law on the State Budget for 2002; and the Memorandum of economic and financial policies of the Government of the Republic of Moldova, the National Bank of Moldova and international financial organisations. The basic objectives of thereof provided as follows:

- annual inflation rate of 10.0%;
- real GDP growth by 6.0% and a GDP nominal value of lei 22400.0 million;
- limitation of the state budget deficit at 1.4% of GDP, or lei 320.0 million (budget deficit to be financed from: domestic sources – revenues from sales of state securities; external sources; as well as privatisation proceeds);
- average exchange rate of MDL 13.5 for US\$ 1;
- consolidation of international foreign exchange reserves at a level sufficient to cover 3 import-months at least.

Based on these macroeconomic parameters, the monetary aggregates of the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2002 (initially approved) were set in correlation with the forecasted dynamics of money demand. To ensure relevant premises for a sustainable economic growth, the volume of credits extended to economy was provided to increase by 33.0% as against at the end of 2001.

Considering: the lack of external credit resources during the year in a full volume as provided in the outlines of the initially approved Monetary and Foreign Exchange Policy; the acquisitions of foreign exchange by the NBM in a volume exceeding the initial projected one; the shortage of privatization proceeds; as well as the rectification of the Law on the State Budget for 2002, the Council of Administration of the National Bank of Moldova has, on December 12, rectified the Monetary and Foreign Exchange Policy for 2002 as follows:

- increase of money supply by 34.0%;
- increase of monetary base by 32.2%;
- national economy monetization level as around 28.9% as at the end of 2002;
- maintenance of required reserves at 10.0%.

The Monetary and Foreign Exchange Policy of the NBM for 2002 provided the maintenance of Government debt at the level recorded in 2001. Yet, with the view to honour in due time the state external debt, the National Bank extended credits to the state as in accordance with the modified Law on the State Budget for 2002 (considering the postponement of external financing and failure to collect privatization proceeds as initially projected).

The implementation of the Monetary and Foreign Exchange Policy for 2002 was affected by GDP dynamics; evolution of the state balance of payments; prices developments; and external financing restraint and failure to collect the initially provided privatisation proceeds.

On the background of declining growth rate of prices, the real GDP growth was superior to the one provided in the Monetary and Foreign Exchange Policy and accounted for 7.2% in 2002. The volume of foreign trade during the year increased by 18.0% as compared to the same period of the previous year. The average exchange rate in 2002 constituted MDL 13.57 for US\$ 1; the state budget deficit did not surpass the level of 1.4% of GDP as stipulated in the Monetary and Foreign Exchange Policy of the NBM for 2002.

The annual inflation rate for 2002 accounted for 4.4%. The lower by 5.6 p.p. inflation rate than initially projected was conditioned by a less marked cumulative effect, as compared to the previous years, of both *monetary factors* and *non-monetary factors* – increase of import prices (especially for petroleum items) and administrative increase of services' prices.

The larger money demand in the economy determined a relevant adjustment of money supply by the banking sector to the initially approved indicator provided in the Monetary and Foreign Exchange

Policy. At the end of 2002 money supply rose by 36.0% as compared to the end of 2001; the most noticeable increase (25.5%) was observed in the 2nd semester and was generated by the acquisitions of foreign exchange. The consolidation of the banking sector interest rates downward trend contributed to the increase of credits to economy and, ultimately, of money supply M3. At the same time, the intensified flow of foreign exchange as a result of remittances from abroad led to a significant increase of money holdings by the public: a part of these means was converted into deposits, while another part remained as cash outside the banking system. Under such circumstances, the National Bank acted as a purchaser of excess foreign exchange and acquired US\$ 68.9 million. Such activity allowed integral payment of current external liabilities of the Government and of the National Bank of Moldova and, simultaneously, the maintenance of international foreign exchange reserves at a level sufficient to cover 2.5 import-months.

The national currency issuance by the National Bank as a result of foreign exchange acquisition generated the increase of monetary base that, ultimately, via money multiplier, led to a relevant increase of money supply.

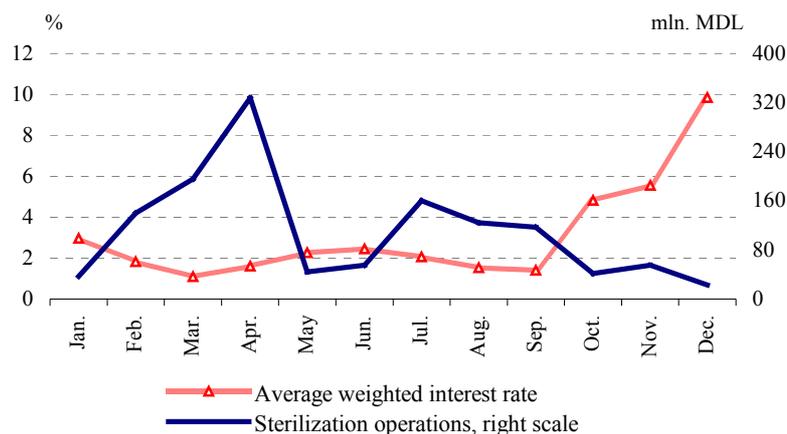
The main instruments used to influence monetary aggregates in 2002 were sterilization operations of excess liquidity of the banking system, following the NBM acquisitions of foreign exchange. To absorb the excess liquidity, the National Bank of Moldova conducted sterilization operations: the average liquidity volume subject to a continuous

sterilization amounted to lei 67.0 million. The average weighted interest rate on conducted operations accounted for 2.09%, while the monthly weighted average varied during the year from 1.09% to 9.85% (chart no. 22).

The weight of currency in circulation in the money supply in national currency M2 reduced to 0.51 at the end of 2002 as compared to 0.53 at the end of 2001. This indicator reflects the cash money demand of the economy. The most

significant increase of currency in circulation was recorded in the 2nd half of the year as a result of rise in wages and seasonal increase of demand for cash.

Chart no. 22. Monthly value and average interest rate on sterilization operations in 2002



The interest rate policy of the NBM in 2002 was further directed towards the gradual reduction of banking interest rates in accordance with inflation level, considering the maintenance of real interest rates

at a low positive level. Although the NBM base rate still do not exert the anticipated impact upon commercial banks' lending interest rates, the significant correlation accounting for 94.0% proved the strong connection between these indicators (chart no. 23). As a monetary policy instrument, the base rate reflects the NBM opinion on the national economy evolution: movements of inflation rate; dynamics of national currency exchange rate, etc.

The monetization indicator (ratio of money supply M3 to GDP), which reflects the money demand level and the financial intermediation

development, continued to evolve in 2002 according to an ascendant trend and denoted an increased public confidence in national currency and banking system and an upward dynamics of economy crediting. At the same time, the higher monetization indicator was also determined by the lowering of the inflation level: the inverse correlation between these indicators accounted for 79.0%. Economy monetization constituted 29.5% at the end of 2002 as compared to 25.1% at on December 31, 2001 (chart no. 24).

Chart no. 23. Dynamics of the base rate and lending interest rate in MDL

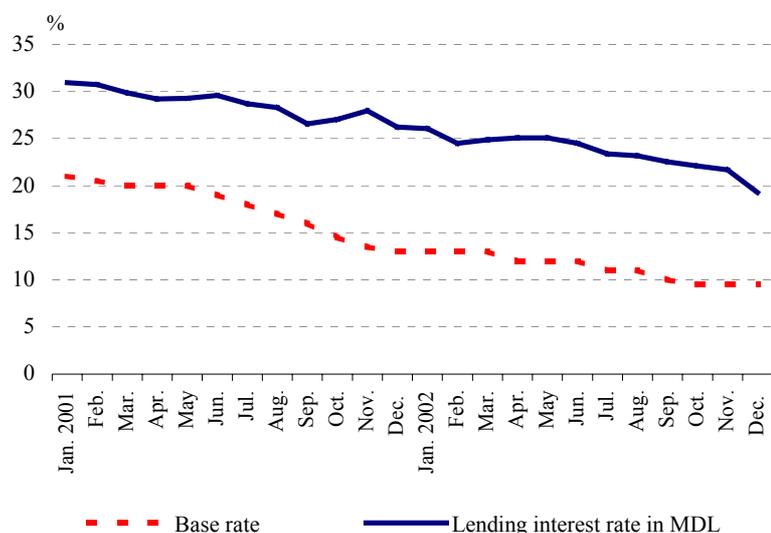
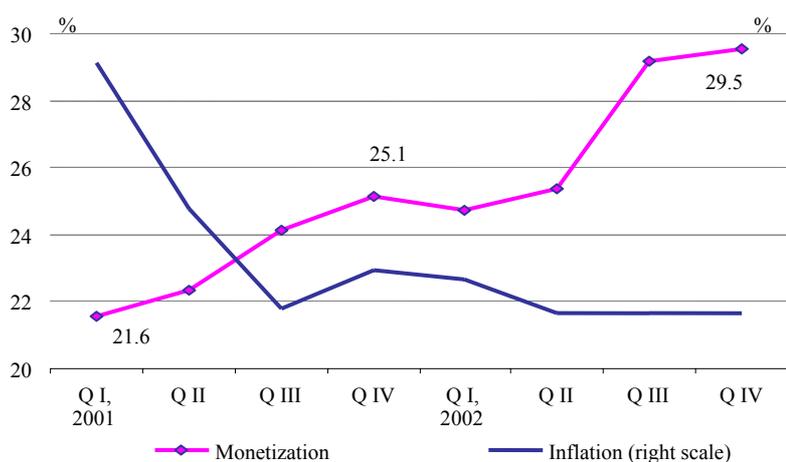


Chart no. 24. Quarterly dynamics of monetary indicators

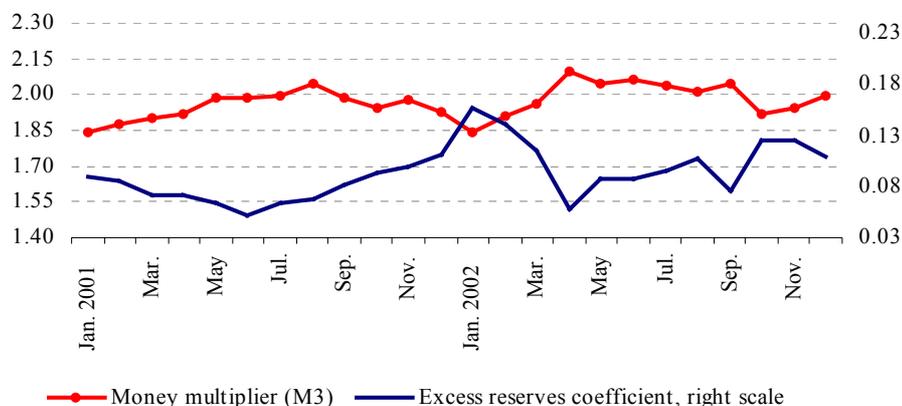


Note. Monetization is calculated as ratio of M3 at the end of quarter to the annual GDP for the corresponding period. Inflation indicator represents the 12-month percentage change in CPI. The correlation between these indicators constituted 79.0% for a 1-month lagged inflation.

Money supply multiplier (M3) – another indicator to characterize financial intermediation in the economy – accounted for 2.0 as on December 31, 2002, increasing by 4.2% compared to the end of 2001. Despite the liquidity coefficient reduction as the major factor of the multiplier growth as on December 31, 2002, excess reserves' changes during the year determined the modification of the money multiplier (chart no. 25). Although money multiplier growth was inferior to the one in the previous years, this indicator continued to develop according to an ascendant trend. This

dynamics shall be further influenced by the acquisition of foreign exchange by the NBM; by sterilization and liquidity provision operations; the interest rate dynamics etc.

Chart no. 25 Dynamics of money multiplier and of commercial banks' excess reserves coefficient



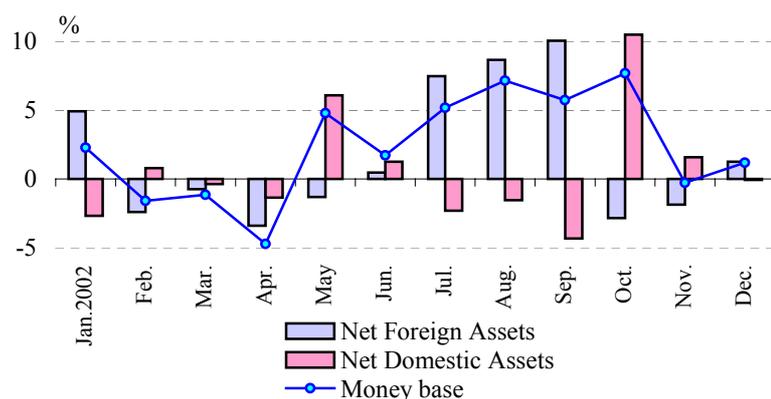
Excess reserves held by commercial banks were sufficient during 2002; the average weekly value amounted to lei 324.7 million. Under these circumstances, the National Bank of Moldova considered as irrelevant the reduction of reserve requirements ratio, although such modification (a decrease from 10.0% to 7.0%) was stipulated in the Monetary and Foreign Exchange Policy.

Monetary Indicators Dynamics

Monetary Base

Monetary Base (which includes currency in circulation outside the banking system and commercial banks' reserves maintained on correspondent accounts with the National Bank of Moldova) increased in 2002 by lei 773.8 million (31.1%) and amounted as on December 31, 2002 to lei 3262.7 million.

Chart no. 26. Monetary base growth by components



Larger net foreign assets following the NBM acquisition of foreign exchange in the domestic foreign exchange market amounting to US\$ 68.9 million (inclusive US\$ 52.3 million in the 3rd quarter) mainly conditioned the monetary base increase, especially in the 3rd quarter (chart no. 26).

Within monetary base structure: the weight of currency in circulation reduced from 73.7% to 70.1% as at the end of 2002; and the weight of bank reserves increased from 26.3% to 29.9%. The growth rate of commercial banks' required reserves exceeded the one of excess reserves, while the reserve requirements norm remained at 10.0% of attracted liabilities. Excess banks' reserves rose by 47.4% due to

acquisitions of foreign exchange and accumulation of State funds (Social security budget - BASS, deposits by administrative-territorial units, extra-budgetary deposits, etc.). The weight of excess reserves on the correspondent accounts with the National Bank of Moldova varied within 5.2% and 13.7% of the monetary base, especially due to the sterilization of banking excess liquidity.

Evolution of Money Supply

Money supply (M3) in 2002 went up by lei 1724.2 million (36%) and amounted to lei 6511.5 million as on December 31, 2002.

The economy monetization continued to increase in 2002: money supply growth outran the annual inflation rate (chart no. 27). As a

result, money supply increased by 30.3% in real terms as compared to 28.2% in 2001.

The dynamics of money supply was uneven: the growth rate accelerated in the 2nd semester of 2002 up to 25.5% (inclusive 18.1% in the 3rd quarter) as compared to 8.3% in the 1st semester.

Money velocity in 2002 evolved following the same favorable descendant trend. According to data, annual

money supply (M3) velocity reduced by 25.5%: from 4.7 to 3.5, pointing to the satiety of the increasing money demand by the real sector.

The improved structure of money supply in 2002 was due to the smaller weight of currency in circulation and the larger weight (64.9%) of banking deposits (table no. 17). Money supply M2, which includes currency in circulation and deposits in national currency, increased by lei 1053.1 million (or by 30.4%) as compared to 2001. At the same time, currency in circulation growth rate kept the level of the previous year accounting for 24.8%.

Chart no. 27. Annualised indicators' growth rate
(12-month percentage change)

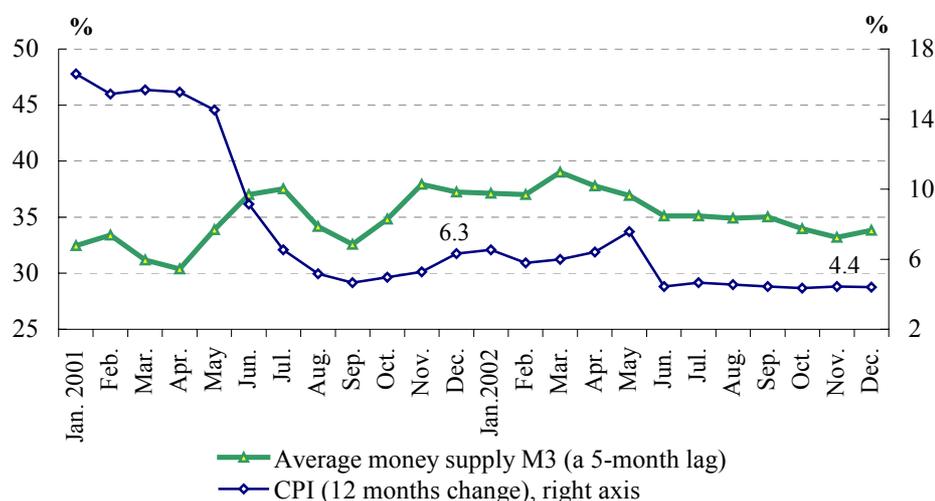


Table no.17. Money supply by components (million lei)

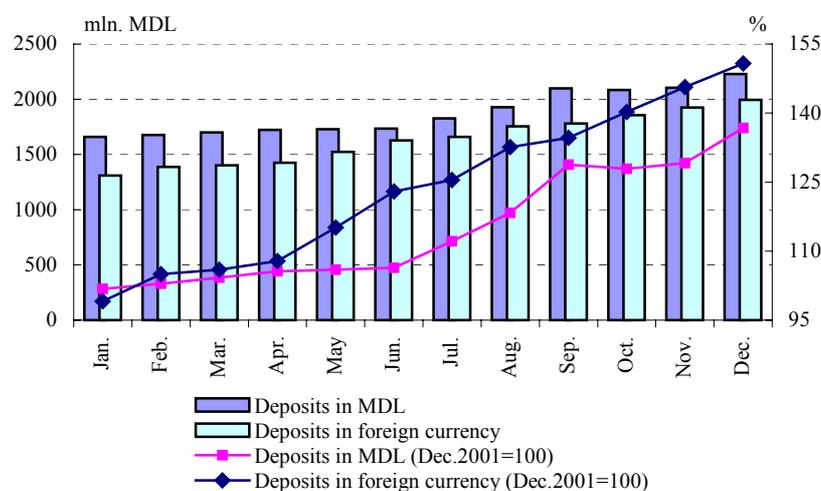
| | 2001 | 2002 | Growth rate, % | Absolute change |
|---------------------------|---------------|---------------|----------------|-----------------|
| Money supply (M3) | 4787.3 | 6511.5 | 36.0 | 1724.2 |
| Money supply (M2) | 3464.8 | 4517.9 | 30.4 | 1053.1 |
| Currency in circulation * | 1834.2 | 2288.5 | 24.8 | 454.3 |
| Deposits | 2952.8 | 4222.7 | 43.0 | 1269.9 |
| In MDL | 1630.3 | 2229.1 | 36.7 | 598.8 |
| In foreign currency | 1322.5 | 1993.6 | 50.7 | 671.1 |
| Money market instruments | 0.29 | 0.28 | -4.4 | 0.01 |

*excluding cash in NBM and commercial banks' vaults

Deposits and Credits Market *

Total deposits' balance as at the end of 2002 increased by 43.0% and amounted to lei 4222.7 million. Deposits in national currency evolved following an ascendant trend and increased by 36.7% in 2002. Deposits in foreign currency contributed the most to the increase in total balance (chart no. 28). Evaluated in MDL, foreign currency

Chart no. 28. Dynamics of deposits in 2002



deposits' growth rate accounted for 50.7% and was due to both larger actual volume of deposits in foreign currency and the depreciation of the national currency as against US\$. Expressed in US\$, foreign currency deposits increase amounted to US\$ 43.2 million (42.8%).

Deposits by individuals recorded more significant increases in 2002. With a weight of 64.1% of total deposits, this component increased by 5.9 p.p. as compared to the end of the previous year. The larger flow of remittances from abroad by

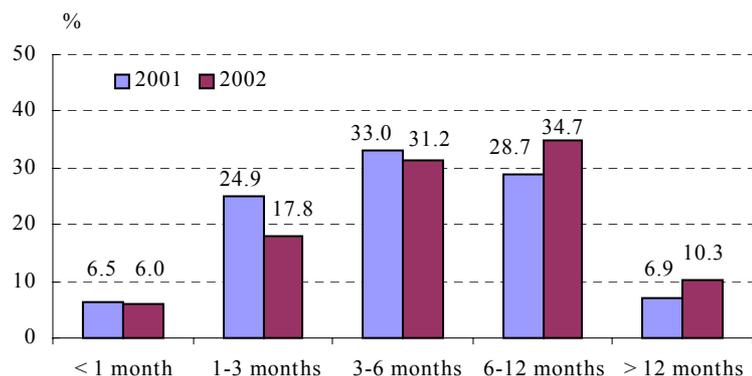
citizens of the Republic of Moldova contributed to the larger value of deposits by individuals. At the same time, the yield on deposits in MDL in real terms has further exceeded the one of deposits in foreign currency.

The superior dynamics of deposits in foreign currency as compared to that of deposits in national currency contributed to the increase of

* indicators as according to IMF methodology on monetary statistics

deposits' dollarization from 44.8% in December 2001 to 47.2% in December 2002.

Chart no. 29. Structure of time deposits in MDL



Deposits with the term of 3 to 6 months held an essential weight of 31.2% of total value, increasing by lei 94.8 million; the annual average interest accounted for 14.2% as compared to 20.5% in 2001.

Chart no. 30. Dynamics of monetary aggregates in 2002

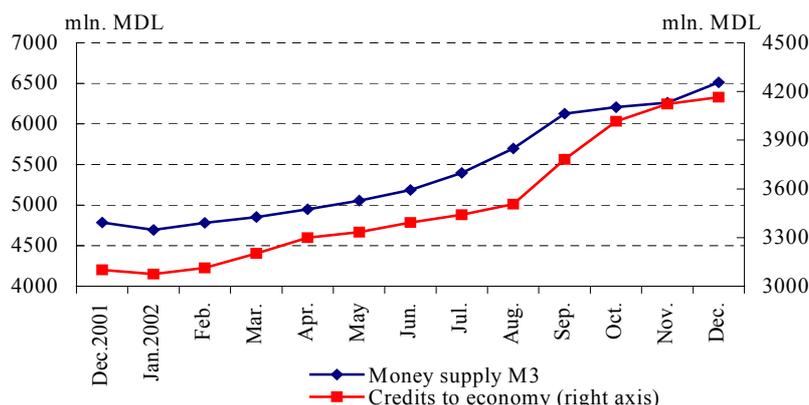
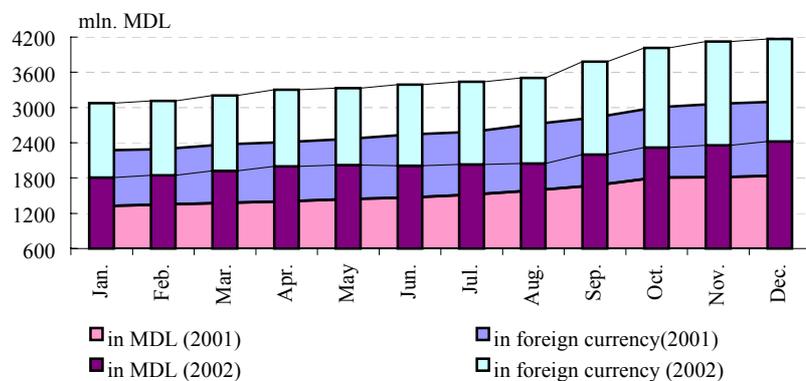


Chart no. 31. Evolution of credits in economy



total credits. Credits in foreign currency (expressed in MDL)

The value of time deposits in MDL, attracted during 2002, increased by 380.8 million lei as compared to the previous year. Deposits with the term of 6 to 12 months held the largest weight of 34.7% (chart no. 29). The increase of these deposits as compared to the previous year accounted for 55.1%; the average weighted interest rate on these deposits constituted 16.2% per year, which is by 6.4 p.p. less than in 2001.

The value of time deposits in foreign currency increased by lei 40.5 million (2.0%) as compared to the previous year; the average annual interest rate accounted for 3.2% or by 0.8 p.p. less than in 2001. According to the breakdown by depositors, the weight of time deposits in foreign currency by individuals accounted for 63.3%, increasing by 18.6 p.p. as compared to 2001.

No essential changes were registered in the structure of money supply (M3) sources in 2002. Money supply expansion was, like in the previous year, mainly generated by the larger value of banks' credits to economy (chart no. 30).

Total credits' balance to economy increased by lei 1064.4 million (34.3%) and reached a value of lei 4165.7 million as on December 31, 2002 (chart no. 31). The balance of credits in national currency rose by 31.8% and accounted for 58.1% of

increased by 38.0%; recalculated in US\$, this increase accounted for 30.7% (US\$ 29.7 million).

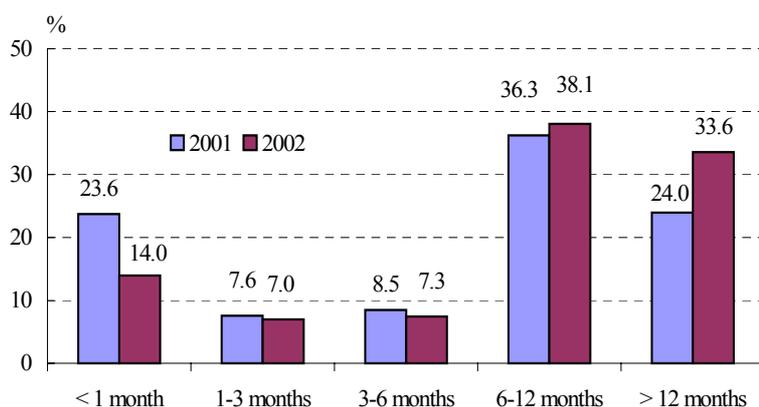
Within the structure of credits by economic sectors: credits to industry and commerce accounted for the largest share of total credits – 48.0%; credits to agriculture and food industry accounted for 29.0%. The weight of consumer credits in 2002 kept the level of 2.7% as in the previous year (table no.18).

Table no.18. Credits structure by branches (mln. MDL)

| | Balance as on 31.12.2001 | Weight in the total, 2001 (%) | Balance as on 31.12.2002 | Weight in the total, 2002 (%) | Absolute change | Growth rate, % |
|---|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|--------------------|-------------------|
| Credits to agriculture and food industry | 850.6 | 27.5 | 1207.7 | 29.0 | 357.1 | 42.0 |
| Credits for real estate, construction and development | 234.8 | 7.5 | 305.7 | 7.3 | 70.9 | 30.2 |
| Consumer credits | 88.3 | 2.7 | 110.5 | 2.7 | 22.2 | 25.1 |
| Credits to energy and fuel industry | 191.4 | 6.1 | 230.3 | 5.5 | 39.0 | 20.3 |
| Credits to industry and commerce | 1489.6 | 48.4 | 1999.9 | 48.0 | 510.3 | 34.3 |
| Credits for road construction and transportation | 102.6 | 3.2 | 107.3 | 2.6 | 4.7 | 4.6 |
| Other credits | 144.1 | 4.6 | 204.3 | 4.9 | 60.2 | 41.8 |
| Total | 3101.3 | 100.0 | 4165.7 | 100.0 | 1064.4 | 34.3 |

Moderate inflation expectations and larger aggregate demand determined the banking sector to extend credits to economic agents for longer terms. Credits extended for a term of 6 to 12 months increased slightly – from 36.3% in 2001 to 38.1% in 2002, while those with the term of over 12 months increased significantly from 24.0% in 2001 to 33.6% in 2002 (chart no. 32).

Chart no. 32. Credits to economy by term



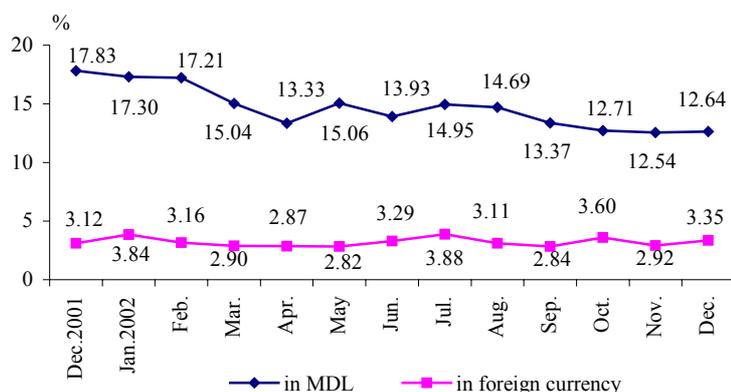
The larger by lei 371.5 million (66.3%) value of new credits over 12 months extended in national currency had a positive contribution to the economic growth in 2002. The high inverse correlation (91.0%) between new credits in national currency and related interest rate denotes that interest rate had the major impact upon decision taking with regard to long-term investments.

The credit activity growth in 2002 was superior to GDP dynamics: the ratio between the balance of credits to economy and GDP accounted in 2002 for 18.9% as compared to 16.3% in 2001 and 14.3% in 2000.

Average Weighted Interest Rates on Deposits and Credits

The monthly average nominal interest rate on time deposits had a descendent trend in 2002 (chart no.33). Thus, the average monthly interest rate on time deposits in national currency reduced to 12.64% in December 2002 as compared to 17.83% in December 2001. The monthly average interest rate on time deposits in foreign currency kept, at the same time, a relatively constant level.

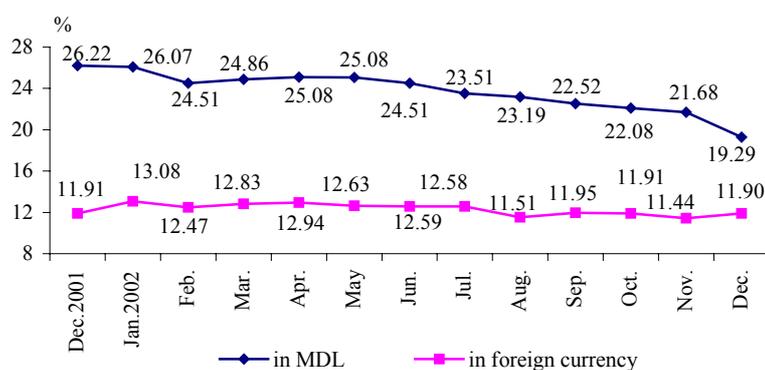
Chart no. 33. Dynamics of average weighted interest rates on time deposits in 2002



The annual weighted average interest rate on time deposits in national currency reduced by 6.2 p.p. as compared to 2001 and accounted for 14.4%. The annual average interest rate on time deposits in foreign currency reduced by 0.8 p.p. as compared to 2001 and accounted for 3.2%.

The monthly average interest rate on credits extended by commercial banks in national currency decreased from 26.22% in December 2001 to 19.29% in December 2002; the ones on credits in foreign currency did not register significant modifications (chart no. 34).

Chart no.34. Dynamics of average weighted interest rates on credits in 2002



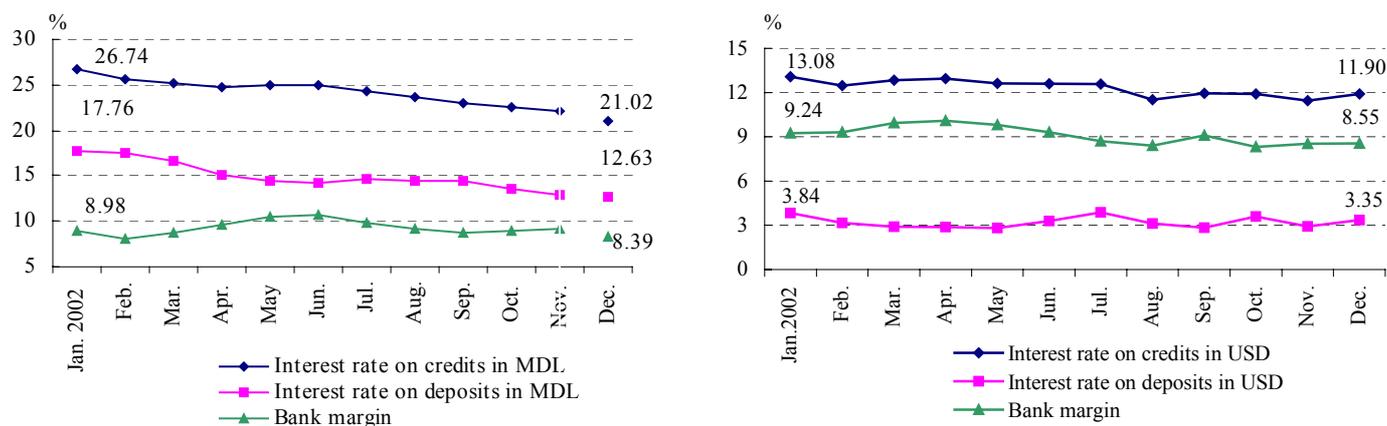
The increase by lei 456.3 million (15.4 %) of the value of commercial banks' credits in national currency in 2002 was largely generated by the 5.3 p.p.-reduction of the annual average interest rate down to 23.1% in 2002. The decline of the annual average interest rate on credits in 2001 accounted for 4.8 p.p.

The annual average interest rate on credits in foreign currency reduced by 1.8 p.p. and accounted for 12.2% in 2002. Credits extended in foreign currency amounted to lei 2047.6 million, or by 26.9% more than in the previous year. The equivalent in US\$ increased by 20.3% and amounted to US\$ 150.9 million.

Banking interest spread (difference between annual average interest rates on credits and deposits) in national currency in 2002 accounted for 8.8 p.p., increasing by 0.9 p.p. as compared to 2001; the interest

spread in foreign currency accounted for 9.0 p.p. and reduced by 1.0 p.p.

Chart no. 35. Dynamics of 3-month moving average interest rates

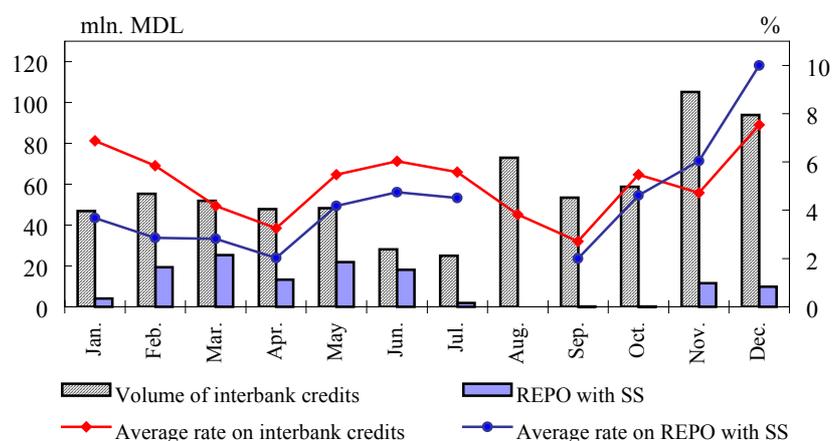


The banking interest spread dynamics (calculated as a 3-month moving average, which gives the possibility to observe the trend by levelling the maximum and minimum values of monthly average interest rates) reflected a steeper reduction in the 2nd quarter of 2002 of monthly average interest rates on attracted deposits (especially on deposits by legal entities) as compared to interest rates on credits in national currency (chart no. 35).

Interbank Market

Larger volumes of transactions and declining interest rates characterized the situation of the credit interbank market in 2002. The total value of interbank transactions in national currency amounted to lei 812.6 million and increased by lei 23.6 million (3.0%) as compared

Chart no. 36. Dynamics of transactions in the interbank market



to the previous year. The value of interbank credits and REPO operations amounted to lei 687.3 million and lei 125.3 million respectively (chart no. 36). The value of interbank credits increased during the year by lei 57.1 million (9.0%); the value of interbank REPOs reduced by lei 33.5 million (21.0%).

The annual weighted average interest rate on interbank credits in national currency accounted for

5.15% in 2002, reducing by 5.7 p.p. as compared to 2001 and; the annual weighted average interest rate on interbank REPOs reduced by around 4.0 p.p. to 4.17% in 2002.

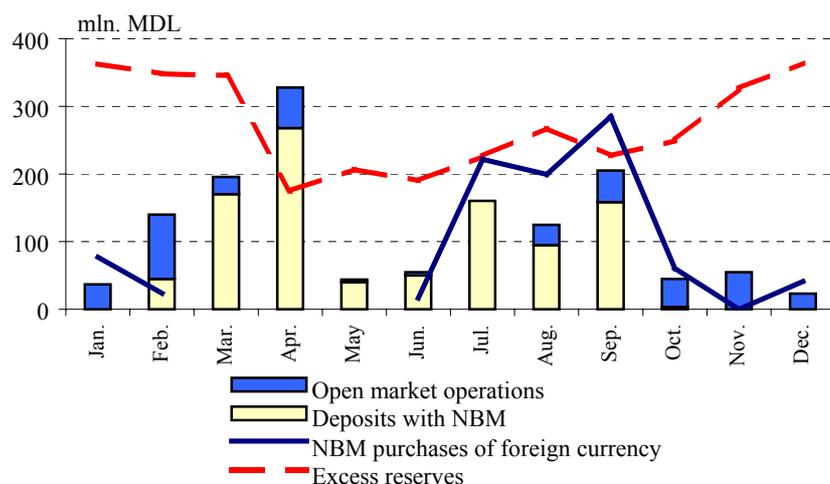
Monetary Policy Instruments

With the view to ensuring an optimal functioning of the money market, the National Bank of Moldova has applied the following monetary policy instruments:

- deposit operations;
- open market operations;
- required reserves;
- interest rate policy.

The considerable supply of the foreign exchange in the market and, respectively, the National Bank of Moldova acquisitions of foreign exchange that led to a monetary issuance totalling around lei 923.6 million, were the main factors that influenced the evolution of liquidity in the money market in 2002.

Chart no.37. Volume of excess reserves on commercial banks accounts, NBM purchases of foreign exchange and liquidity sterilization operations in 2002



The monetary context characterized by a larger liquidity surplus determined the National Bank of Moldova adjust its sterilization operations to new conditions, by emphasizing deposit operations as a monetary absorption instrument (chart no. 37).

Open market operations – sales of state securities from the NBM portfolio and state securities (SS) reverse REPOs were used as operations aimed to absorb temporary excess

liquidity due to their short maturities.

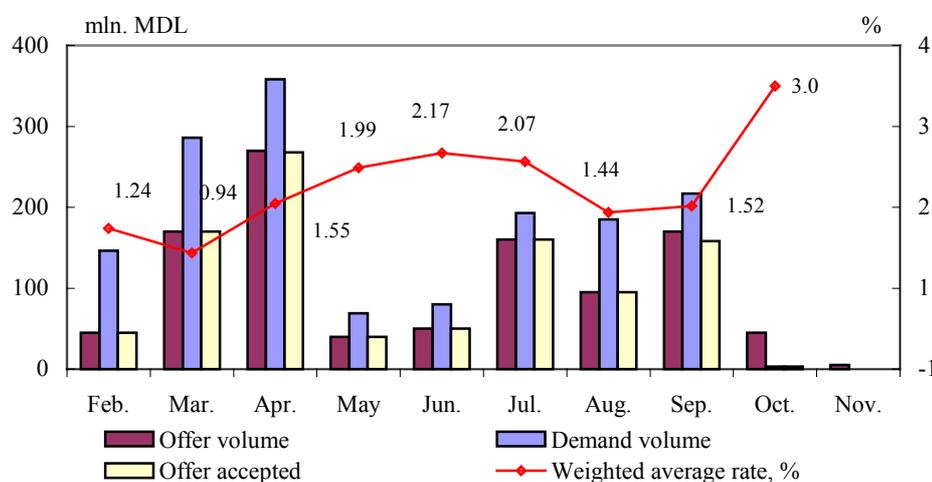
The total value of sterilization operations amounted to lei 1411.5 million, including as follows: deposits attracted from commercial banks – lei 989.3 million; SS sales – lei 186.2 million; and REPOs – lei 236.0 million. The total value of liquidity sterilization operations exceeded almost twice the value of operations conducted in 2001.

Deposit Operations

32 deposit auctions were conducted in 2002. The total volume of deposits at auction amounted in 2002 to lei 1030.0 million, out of

which the National Bank of Moldova accepted lei 989.3 million. Banks' demand during the year exceeded the offered value by lei 507.8 million or by 49.3% and amounted to lei 1537.8 million.

Chart no. 38. Dynamics of deposit auction indicators in 2002



In February to October the value of deposits for placement within one auction varied from lei 10.0 million to lei 70.0 million depending on the excess liquidity in the money market.

The term of deposits accepted by the National Bank of Moldova varied within 6 and 28 days. The monthly average weighted interest rate on deposits at

auction varied from 0.94% to 3.0% per year (chart no. 38). Eight commercial banks, which account registered the highest liquidity surplus, participated at deposit auctions.

Open Market Operations

12 state securities selling auctions from the NBM portfolio and 25 state securities reverse REPO auctions were held in 2002 within NBM open market operations (table no. 19).

Table no.19. Open market operations by NBM in 2002

| Operations | Offer volume (mln. MDL) | Demand volume (mln. MDL) | Volume of SS sold | | The range of nominal interest rates on SS/REPO rates (%) | Average weighted SS interest rate/ REPO average weighted rate (%) |
|--------------|----------------------------|-----------------------------|--------------------------------|-------------------------------|---|--|
| | | | at nominal value (mln. MDL) | at market price (mln. MDL) | | |
| SS sales | 212.0 | 328.4 | 186.5 | 186.2 | 1.08-3.52 | 2.25 |
| REPO sales | 306.0 | 354.3 | 237.0 | 236.0 | 0.95-12.50 | 4.14 |
| Total | 518.0 | 682.7 | 423.5 | 422.2 | | |

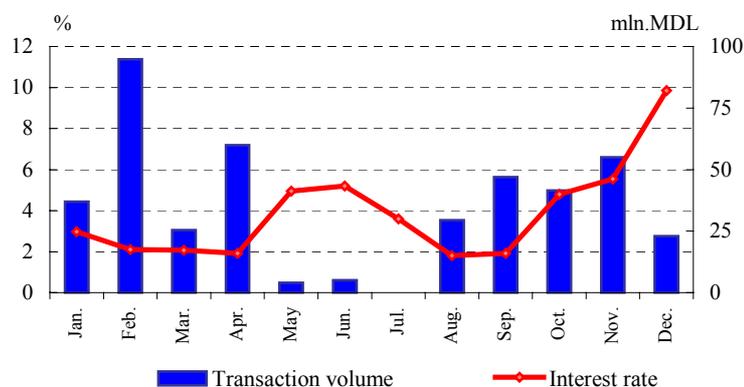
State securities reverse REPOs were mainly used by the National Bank during the reported year, accounting for 55.9% of total open market operations.

The open market operations' interest rates applied by the National Bank of Moldova were similar to the rates on other financial instruments in the domestic market during 2002. At the same time,

excess liquidity to be sterilized in the last months of 2002 required the NBM to assume higher costs than those in the market (chart no. 39).

The downward trend of interest rates in the interbank money market and in the SS primary market allowed the National Bank to reduce interest rates on monetary absorption interventions: the average weighted interest rate on SS reverse REPOs conducted in 2002 accounted for 4.14% as compared to 10.83% in 2001. As a result, the National Bank of Moldova reduced the sterilization costs in 2002; expenses related to open market operations amounted to lei 0.4 million as against lei 1.4 million in 2001.

Chart no. 39. Open market operations in 2002



Interest Rate Policy

Against the background of the consolidated disinflationary process, the interest rate policy promoted by the National Bank of Moldova in 2002 emphasized, like in the previous year, the stimulation of economic growth by reducing real interest rates.

The state securities 2-month purchase REPO rate served as the NBM base rate while establishing other interest rates on monetary instruments.

In 2002 the National Bank reduced the base rate in four stages - from 13.0% at the end of 2001 to 9.5% in October 2002 - and has kept the last level until the end of 2002. Interest rates on overnight credits and Lombard facility evolved according to a similar dynamics, decreasing from 22.0% and 18.0% to 16.5% and 13.5% respectively.

The interest rate set by the NBM on long-term credits (over 5 years) reduced from 13.5% in January to 10.5% in December 2002.

The maximum interest rate on deposits accepted by the NBM during the year remained at 3.0%.

Required Reserves

The norm of required reserves (RR) in 2002 accounted for 10.0% of liabilities subject to reserve requirements.

The RR ascendant dynamics was generated by the larger balances of banks' liabilities on the background of positive trends in the domestic money market. The value of monthly average RR in December 2002 increased by lei 185.5 million or by 56.4% as compared to December 2001 (table no. 20).

The interest paid to banks for required reserves exceeding 5.0% of liabilities subject to reserving amounted to lei 24.6 million.

Table no.20. Dynamics of Required Reserves in 2002 (mln. MDL)

| Months | Average monthly required reserves | | | | Change as against in previous month, % |
|---------------|-----------------------------------|------------------------------------|---------------|-------|--|
| | On "Loro" account with NBM | On special account 3541 with NBM * | Cash in vault | Total | |
| December 2001 | 265.7 | 0.7 | 62.7 | 329.1 | |
| January 2002 | 285.3 | 0.6 | 68.3 | 354.2 | 7.6 |
| February | 290.9 | 0.5 | 66.6 | 358.0 | 1.1 |
| March | 293.4 | 1.1 | 69.3 | 363.8 | 1.6 |
| April | 299.5 | 1.2 | 72.6 | 373.3 | 2.6 |
| May | 306.1 | 0.9 | 75.5 | 382.5 | 2.5 |
| June | 314.1 | 0.9 | 76.9 | 391.9 | 2.5 |
| July | 328.8 | 0.8 | 81.5 | 411.1 | 4.9 |
| August | 344.9 | 0.8 | 84.3 | 430.0 | 4.6 |
| September | 364.7 | 0.5 | 91.1 | 456.3 | 6.1 |
| October | 377.8 | 0.6 | 94.4 | 472.8 | 3.6 |
| November | 392.1 | 0.5 | 98.0 | 490.7 | 3.8 |
| December | 411.7 | 1.0 | 101.9 | 514.6 | 4.9 |

* Item "Average monthly required reserves on special account 3541 with NBM" includes RR balance at month-end of commercial banks required reserves with this account

State Debt to the NBM

The National Bank of Moldova credited the State in 2002 in accordance with the Law on the State Budget for 2002 no. 681-XV of 27.11.2001 (Art. 40), the Laws nos. 1205-XV of 04.07.2002 and 1487-XV of 28.11.2002 on Modification of the Law on the State Budget for 2002 no. 681-XV of 27.11.2001 and the Monetary and Foreign Exchange Policy of the NBM for 2002.

Lending Activity

Loans extended to the State by the National Bank of Moldova in 2002 aimed at honoring external debt in due time amounted to lei 237.0 million and were re-concluded to be paid in 2003 as in accordance with the Law no. 1487/XV of 28.11.2002 on Modification of the State Budget for 2002.

Taking into account the requirement of negotiable SS at market interest as collateral for extended credits, as well as with the view to mitigating the state expenses on serving the NBM loans, in 2002 the National Bank re-concluded loans with the term of up to 91 days in a

value of lei 7468.7 million. The interest rate on loans to the State varied during the year from 2.54% to 13.19% per year.

SS in the NBM Portfolio

In 2002 the National Bank of Moldova re-issued state securities from the own portfolio at market interest rates with the maximum eligibility term of 84 days. The yields on issued securities varied within 2.62% and 11.32%.

Following the Decision of the Council of Administration of the National Bank of Moldova no. 133 of June 6, 2002, state securities in the NBM portfolio are classified as assets held until maturity and according to the Accounting Policy of the National Bank of Moldova for 2002 were reflected in the book-keeping of the Bank at the depreciation cost.

The state securities held in the NBM portfolio as on December 31, 2002 amounted to lei 407.0 million at nominal value (lei 400.0 million at acquisition cost); all securities were issued with a circulation term of 84 days.

As a result, the State debt to the National Bank of Moldova as at the end of 2002 amounted to lei 2144.1 million, which is by lei 237.0 million or 12.4% more than as on December 31, 2001 (table no. 21).

Table no.21. Government Debt to the NBM in 2002 (MDL million)

| Loan Purpose | Balance as on 31.12. 01 | Weight, % | Financing state budget deficit to provide external debt servicing | Loans re-concluded during the year (+;-) | Balance as on 31.12. 02 | Weight, % |
|---------------------------------------|-------------------------|--------------|---|--|-------------------------|--------------|
| 1. NBM loans: | 1507.1 | | 237.0 | 7468.7 | 1744.1 | |
| External debt servicing | 888.8 | 46.6 | 237.0 | 4521.8 | 1125.8 | 52.5 |
| Due redemption of SS in 1998 | 329.8 | 17.3 | 0.0 | 1648.9 | 329.8 | 15.4 |
| Financing state budget deficit | 288.5 | 15.1 | 0.0 | 1298.0 | 288.5 | 13.4 |
| 2. SS in NBM portfolio | 400.0 | 21.0 | | | 400.0 | 18.7 |
| Overall Government Debt to NBM | 1907.1 | 100.0 | 237.0 | 7468.7 | 2144.1 | 100.0 |

The weight of Government debt accounted as on December 31, 2002 for 96.3% of the total credit portfolio of the National Bank of Moldova.

Lending activity

In 2002 the lending activity of the National Bank of Moldova was mainly targeted to monitor and manage loans extended to commercial banks during previous years for housing construction co-operatives (HCC) based on with Decisions of the Parliament and the Government of the Republic of Moldova, as well as credits extended through

commercial banks to some industrial enterprises and frozen in accordance with the Decision of the Parliament of the Republic of Moldova no.1403-XIII of 16.12.1997.

Table no. 22. Evolution of credits extended to commercial banks in 2002 (mln. MDL)

| No. | Loan purpose | Balance of credits as on 31.12.2001 | Extended credits | Paid credits | Balance of credits as on 31.12.2002 |
|-----|---|-------------------------------------|------------------------|------------------------|-------------------------------------|
| 1. | Credits to housing construction co-operatives (HCC) – totally, including: - HCC in exploitation - CCL in construction | 86.3 73.4 12.9 | 2.0 - 2.0 | 6.9 6.9 - | 81.4 81.4* - |
| 2. | Credits frozen following Parliament Decision no.1403-XIII of 16.12.1997 | 4.8 | - | 4.8 | - |
| | Total | 91.1 | 2.0 | 11.7 | 81.4 |

* Credits extended to housing construction co-operatives (HCC) amounting 14.9 million lei were included in HCC in exploitation in accordance with housing exploitation.

Commercial bank loan indebtedness to the National Bank of Moldova amounted to lei 81.4 million as on 31.12.2002 and decreased by lei 9.7 million or by 10.6% as compared to the previous year-end (table no. 22). The loan balance reduced as a result of total reimbursement of frozen credits amounting to lei 4.8 million and payment of loans extended to HCC in exploitation amounting to lei 6.9 million in accordance with agreement stipulations.

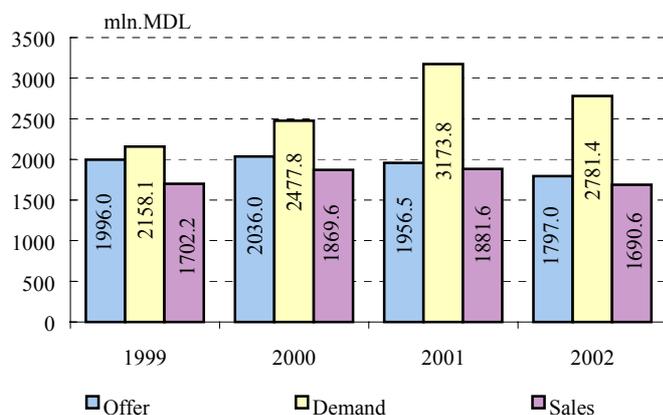
Financial Markets

Primary Market of State Securities

Acting as fiscal agent of the State in performing selling, recording and redemption of state securities, in 2002 the National Bank of Moldova held 206 issues of state securities.

The state securities primary market recorded a slight reduction of quantitative parameters as compared to 2001 (chart no. 40). The offer

Chart no. 40. Offer, demand and sales of SS in 1999-2002

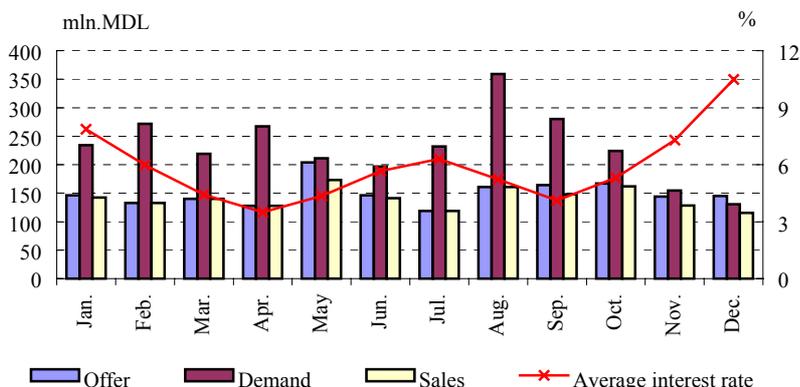


of the Ministry of Finance in 2002 amounted to lei 1797.0 million and decreased by 8.2% as compared to the previous year.

Although commercial banks displayed great interest in state securities' placements, the total bid value at auctions reduced by 12.4% as compared to the previous year and amounted to lei 2781.4 million. The demand/supply ratio in the primary state securities market decreased to 1.55 in 2002 as against 1.62 in 2001.

The value of issued state securities totaled lei 1690.7 million in nominal terms and accounted for 94.1% of announced offer. The

Chart no. 41. Dynamics of offer, demand and sales of SS at primary market auctions and of average monthly interest rate in 2002



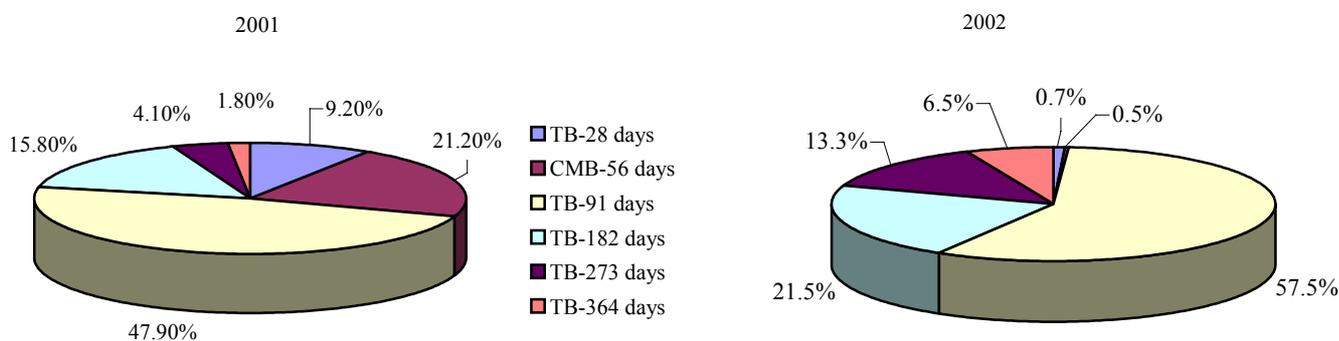
constant excess liquidity in the banking system generated a permanent interest during the year in investments in state securities (chart no. 41).

Unlike in 2001, when the demand/supply ratio in the primary market of state securities was mainly determined by the political events within the country, in 2002 seasonal factors regained influence.

The situation in June-July related to the rescheduling of Eurobonds previously issued by the Government of the Republic of Moldova and the reduction by international rating agencies of the country's risk indices have slightly affected the internal market.

As the budget deficit was financed from banking resources, the Ministry of Finance emphasized its issuance policy on initiation of securities with longer maturity. Thus, the share of securities with the maturity of 182, 273 and 364 days significantly increased: if in 2001 this share accounted for 21.7% of adjudged SS value, in 2002 this figured constituted 41.3% (chart no. 42). The share of 91-day T-bills accounted for 57.5% of total adjudged SS value. The average annual maturity of state securities increased from 102 days in 2001 to 150 days in 2002.

Chart no. 42. Structure of SS issuance by types



Although 28-day T-bills were not auctioned in 2002, the sudden reduction of demand for SS at the end of the year implied their

reestablishment at auction in December. There were two issues of 29-day T-bills that accounted for 0.7% as compared to 9.2% in 2001.

Interest rates in the state securities market in 2002 significantly reduced. Decelerating inflation anticipations by market operators, the NBM policy of steering low interest rates in the money market and the relative stability of the foreign exchange market in 2002 created all premises for an accelerated decline of interest rates on state securities and the possibility to reach the lowest figures since the SS market initiation.

From July 2001 interest rates on SS followed a downward trend, reaching in April 2002 the lowest monthly average interest rate of 3.49%. Thus, the monthly interest rate decreased by 12.8 p.p. during this period.

There were no significant fluctuations of the interest rates during the 2nd and 3rd quarters of 2002: following a slight increase in May-July, the interest rates on SS during the next two months have taken back their descendant trend.

A marked speculative orientation by market operators has affected the evolution of interest rates on state securities in the 4th quarter and determined the interest rates on SS as at the year-end to exceed the rates registered at the beginning of the year.

The annual average interest rate on sold SS in 2002 accounted for 5.75%, which is by 8.7 p.p. less than in 2001.

The interest rate on 91-day T-Bills reached the lowest value at the auction of 23 April 2002, accounting for 2.52%. Interest rates on 182-day and 273-day T-Bills accounted for the minimal

values of 3.10% and 3.32% at the auction of 30 April 2002. The lowest interest rate of 5.97% on 364-day T-Bills was registered at the auction of 24 September 2002 (chart no. 43).

Compared to previous years, a reduced gap between interest rates on T-bills with different maturities could be observed in 2002. The nominal average weighted annual interest rates on SS traded during the last three years at auctions in the primary market by maturity are shown in table no. 26.

Chart no. 43. Dynamics of nominal yields of SS

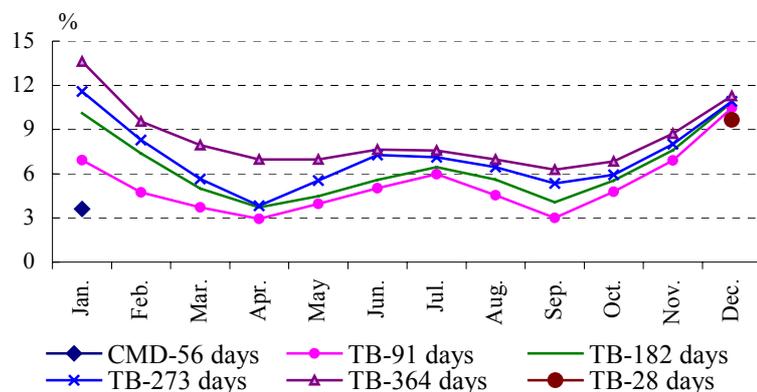


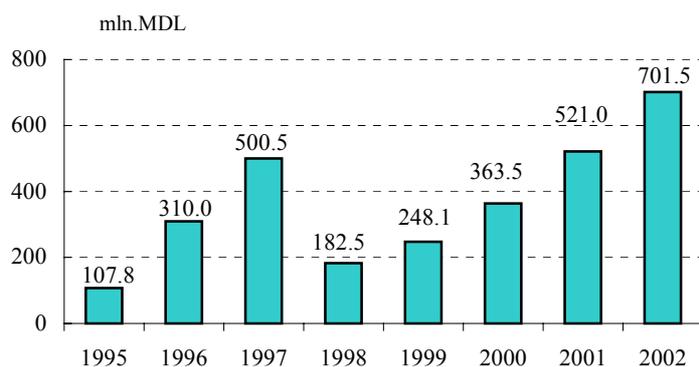
Table no.26. Annual nominal average weighted yields on traded SS (2000-2002)

| | 28-day TB | 56-day CMB | 91-day TB | 182-day TB | 273-day TB | 364-day TB |
|------|-----------|------------|-----------|------------|------------|------------|
| 2000 | 19.91 | 21.53 | 26.14 | 27.36 | | 27.99 |
| 2001 | 12.33 | 12.74 | 14.55 | 16.61 | 17.40 | 18.75 |
| 2002 | 9.65 | 3.62 | 5.26 | 6.07 | 6.78 | 7.48 |

The investment environment within the republic on the background of marked reduction of yields of state securities did not generate the re-appearance of foreign investors in the SS market.

Lower interest rates had visibly affected the interest by local non-banking investors in such types of investments. Thus, the value of SS purchased at auctions by investors accounted only for 2.3% of the total placed value and amounted to lei 39.7 million (as compared to 2001 when investors' share accounted for 8.2% of total value). Respectively, the weight of T-bills purchased by commercial banks for own portfolios increased as compared to 2001 and constituted 97.7%.

Chart no. 44. Dynamics of SS in circulation (of those placed via primary market auctions at 1995-2002 year-end



The value of SS in circulation placed via primary market auctions increased as compared to 31 December 2001 by lei 180.5 million (34.6%) in nominal terms and amounted as on December 31, 2002 to lei 701.5 million (chart no. 44).

Net receipts from issue of state securities at selling price totaled lei 184.0 million, in accordance with the budget deficit financing limit as provided in the Law on the State Budget for 2002.

Secondary Market of State Securities

The state securities secondary market in 2002 displayed a reduced activity as compared to the previous year. Selling/buying transactions with state securities during the year amounted to lei 369.1 million, which is by lei 98.3 million or 21.0% less than in 2001.

Commercial banks accounted for the largest weight in the total of selling/buying transactions (87.7%); transaction with clients amounted to lei 45.3 million or 12.3%.

Within the structure of SS traded in the states securities secondary market, SS with the maturity within 28 to 91 days, as well as up to 28

days were the most attractive; their weights accounted for 45.8 % and 34.7% of the total value of SS transactions.

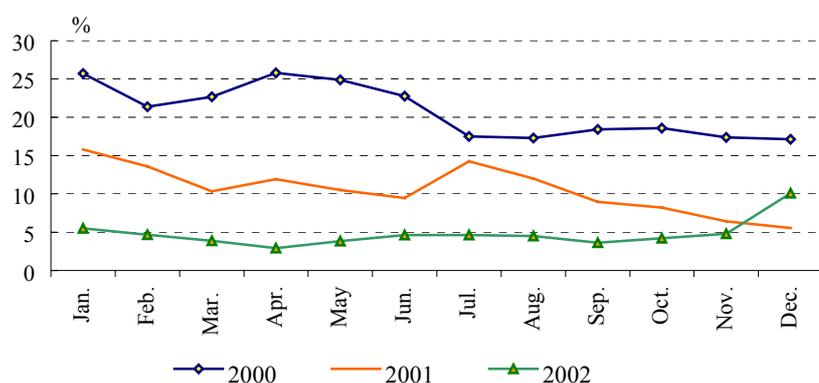
The weight of traded T-Bills with the maturity within 91 to 182 days increased from 5.6% in the previous year to 15.0% in 2002.

Thus, the increasing trend of the average weighted maturity of SS traded in the state securities secondary market (from 49 days in 2001 to 72 days in 2002) demonstrated a stronger confidence in this segment of the financial market.

The nominal value of SS traded through REPOs reduced by lei 85.8 million as compared to the previous year and amounted to lei 244.1 million, of which interbank REPOs totaled lei 227.5 million or 93.2% and transactions with clients – lei 16.6 million or 6.8% of total value.

In January to April 2002 the nominal weighted average yield in the secondary market evolved following a decreasing trend (from 5.48%

Chart no. 45. Dynamics of nominal average weighted yields of SS traded in the secondary market in 2000 - 2002

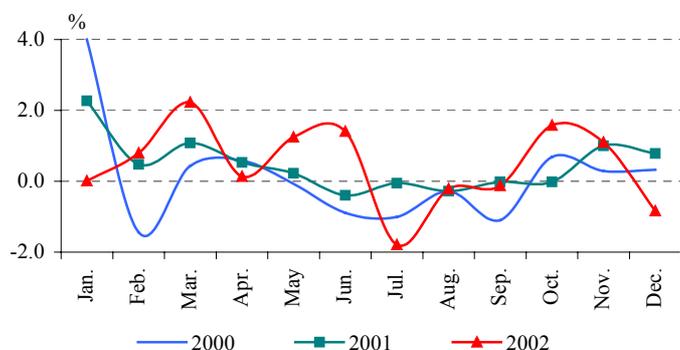


in January to 2.93% in April). The trend reversed its direction at the year-end, reflecting a considerable yield rise in December – from 3.61% in September to 10.07% in December (chart no. 45). Yet, at a yearly level, the nominal weighted average interest rate displayed the smallest figure as compared to the previous years accounting for 4.62% (as against 9.76% and 19.51% in 2001 and 2000 respectively).

Trends in the Foreign Exchange Market

Exchange Rate Trends in 2002

Chart no. 46. Exchange Rate monthly variations in 2000-2002 (MDL/US\$)



The exchange rate of the national currency depreciated by 5.59% from 13.0909 lei per 1 US\$ as on December 31, 2001 to 13.8220 lei per 1 US\$ as on December 31, 2002.

The fluctuations of the exchange rate recorded the same seasonal trends as in the previous years and were as follows: depreciation in February to April and October to November. However, despite stabilization expectations for June, the

Table no. 24. Foreign currency net inflow in 2001-2002 (million US\$)

| | 2001 | QI | QII | QIII | QIV | 2002 |
|--|---------------|--------------|--------------|--------------|--------------|---------------|
| STATE SECTOR (net inflow) | -76.8 | -13.7 | -12.9 | 6.8 | -22.9 | -42.8 |
| Capital inflow | | | | | | |
| Loans | 31.9 | 0.0 | 0.0 | 25.4 | 2.6 | 28.0 |
| State property privatisation | 0.0 | 1.1 | 1.1 | 1.0 | 4.9 | 8.1 |
| Capital outflow | | | | | | |
| Debt servicing | 108.8 | 14.8 | 14.0 | 19.6 | 30.5 | 78.9 |
| BANKING SECTOR (net inflow) | 2.7 | 2.9 | -0.3 | 7.3 | 1.5 | 11.4 |
| Capital inflow | | | | | | |
| Direct and portfolio investments (net inflow) | 2.5 | 1.6 | 0.0 | 0.0 | 0.7 | 2.3 |
| Loans | 14.7 | 2.4 | 1.9 | 8.5 | 2.6 | 15.4 |
| Capital outflow | | | | | | |
| Debt servicing | 14.5 | 1.1 | 2.2 | 1.1 | 1.8 | 6.2 |
| PRIVATE SECTOR (net inflow) | 232.3 | 53.7 | 66.1 | 76.5 | 83.8 | 280.1 |
| Capital inflow | | | | | | |
| Direct and portfolio investments (net inflow) | 9.5 | 2.1 | 6.4 | 3.1 | 18.6 | 30.1 |
| Loans | 37.9 | 11.3 | 10.2 | 17.4 | 54.3 | 93.1 |
| Workers' remittances (net inflow) | 208.2 | 48.9 | 59.9 | 72.3 | 68.3 | 249.4 |
| Capital outflow | | | | | | |
| Debt servicing | 23.2 | 8.7 | 10.4 | 16.2 | 57.3 | 92.6 |
| COMMERCIAL BALANCE (net inflow) | -174.2 | -24.2 | -48.0 | -62.1 | -82.6 | -216.8 |
| Export of goods and services | 703.7 | 186.7 | 188.8 | 215.9 | 246.7 | 838.1 |
| Import of goods and services | 877.9 | 210.8 | 236.8 | 278.0 | 329.3 | 1054.9 |
| Capital inflow (TOTAL) | 1008.3 | 254.1 | 268.3 | 343.5 | 398.7 | 1264.5 |
| Capital outflow (TOTAL) | 1024.4 | 235.4 | 263.4 | 314.9 | 418.9 | 1232.6 |
| NET INFLOW (TOTAL) | -16.1 | 18.7 | 4.9 | 28.6 | -20.2 | 31.9 |
| NET INFLOW (TOTAL without state sector) | 60.7 | 32.4 | 17.8 | 21.8 | 2.7 | 74.7 |

national currency recorded depreciation trends and resumed financing of the Republic of Moldova by international financial institutions determined the MDL appreciation in July to September 2002 (chart no. 46).

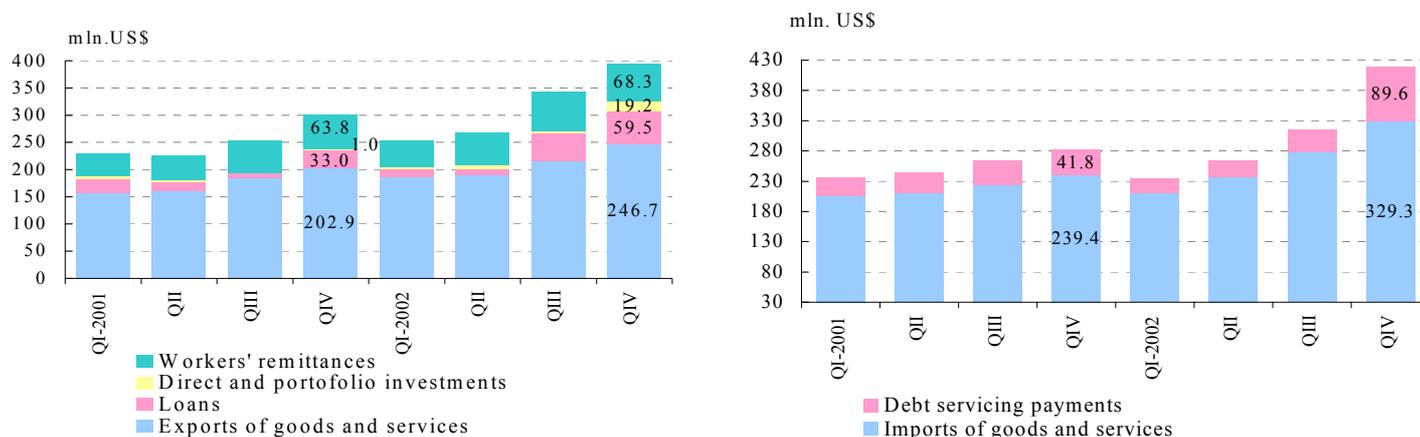
Net inflow data generated on the basis of transactions recorded in accordance with banking statistics methodology is presented in table no. 24. The foreign exchange inflows during the year amounted to US\$ 1264.5 million and had the following structure: exports of goods and services – 66.3%; remittances from abroad – 19.7%; external loans – 10.8%; direct and portfolio investments – 2.6%; and privatization proceeds – 0.6%. Foreign exchange outflows amounted to US\$ 1232.6 million and resulted from: payments related to imports of goods and services - 85.6%; and external debt servicing – 14.4%.

Foreign exchange inflows increased by US\$ 256.2 million or 25.4% as compared to 2001 due to larger proceeds from exports of goods and services (by US\$ 134.4 million or 19.1%) and remittances from abroad (by US\$ 41.2 million or 19.8%). Outflows grew by US\$ 208.3 million or 20.3% compared to the previous year as a result of increased payments related to imports of goods and services and debt servicing through correspondent accounts of resident banks.

Within the structure of foreign exchange inflows during 2000 to 2002 the share of workers' remittances and exports of goods and services increased, while the share of privatization proceeds and direct and portfolio investments decreased.

In 2001 to 2002 foreign exchange inflows and outflows displayed seasonal upward trends in the 3rd and 4th quarters of the year (chart no. 47).

Chart no. 47. Structure of foreign exchange inflows and outflows in 2001-2002



The real exchange rate of MDL against US\$ depreciated by 3.47% as at the end of 2002 compared to the end of 2001 (table no. 25). The depreciation of the real exchange rate in 2002 had a more accelerated pace as in 2001.

Table no. 25. Dynamics of indicators on MDL exchange rate

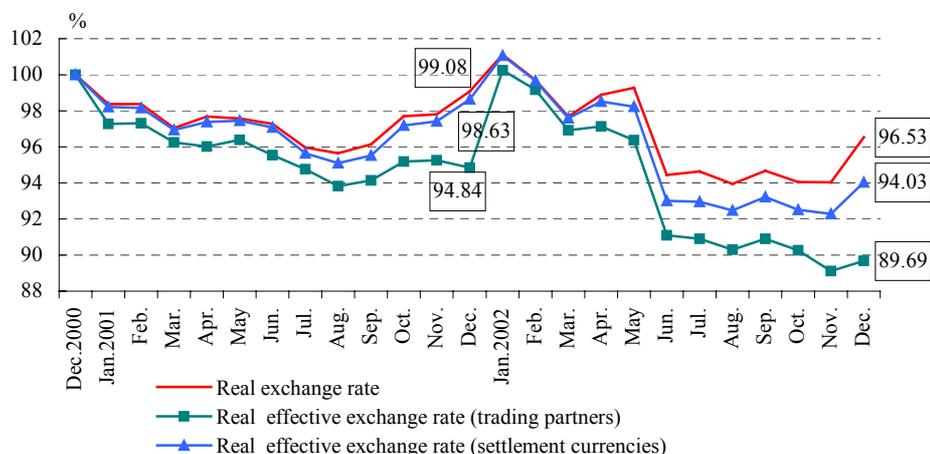
| | Quarter I, 2002 | Quarter II, 2002 | Quarter III, 2002 | Quarter IV, 2002 |
|--|-----------------|------------------|-------------------|------------------|
| Official exchange rate (end of quarter) | 13.4905 | 13.8686 | 13.5735 | 13.8220 |
| Quarterly depreciation / appreciation, % | -3.05 | -2.80 | 2.13 | -1.83 |
| Average quarterly exchange rate | 13.2157 | 13.6150 | 13.6358 | 13.8182 |
| Nominal exchange rate (end of quarter) (Dec=100)*, % | 97.04 | 94.39 | 96.44 | 94.71 |
| Real exchange rate (end of quarter) (Dec=100)*, % | 97.68 | 94.44 | 94.67 | 96.53 |

* Indirect quotation MDL/USD

Real effective exchange rate, which is a more complex indicator that reflects the change of the MDL exchange rate in real terms against currencies of its main trading partners, accounted for 89.69% at the end of December 2002 (chart no. 48). This situation demonstrates a

higher competitiveness of local goods, which contributes to the increase of exports from the Republic of Moldova. Within this framework, the depreciation in 2002 of the real effective exchange rate by 10.3% determined the increase of proceeds from exports of goods and services by 19.1% as compared to 2001.

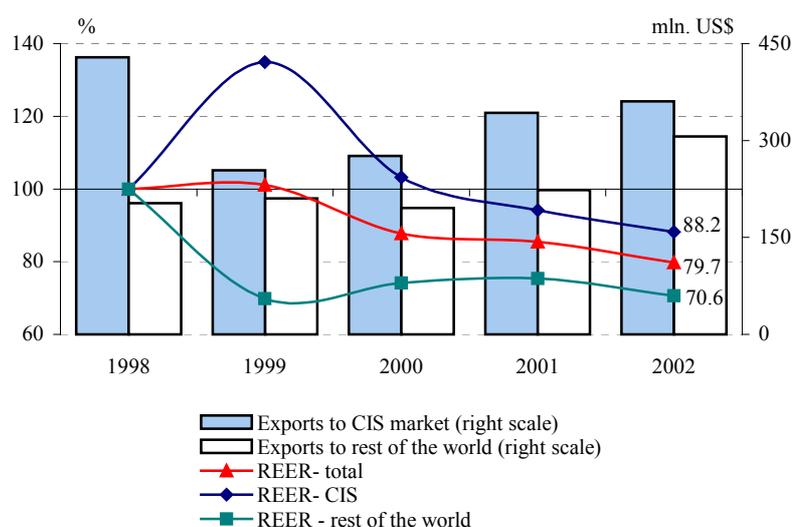
Chart no. 48. Real and real effective exchange rates based on trading partners and settlement currencies weights in 2001-2002



At the same time, the real effective exchange rate calculated based on the weight of main settlement currencies in total external trade transactions illustrates more vividly the evolution of the real exchange rate, due to the fact that around 75.0% of import/export transactions are performed in US\$. This indicator accounted for 94.03% at the end of 2002, showing a depreciation of 5.97% (1.37% in 2001).

The analysis of the real effective exchange rate based on geographical orientation of exports and imports demonstrates that the 11.8%-

Chart no. 49. Exports and real effective exchange rate (1998=100)



depreciation of the real effective exchange rate calculated against the currencies of main CIS trading partners determined the consolidation of local goods' competitiveness in the CIS markets. Exports to this region increased by 38.2% compared to 1999. The depreciation of the real effective exchange rate by 29.4% calculated against currencies of main partners from the rest of the world generated larger exports to these markets (by 39.9%).

Foreign Exchange Market of the Republic of Moldova, NBM Activity in the Foreign Exchange Market

The foreign exchange market developments in 2002 followed the same trends as in 2001. The total turnover of transactions conducted in the foreign exchange market amounted to US\$ 2.86 billion, which is by 4.3% more than in the previous year (table no. 26). Within the structure of total turnover of operations in the domestic forex market purchases against MDL totaled US\$ 1405.5 million and sales against MDL totaled US\$ 1457.2 million.

Table no. 26. Total turnover of domestic foreign exchange market (purchases/sales against MDL)

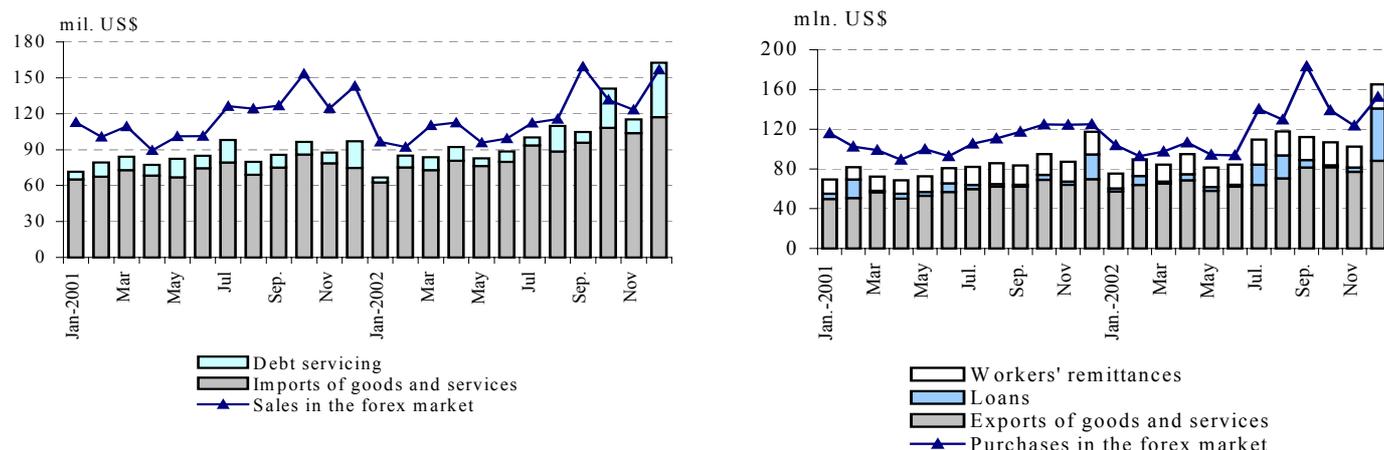
| | Non-cash foreign exchange market | | | Cash foreign exchange market | | Total turnover of domestic foreign exchange market |
|---------------------------|----------------------------------|--|------|------------------------------------|--|--|
| | Commercial banks | Ministry of Finance and other ministries | NBM | Commercial banks' exchange bureaus | Non-commercial banks' exchange bureaus | |
| <i>million US dollars</i> | | | | | | |
| 2001 | 1886.6 | 116.2 | 78.5 | 495.4 | 167.4 | 2744.0 |
| 2002 | 1999.9 | 46.0 | 97.3 | 570.1 | 149.5 | 2862.7 |
| <i>share, %</i> | | | | | | |
| 2002 | 69.9 | 1.6 | 3.4 | 19.9 | 5.2 | 100.0 |
| <i>percentage change</i> | | | | | | |
| 2002 | 6.0 | -60.4 | 23.9 | 15.1 | -10.7 | 4.3 |

The structure of total transactions' turnover by main market participants in the foreign exchange market modified as compared to the previous year. There was an increase in the share of operations conducted by exchange bureaus belonging to commercial banks (by 1.9 %) and by resident banks and the NBM (by 1.1 % and 0.5 %). Reductions were registered in the share of the operations with the Ministry of Finance and other ministries (by 2.6 %) and of non-commercial banks' exchange bureaus (by 0.9%).

The share of commercial banks' exchange bureaus operations accounted for 19.9% of total turnover of operations in the domestic market and exceeded by 3.8 times the share of non-commercial banks' exchange bureaus operations. At the same time, the share of foreign exchange cash market rose (from 24.2% in 2001 to 25.1% in 2002) due to the continuous support and servicing by the cash foreign exchange market of the shadow economy, as well as due to the remittances from abroad.

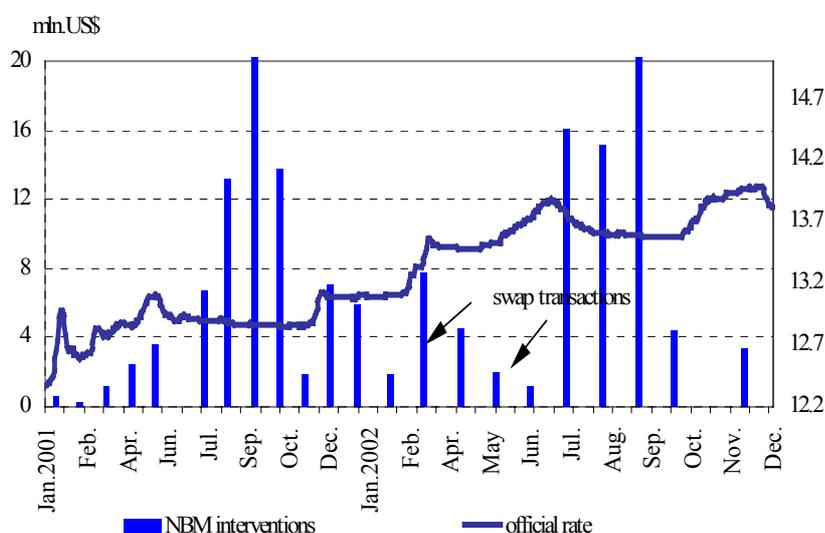
The larger turnover of forex operations in 2002 was generated by the increase of: forex transactions with foreign banks; import/export operations in foreign currency conducted by economic agents of the Republic of Moldova via resident banks; credit drawings and debt servicing; as well as of operations by individuals.

Chart no. 50. Forex transactions, foreign currency demand and supply in 2001-2002



The larger demand for foreign currency in the foreign exchange market in the 2nd and 4th quarters of 2002 was determined by the growth of payments related to imports through correspondent accounts of resident banks and to debt servicing. At the same time, the supply of foreign currency in the 1st and 3rd quarters exceeded the total demand. Proceeds from exports of goods and services of legal entities of the Republic of Moldova via resident banks accounted for 68.5% of the total supply of foreign currency; remittances from abroad constituted 20.4% and external loans – 11.1%. The share of Moldova's legal entities' payments in hard and soft currencies via resident banks for imports of goods and services accounted for 85.6% of total demand for foreign currency; the weight of payments related to debt servicing constituted 14.4% (chart no. 50).

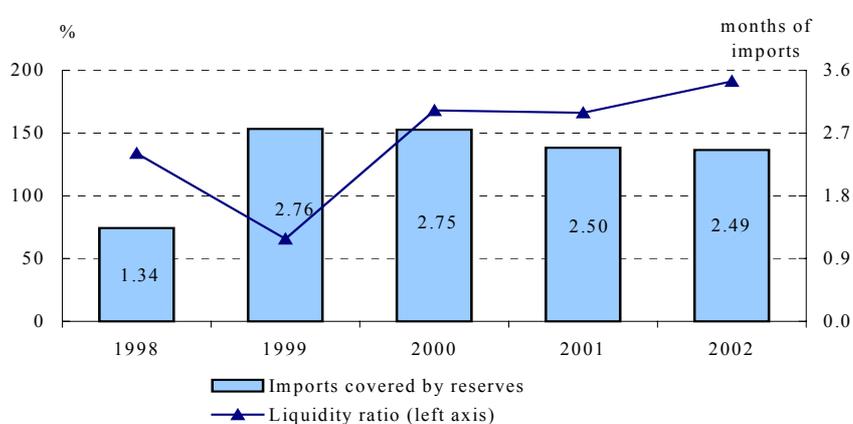
Chart no. 51. Foreign exchange rate and NBM's interventions in 2001-2002



Considering the current situation in the foreign exchange market, the NBM intervened as purchaser of foreign currency and acquired US\$ 68.9 million. To satisfy the excessive demand for foreign currency in March to May 2002 while maintaining, at the same time, the level of foreign exchange reserves, the NBM used swap transactions in an amount of US\$ 14.2 million (chart no. 51). Net purchases by the NBM in 2002 were partially used for external debt servicing in an amount of US\$ 59.1 million.

International foreign exchange reserves rose during the year by US\$ 40.3 million from US\$ 228.53 million to US\$ 268.86 million. This increase was due to foreign exchange inflows in an amount of US\$ 128.7 million, including: purchases of foreign currency in the forex market – 53.5%; external loans – 17.8%; EU grant and US\$ depreciation as against other currencies – 17.2%; revenues from privatization of state property – 6.3%; and revenues from reserves management – 5.2%. Foreign exchange outflow in 2002 amounted to US\$ 88.4 million, out of which state external debt servicing accounted for 66.9%; IMF credit servicing – for 24.3%; and other payments in foreign currency – for 8.8%.

Chart no. 52. Liquidity rate and foreign exchange reserves in months of import



International foreign exchange reserves were sufficient to cover 2.5 months of import in 2002 (chart no. 52). Liquidity ratio is another indicator that gives a more clear assessment of the international reserves adequacy. Calculated as international foreign exchange reserves at the beginning of the calendar year as a percentage of the scheduled external debt servicing payments during the year, this indicator, like

in the previous year, exceeded the 100% threshold, demonstrating that available international reserves of the National Bank of Moldova ensured full coverage of external debt servicing payments scheduled for that relevant period. The higher liquidity ratio in 2002 was due to the increase of the foreign assets and the decrease of external debt servicing payments scheduled for 2002*.

Operations in hard currencies accounted for 94.2% and prevailed in the structure of total turnover of forex transactions in the domestic interbank market in 2001 to 2002. The share of transactions in Russian Rubles accounted for 5.1% and those in soft currencies – for 0.7%.

The US dollar is predominant in the foreign exchange market of the Republic of Moldova accounting for 83.3% of total turnover. Favorable trends were noted in the structure of forex transactions by currencies. The share of Euro operations increased by 8.2% following the consolidation of this currency in the international market. The

* Foreign debt servicing payments scheduled for 2001 include payments related to Eurobonds repurchase.

highest level of Euro transactions in total operations in the forex market was registered in September 2002, accounting for 15.4%.

Tabelul nr. 27. Purchases and sales in the foreign exchange market against MDL and net balance

| | Bank's purchases in the foreign exchange market against MDL | | | | | | | Total |
|--------------------------------------|---|----------------|--------------------|----------------|--------------------------|-------------|-------|--------|
| | NBM | Resident banks | Non-resident banks | Legal entities | Foreign exchange bureaux | Individuals | Other | |
| Million US dollars | | | | | | | | |
| 2001 | 0.0 | 239.3 | 18.0 | 568.4 | 34.4 | 308.2 | 75.4 | 1243.7 |
| 2002 | 14.2 | 163.1 | 34.2 | 651.9 | 4.2 | 411.8 | 71.3 | 1350.7 |
| Share, % | | | | | | | | |
| 2002 | 1.1 | 12.1 | 2.5 | 48.3 | 0.3 | 30.5 | 5.3 | 100.0 |
| Percentage change over previous year | | | | | | | | |
| 2002 | - | -31.8 | 90.0 | 14.7 | -87.9 | 33.6 | -5.5 | 8.6 |
| | Bank's sales in the foreign exchange market against MDL | | | | | | | Total |
| | NBM | Resident banks | Non-resident banks | Legal entities | Foreign exchange bureaux | Individuals | Other | |
| Million US dollars | | | | | | | | |
| 2001 | 78.5 | 281.4 | 23.3 | 638.5 | 13.5 | 113.5 | 68.1 | 1216.8 |
| 2002 | 83.1 | 189.3 | 41.2 | 834.4 | 2.1 | 159.3 | 59.4 | 1368.8 |
| Share, % | | | | | | | | |
| 2002 | 6.1 | 13.8 | 3.0 | 61.0 | 0.2 | 11.6 | 4.3 | 100.0 |
| Percentage change over previous year | | | | | | | | |
| 2002 | 5.8 | -32.7 | 76.7 | 30.7 | -84.5 | 40.3 | -12.7 | 12.5 |
| | Net balance | | | | | | | Total |
| | NBM | Resident banks | Non-resident banks | Legal entities | Foreign exchange bureaux | Individuals | Other | |
| Million US dollars | | | | | | | | |
| 2001 | -78.5 | -42.1 | -5.3 | -70.2 | 20.9 | 194.7 | 7.3 | 26.9 |
| 2002 | -68.9 | -26.2 | -6.9 | -182.6 | 2.1 | 252.5 | 11.8 | -18.1 |

The main sources of foreign exchange inflow in the forex market resulted from: legal entities (48.3%), individuals (30.5%), resident banks (12.1%) and foreign exchange bureaux (0.3%). Acquisitions of foreign currencies during the year increased by US\$ 107.0 million as compared to the previous year. The amount of US\$ purchased from individuals against MDL increased by US\$ 83.5 million and from non-resident banks – by US\$ 16.2 million compared to 2001. Legal entities were the most active resident participants in the forex market.

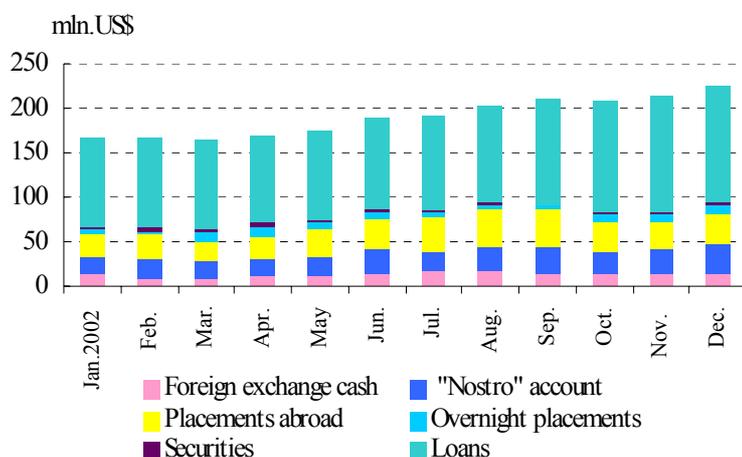
Foreign currency sales in the foreign exchange market increased by US\$ 152.0 million in 2002 as compared to the previous year and were sold to: legal entities – 61.0%; resident banks – 13.8%; individuals –

11.5%; and non-resident banks – 3.0%. The share of forex sales to legal entities increased by 8.5 %, while that to individuals – by 2.3 %.

The foreign exchange surplus acquired by commercial banks from other participants of the foreign exchange market (generated mainly by individuals (94.8%) amounted to US\$ 266.4 million and was mainly sold to the NBM, legal entities, resident and non-resident banks. The net negative balance of foreign exchange operations as against MDL totaled US\$ 18.1 million.

Both net balance sheet assets and liabilities of commercial banks recorded positive trends, increasing by US\$ 54.7 million (from US\$ 173.3 million to US\$ 228.0 million) and US\$ 60.6 million (from US\$ 148.4 million to US\$ 209.0 million) respectively (chart no. 53).

Chart no. 53. Monthly dynamics of net balance-sheet assets in foreign currency in 2002



Foreign Exchange Regulation in 2002

The improvement of the foreign exchange regulation on the territory of the Republic of Moldova in 2002 was in line with the current legislation of the Republic of Moldova, the effected amendments as well as the economic developments in the country.

Modifications in the field of foreign exchange regulation are related to capital account liberalization. In the framework of the development of financial and foreign exchange markets as well as economic globalization, the liberalization of capital movements, inclusive in the Republic of Moldova, is obvious. Taking into account the current economic situation and balance of payments deficit, the liberalization of capital operations within the Republic of Moldova should be made in a prudent and gradual way in line with the financial system's capacity to resist to eventual shocks caused by liberalization. The following prerequisites should be ensured with regard to this: macroeconomic stability (stable exchange rate of the national currency; low rate of inflation; insignificant deficit of the budget and current account of the balance of payments; etc.); consolidation of the banking and financial system; and adequate banking supervision and transparent financial and economic data. Given the favorable trends in economic developments during the last two years, the National Bank of Moldova decided to liberalize a series of operations related to capital transfers. Firstly, the NBM determined the operations to be

identified as capital transfer operations. Additionally, it was stipulated that the NBM shall establish the types of capital transfer operations that might be conducted without the relevant registration or authorization by the National Bank. The NBM worked out the list of such transactions, which covered also capital transfer operations already liberalized. Further on, the Bank set up the list of private external commitments that covered operations to be conducted without the NBM authorization / registration. The liberalization of mentioned operations was due to the implementation and maintenance of adequate controls over such transactions. The National Bank has explicitly established the right of non-residents to perform capital transfers in the Republic of Moldova in form of direct, portfolio or real estate investments without registration at the National Bank of Moldova.

Following the approval of the Law on Anti-Money Laundering, the National Bank has relevantly modified and completed the NBM normative act, as follows:

- upon performance of a foreign exchange operations equal to or exceeding the equivalent of US\$ 500, the officer of the exchange office should require the client to submit his/her identity card and indicate ID data in the concluded foreign exchange report;
- with the view to receiving licences to conduct foreign exchange operations with individuals, exchange offices should, additionally to required documents, submit to the NBM the criminal records issued by the Ministry of Internal Affairs on the manager, vice manager and chief accountant of the exchange office.

Following the modification of legislative and normative acts of the Republic of Moldova and with the view to bringing into compliance its normative acts, the National Bank modified and completed in 2002 relevant regulations as follows:

- Following the modification of the Customs Code and effectiveness of the Regulation on Authorisation and Control of Duty-Free Shops and Diplomatic Corps Servicing Shops, the National Bank introduced adequate modifications and completions to the relevant Instruction. Within this context, the NBM has, except certain provisions from mentioned acts, set the necessary documents to be submitted with the view to receive the NBM licence to trade goods against foreign currency under duty-free regime on board of aircraft. It also stipulated cases when the NBM shall refuse the issuance of a licence, as well as shall cease the activity or withdraw the granted licences. The NBM licence to trade goods against foreign exchange under duty-free regime on the board of the aircraft has been stipulated to be valid only

if there is a Duty-Free Shop License issued by the Ministry of Economy with the approval of the Customs Department.

At the same time, the National Bank introduced provisions with regard to activities with foreign exchange received from trading with goods under duty-free regime on board of aircraft; and elaborated the new procedure on duty-free shops' delivering to commercial banks of foreign exchange for sale.

- Based on provisions of the Decision of the Constitutional Court of the Republic of Moldova no. 35 of 24.09.2002 and until final settlement by the Government of the Republic of Moldova of Pre-Shipment Inspection issue, the National Bank abrogated the Instruction on Control over Pre-Shipment Inspection Payments and a number of provisions of the Regulation on Control over Payments for Imports of Goods and Services.

- Following the completion of the Law on Licensing of Certain Types of Activity, the NBM modified its relevant normative act as for the NBM to grant to exchange offices licences and not authorizations to conduct relevant activity. To obtain such licence, the exchange office should pay a tax in an amount set by the legislation. It was clearly stipulated that the NBM shall keep record in special registers of all exchange offices, exchange bureaus by hotels and commercial banks' exchange offices.

The National Bank of Moldova worked out in 2002 a number of normative acts, as well as modifications and completions to existent normative acts targeted to improve foreign exchange regulations as follows.

- With the view to apply the experience of the NBM staff accumulated in the field of registration and authorization of private external commitments, as well as to improve the relevant legal framework, the NBM approved the Instruction on Registration and Authorisation by the National Bank of Moldova of private External Commitments. This Instructions describes all private external commitments to be registered / authorized; the procedure of private external commitments registration / authorization and reporting; etc. In contrast to the previous Instruction:

- the new Instruction provides for the list of private external commitments and of operations that might by conducted without the NBM registration / authorization;
- according to the new Instruction, the registration certificates and the NBM authorizations shall be issued according to a set up form that shall also include relevant attachments;

- the NBM set additional conditions to general ones for residents other than financial institutions; while meeting one of them, the NBM may issue an authorisation for a resident to provide loans/credits or financial leasing to a non-resident. These conditions are determined by the external financing of the economic agent or the establishment in which the resident of the Republic of Moldova holds certain economic interest.

The new Instruction includes: detailed provisions with regard to residents' and banks' obligations to register and authorize private external commitments; and performance of operations in accordance with registered / authorized private external commitments.

Simultaneously with the approval of the mentioned Instruction, the NBM relevantly modified and completed: the Regulation on Foreign Exchange Regulation on the territory of the Republic of Moldova; the Instruction on Control over Payments related to Imports of Goods and Services; as well as the Instruction on Control over Repatriation of Money Proceeds from Exports of Goods.

- With the view to improving the legal framework with regard to international postal mandates' exchange and to promoting money transfers via mechanisms other than banking (via exchange of postal mandates), the NBM approved the Instruction on International Postal Mandates. The provisions of this Instruction regulate the performance by the state entity "Moldova Post Office" of money means transfers through the exchange of postal mandates with post administrations of foreign states based on rules to conduct money transfers through the banking system of the Republic of Moldova.
- Considering that banking supervision complies currently to all international standards, the NBM applied international experience in developing internal foreign exchange market as to allow authorized commercial banks using different methods (instruments) to mitigate possible foreign exchange risks and providing credits in any foreign currency.
- With the view to liberalize certain operations by resident individuals, the NBM increased the allowed amount to be transferred within international operations by resident individuals abroad of foreign currency purchased in the forex market, without submission of confirming documents from US\$ 100 to US\$ 200.
- The NBM extended the list of relatives to whom resident individuals may transfer foreign currency abroad for purpose of family expenses.

- The NBM clarified the procedure of payment by local and international cards issued by authorized banks of the Republic of Moldova.
- The NBM specified sources and rules related to the issuance of checks in foreign currency and stipulated the conditions of checks' use by individuals and businesses.
- The NBM implemented a number of modifications and completions aimed to regulate the regime of non-residents' accounts in MDL and foreign exchange, as well as the performance by non-residents of foreign exchange transfers from Moldova without registration of funds in their accounts.
- The provision related to the residents' obligation to transfer (repatriate) into Moldova all amounts resulted from external operations, except commissions and other banking related expenses, conducted according to international banking practice, was completed.
- The NBM stipulated the submission of documents confirming the necessity to conduct payments / transfers in favor of businesses. Such submission shall determine the banks to impede entrepreneur activity related transfers through individuals' accounts.

In 2002 the National Bank approved a normative act, that allowed to solve the problem related to certain requirements imposed by the USA legislation to foreign banks (including Moldovan banks), that open correspondent accounts with the USA financial institutions.

International Co-operation of the Republic of Moldova

The ongoing co-operation of the National Bank of Moldova with international financial institutions (International Monetary Fund, World Bank, European Bank for Reconstruction and Development, European Union, World Trade Organization) in 2002 denoted positive trends directed mainly towards the improvement of the legislative framework and the implementation of a stable financial policy.

The participation of the Republic of Moldova in the works of the 3rd Forum on Poverty Reduction and Sustainable Growth Strategies organized by the World Bank, IMF, UNDP and Government of Switzerland in Almaty, Kazakhstan from 11 to 13 December 2002, is an important event. As mentioned during the Forum, international co-operation is extremely essential in the process of implementation of Poverty Reduction and Sustainable Growth Strategies. The donors' community was represented at this high event by the Asian Development Bank, EBRD, EU, International Labour Organization,

Islamic Bank for Development, governments of France, Germany, Great Britain, Japan, Switzerland, USA and Turkey.

International Monetary Fund (IMF)

The relations of the National Bank of Moldova with the International Monetary Fund denoted continuous co-operation.

Following the IMF recommendations, the National Bank consolidated its collaboration with national establishments responsible for anti-terrorism financing and anti-money laundering. With the view to analyse the compliance to generally accepted standards within this field, the NBM filled in the IMF questionnaire on Institutions and Policies in Anti-Money Laundering and Anti-Terrorism Financing.

The completion of the first phase of the co-operation process with the IMF within the General Data Dissemination System and the placement of the information on the Republic of Moldova on the official IMF site on December 17, 2002 constitute an important event for Moldova. Following the adherence to GDDS in February 1998, the National Bank co-operated with the Ministry of Finance and the Statistics and Sociology Department in describing the methodology to compute the indicators covered by the system. According to the Regulations on the Organization and Operations of the General Data Dissemination System, the second phase envisage the submission of data.

The NBM is publishing the indicators covered by GDDS on its official site.

The first review of the Poverty Reduction and Growth Facility Program was concluded on July 10, 2002 (amounting SDR 110.88 million or US\$ 147.0 million). As a result, Moldova received the 3rd tranche totaling US\$ 12.30 million (SDR 9.24 million) on July 26, 2002.

The financial support by the IMF to the Republic of Moldova totaled SDR 270.07 million (US\$ 365.83) as of December 31, 2002; the stock of debt to IMF amounted to SDR 111.78 million (US\$ 151.42 million) as at the same date.

World Bank

The World Bank's activity is mainly directed towards poverty reduction in the Republic of Moldova and has the following objectives: macroeconomic stability and economic growth support; establishment of a social protection system oriented to the poorest

layers of the population; and improvement of access by the poorest public to social services (health protection and education). These objectives are attained by implementing: budget support projects (Structural Adjustment Loans); projects in agriculture, energy sector, education, health protection; and general private sector assistance. The World Bank also plays an important role as a donor financing technical assistance.

Within 10 projects, the *International Bank for Reconstruction and Development* (IBRD) extended to the Republic of Moldova financial assistance amounting to US\$ 228.47 million.

Concessional loans extended by the *International Development Association* (IDA) as financing of 12 projects totaled US\$ 142.64 million. The first tranche amounting to US\$ 10.65 million was disbursed in 2002 within SAC III credit.

Credits provided by the *International Financial Corporation* (IFC) to the private sector (banking and non-banking) amounted to US\$ 74.37 million as on December 31, 2002; of this, actual disbursements accounted for USD 58.27 million. Disbursements to the banking sector totaled US\$ 7.0 million; disbursements to the non-banking sector – to US\$ 51.27 million.

The most significant IFC credits include:

- a loan totaling US\$ 25.0 million extended to the three power distribution companies (privatized by Union Fenosa International, Spain) to restructure the energy sector in the post-privatization period;
- a loan amounting to US\$ 35.5 million extended to the joint venture Voxel to finance the mobile phone project.

European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development signed as of December 31, 2002 23 investment projects within agriculture, energy sector, public services and banking sector. The total committed amount under EBRD loans totalled US\$ 176.96 million. Disbursements within these projects amounted US\$ 151.08 million. The total stock of EBRD credits amounted as of December 31, 2002 to US\$ 88.93, of which direct credits to the Government and publicly guaranteed loans accounted for 76.1% and private credits with no public guarantee – for 23.9%. The structure of the EBRD credit portfolio by economic sectors is as follows: transportation – 38.8%; agriculture – 8.0%; infrastructure – 19.1%; financing of small and

medium enterprises – 15.8%; energy sector – 17.9%; and telecommunications and media – 0.4%.

Small and medium size enterprises' financing showed the most significant achievements, the total committed amount being US\$ 44.85 million and the stock – US\$ 14.07 million. Projects conducted via local banks proved to be an efficient instrument to support the private sector development.

Equity investments and lending by the EBRD in the banking system of the Republic of Moldova contributed to the capitalization of financial institutions; the improvement of the organizational structure and management of financial institutions; and to attracting foreign investments as a result of a higher confidence in the banking sector.

According to the EBRD strategy for the years 2002-2003, financing shall be streamlined to the following sectors: agriculture, energy and financial sectors' infrastructure (lending to the banking sector via credit lines and Export Facilitating Programs).

European Union (UE)

Following the initiative by the President of the Republic of Moldova on elaboration of the European Integration National Strategy and the National Actions Plan to implement this Strategy, the National Commission for European Integration was set up on November 13, 2002 following the Decree of the President of the Republic of Moldova. Within this context, the National Bank of Moldova shall be involved in the following areas: foreign exchange regulation; monetary policy instruments; banking supervision and regulation; and legal framework.

Co-operation with Central Banks of Other States

The National Bank of Moldova maintains close co-operation with many central banks, including Federal Reserve Bank (USA), Banque de France (France), Deutsche Bundesbank (Germany), De Nederlandsche Bank N.V. (Netherlands), Bank of England (Great Britain), Oesterreichische Nationalbank (Austria), Banca d'Italia, Bank of Japan, National Bank of Romania, National Bank of Poland, central banks of Baltic states and other CIS countries, etc.

Banking Supervision and Regulation

As on December 31, 2002 there were 16 commercial banks, including two branches of non-resident banks operating on the territory of the Republic of Moldova. The total number of banks' institutions accounted for 703, of which: 156 branches, 130 representative offices and 417 agencies.

In 2002 the National Bank withdrew the licence to perform financial activities from 3 commercial banks: on July 25, 2002 from the JS "BTR Moldova"; and on September 19, 2002 from the JS "ICB (Moldova)" and Municipal JS Bank "Chişinău".

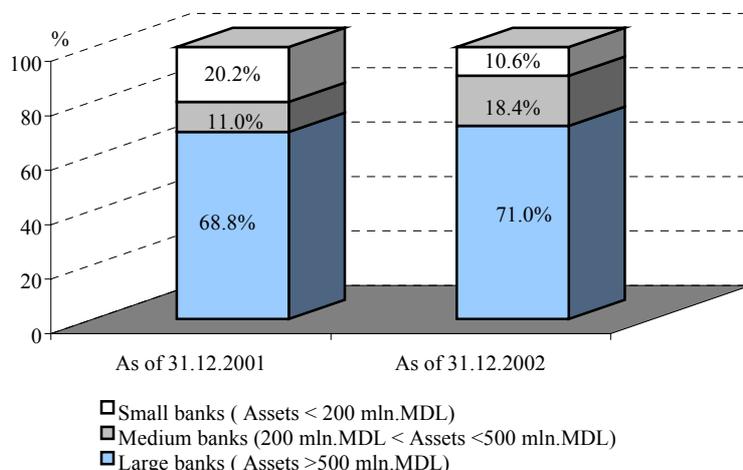
The number of employees of commercial banks as on December 31, 2002 amounted to 6714 persons, which is by 541 persons more than in 2001.

Assets of Commercial Banks

The banking sector of the Republic of Moldova recorded in 2002 positive evolutions. Total assets within the banking system increased by lei 1967.4 million (32.9%) and amounted to lei 7943.9 million* as on December 31, 2002. Such enlargement was due to the larger balance by lei 1775.1 million (41.0%) of banks' liabilities and by lei 192.3 million (11.7%) of share capital.

The number of large banks did not modify in 2002; at the same time, the number of medium banks increased, while the one of small banks declined. Thus, there were 5 large banks, 5 medium banks and 6 small banks as on December 31, 2002.

Chart no. 54. Banking sector assets by groups of banks from 31.12.2001 to 31.12.2002



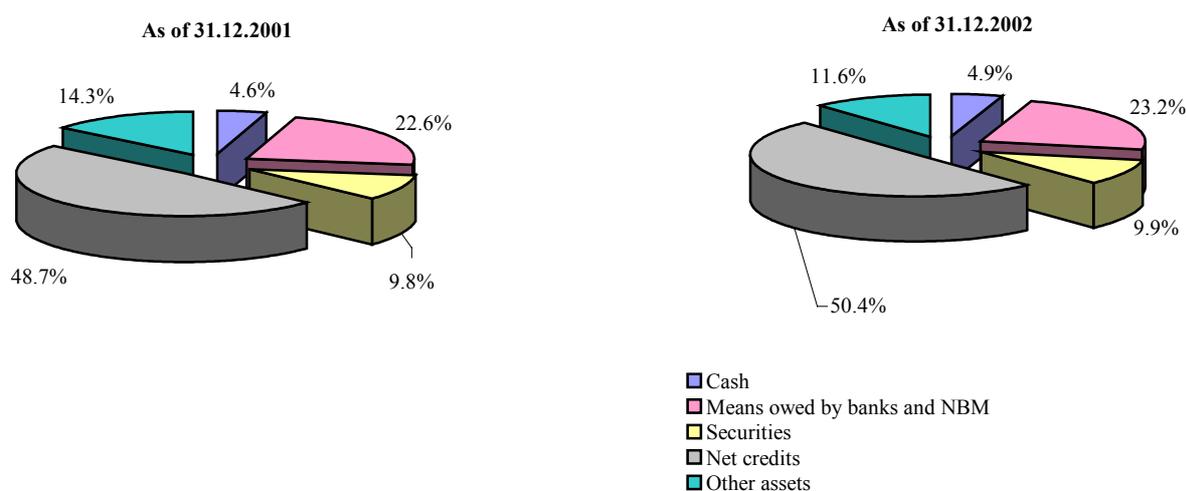
Assets held by large and medium banks grew by lei 1533.7 million (37.3%) and lei 804.7 million (122.8%) respectively, while assets held by small banks reduced by lei 371.0 million (30.6%). The weight of assets held by large and medium banks in total assets increased by 2.2 p.p. and 7.4 p.p.

* Data as on December 31, 2001 are presented according to the audit statements

respectively to the expense of assets held by small banks (minus 9.6 p.p.) (chart no. 54).

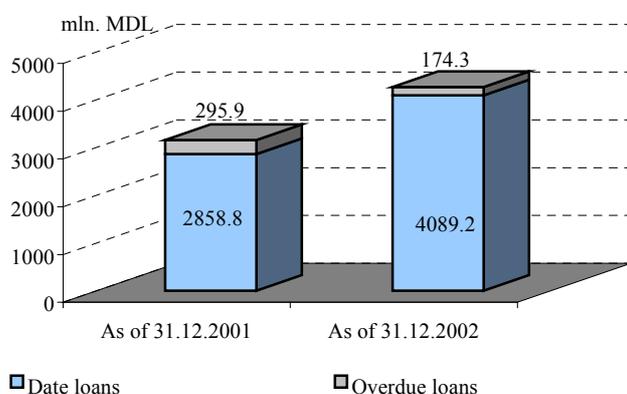
A prevailing increase of the value of net credits* (by lei 1093.0 million or 37.6%) could be observed in the structure of banking assets on the background of a positive dynamics of all components. Increases were recorded as follows: cash in vaults - by lei 114.6 million (41.4%); money means owed by banks and NBM – by lei 494.3 million (36.6%); securities – by lei 198.5 million (33.7%); and other assets – by lei 67.0 million (7.8%) (chart no. 55).

Chart no. 55. Dynamics of banking assets structure from 31.12.2001 to 31.12.2002 (%)



Net credits held the largest weight in total assets (50.4%), which is by 1.7 p.p. more than at the previous year-end. Means owed by banks and NBM accounted for 23.2% of total assets; other assets – for 11.6%; securities – for 9.9% and cash in vaults – for 4.9%.

Graficul nr. 56. Dynamics of credit portfolio structure from 31.12.2001 to 31.12.2002 (according to credits reimbursement solvency)



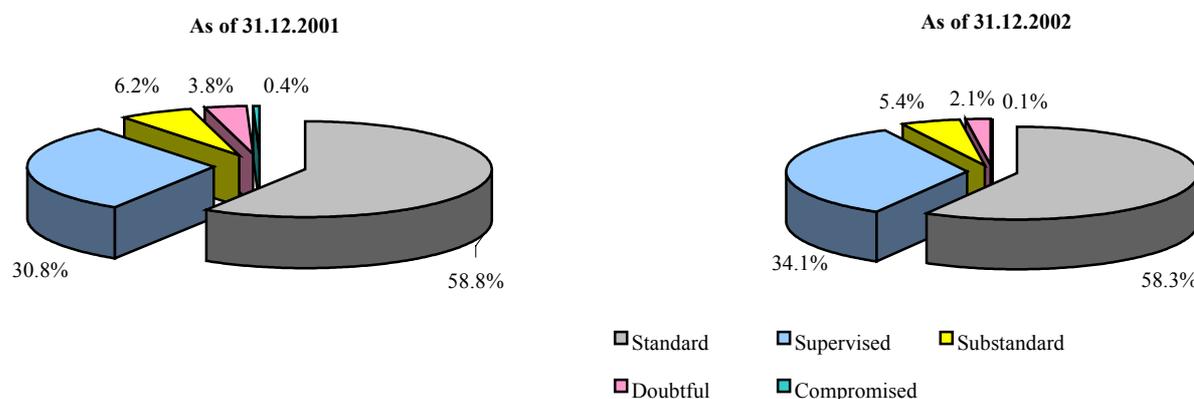
The total credits' portfolio as on 31.12.2002 amounted to lei 4263.5 million, recording an increase by lei 1108.8 million or by 35.1% as compared to December 31, 2001. The credit portfolio dynamics reflected the reduction during the year of the value of overdue credits, including of non-interest accrued credits (by lei 121.6 million or by 41.1%). These credits accounted for lei 174.3 million or 4.1% of total credits at the end of 2002 (chart no. 56).

In 2002 the credit portfolio developed

* Net credits represent the overall balance of credits minus credit loss provisions

following the same favourable trend as in 2001: the weight of substandard credits reduced by 0.8 p.p.; of doubtful credits – by 1.6 p.p.; and of compromised credits – by 0.3 p.p. The weight of supervised credits increased, at the same time, by 3.3 p.p. (chart no. 57).

Chart no. 57. Structure dynamics of credit portfolio and financial leasing, in terms of investment risk level from 31.12.2001 to 31.12.2002 (%)



The decrease from 10.4% to 7.6% of the weight of unfavourable credits (substandard, doubtful and compromised) in total credits determined the lowering by 1.7 p.p. of the weight of credit loss provisions in total credits to 6.2% as on December 31, 2002.

The total value of compromised loans written off from credit loss provisions amounted to lei 68.0 million in 2002. Write backs of previously written off loans totaled lei 27.6 million and accounted for 40.6% of total written off, which is by 10.6 p.p. more than in 2001.

The total value of credits extended to banks' affiliated persons amounted to lei 236.9 million as on December 31, 2002 and accounted for 5.5% of total credits and 13.9% of Tier-1 Capital (the maximum limit set as of up to 100% of Tier-1 Capital).

Credits extended to banks' employees totalled lei 17.8 million and accounted for 0.4% of total credit portfolio and 1.0% of total regulatory capital of commercial banks (the maximum limit set as 10% of TRC).

The total value of "large" credits amounted to lei 1179.1 million and constituted 27.7% of total credit portfolio and 69.0% of total regulatory capital of commercial banks (the maximum allowed value is 500%). The sum of the largest ten net debts on credits accounted for 41.6% of net credits within the system (the maximum limit set as 50% of net credits).

The ratio of banking investments in fixed assets and other long-term tangible assets to total regulatory capital accounted for 36.7% as at

year-end (the maximum limit set as 50%). Investments in long-term tangible assets and equity shares in the capital of economic entities reported to total regulatory capital accounted for 41.3% (the maximum limit set as 100%).

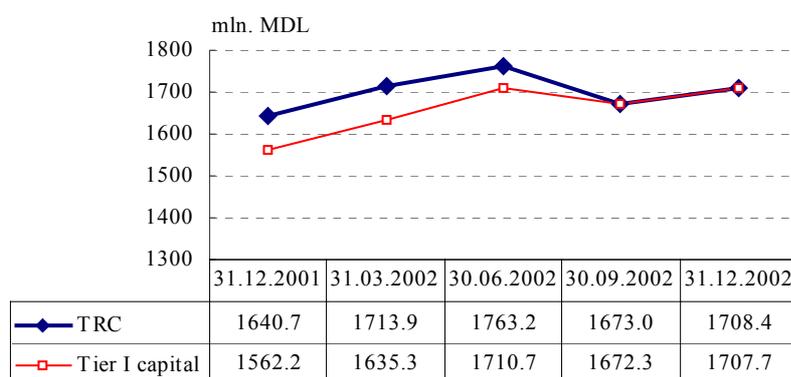
The weight of foreign currency assets in total assets accounted for 39.7% and exceeded by 3.3 p.p. the weight of liabilities in foreign currency. Loans denominated in foreign currency held the largest weight of 57.4% within the structure of foreign currency assets; money means in foreign currency owed by banks accounted for 33.6%.

Credit conditional accounts (off-balance sheet commitments – potential assets) amounted to lei 798.4 million or 10.1% of total assets, exceeding by 1.9 p.p. the level at the previous year-end. Forward sales of foreign exchange accounted for 55.2% (lei 440.5 million) and held the largest weight within the structure of off-balance sheet commitments. Credit provision commitments totalled lei 195.6 million or 24.5% and issued L/Cs and guarantees - lei 136.1 million or 17.0% of total off-balance sheet commitments.

Capital of Commercial Banks

Tier-1 Capital amounted as on December 31, 2002 to lei 1707.7 million and exceeded by lei 145.5 million or by 9.3% the value in the previous year. This trend reflects the continuous consolidation of the banking system. According to submitted financial statements, as at year-end, all commercial banks complied their Tier-1 Capital with the category of held license.

Chart no. 58. Dynamics of banking capital in 2002



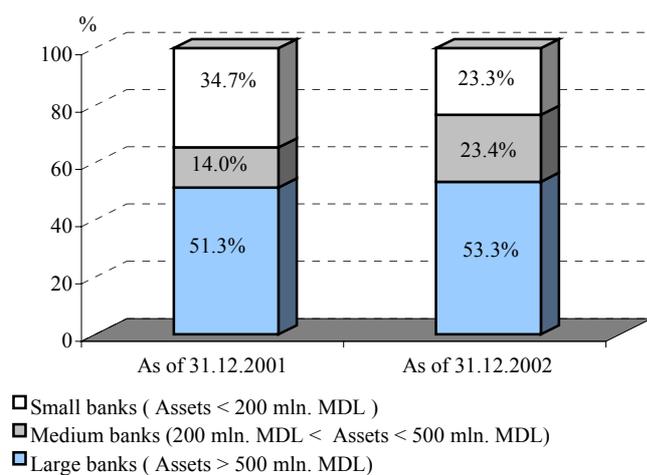
The main enlargement of banks' Tier-1 Capital was observed in the first half of the year, followed by a slight decline in the 3rd quarter. This reduction was due to the modification of TRC calculation methodology that does not include any more net intangible assets and reserves for fixed assets revaluation (chart no. 58). The banks' net

income amounting to lei 302.1 million represented the main sources of capital increase.

The average risk weighted capital adequacy (total regulatory capital reported to risk weighted assets) in the banking system accounted for

36.4% as on December 31, 2002, decreasing by 6.7 p.p. compared to December 31, 2001 (as against the minimal level of 12.0% set in the Republic of Moldova and 8.0% set by the Basle Committee with regard to banking supervision). Such situation was determined by the larger credit portfolio (which is mainly included in the 100% risk category) and the consolidated attractiveness of the banking sector, resulting in a higher value and weight of financing sources, especially of deposits.

Chart no. 59. Dynamics of total regulatory capital distribution by groups of banks from 31.12.2001 to 31.12.2002

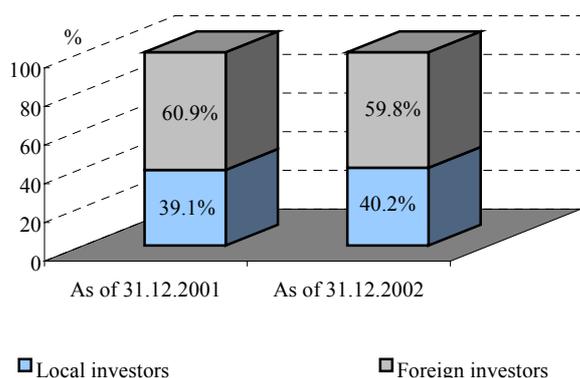


The analysis of the banking capital structure by groups of banks reflected an increase in the total regulatory capital of large banks by lei 68.3 million (8.1%) and of medium banks by lei 170.0 million (74.2%). At the same time, the total regulatory capital of small banks reduced by lei 170.6 million, or by 30.0%.

The share of total regulatory capital of large banks accounted for 53.3% in total regulatory capital of the banking system; the same indicator for medium banks recorded 23.4% (chart no. 59). These weights increased by

2.0 p.p. and 9.4 p.p. respectively as compared to the end of 2001. Accordingly, the share of total regulatory capital of small banks reduced by 11.4 p.p.

Chart no. 60. Banking capital (by investment type) from 31.12.2001 to 31.12.2002



Foreign investors continued to show interest in the local banking sector, accounting for a significant value of 59.8% as on December 31, 2002 (chart no. 60).

Foreign investors participating in the banking capital of the Republic of Moldova included: the European Bank for Reconstruction and Development; a bank from Romania; a bank from Russia; as well as corporate investors from the USA, Canada, Russia, Great

Britain, Israel, Belgium, Greece, Liechtenstein, Luxembourg and other countries.

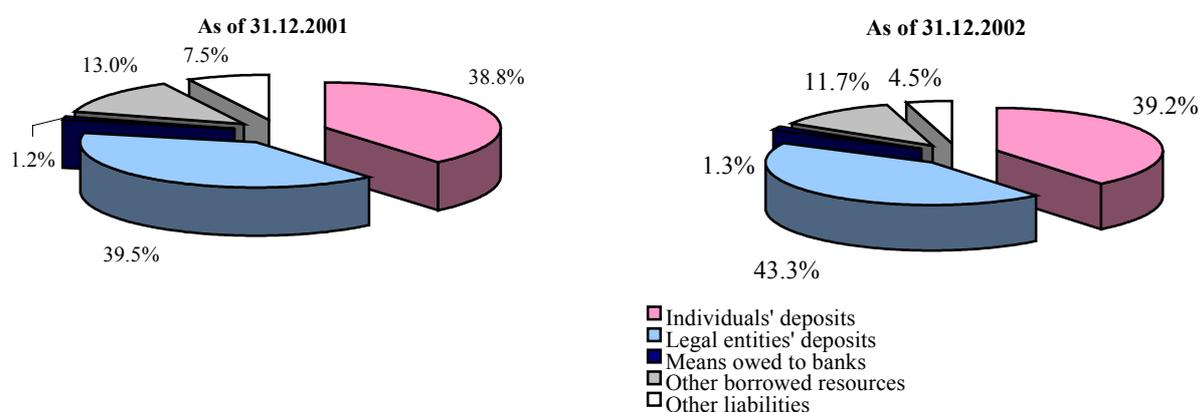
Out of the total number of banks, 3 banks had 100% foreign capital, 12 banks had joint capital and 1 bank had 100% local capital.

The positive ascendant trend of the banking capital development demonstrates investors' confidence in the banking sector and the legislation regulating the banking activity, which is worked out in compliance with international generally accepted standards.

Liabilities of Commercial Banks

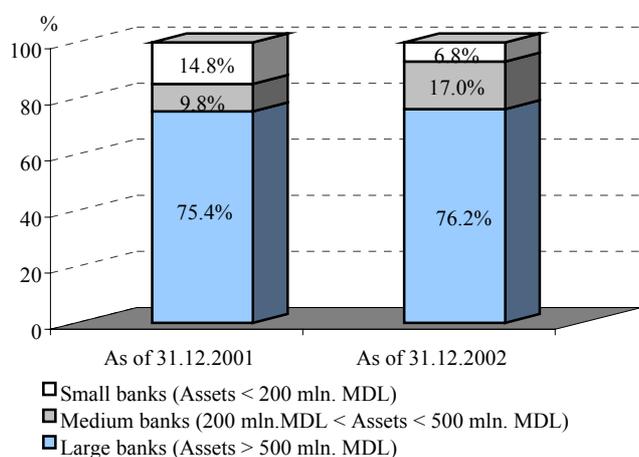
Liabilities of commercial banks rose by lei 1775.1 million or by 41.0% as compared to the end of 2001 and amounted to lei 6108.6 million as on December 31, 2002. This growth was largely due to the increase by lei 1673.0 million or 48.6% of total deposits.

Graficul nr. 61. Dynamics of the structure of banking liabilities from 31.12.2001 to 31.12.2002 (%)



All components of the banking liabilities' structure showed favourable evolution, except other liabilities, which reduced by lei 45.1 million (13.9%). In summary, deposits by individuals increased by lei 714.9 million (42.5%); deposits by legal entities – by lei 933.8 million (54.6%); money means due to banks – by lei 24.3 million (45.5%); and other loans – lei 147.2 million (26.1%) (chart no 61).

Chart no. 62. Distribution of banking liabilities (by groups of banks) from 31.12.2001 to 31.12.2002



Deposits held the largest weight in total liabilities with 83.8%, out of which deposits by legal entities accounted for 43.3% of total banking liabilities; deposits by individuals – for 39.2%; and deposits by banks – for 1.3%. Other loans and other liabilities constituted 11.7% and 4.5% of total liabilities, respectively.

The weight of deposits in total liabilities rose by 4.3 p.p., including the weight of deposits by individuals – by 0.4 p.p. and by legal entities – by 3.8 p.p.

During the year, liabilities of large banks increased by lei 1390.2 million (42.6%) and of medium banks – by lei 608.9 million (142.8%). Liabilities by small banks reduced, at the same time, by lei 224.0 million (34.9%).

The weight of liabilities of large banks in total banking liabilities accounted for 76.2% as on December 31, 2002; the one of medium banks – for 17.0%, rising by 0.8 p.p. and 7.2 p.p. respectively. Such increase was due to the reduction by 8.0 p.p. of the weight of liabilities of small banks (chart no. 62).

Liquidity of Commercial Banks

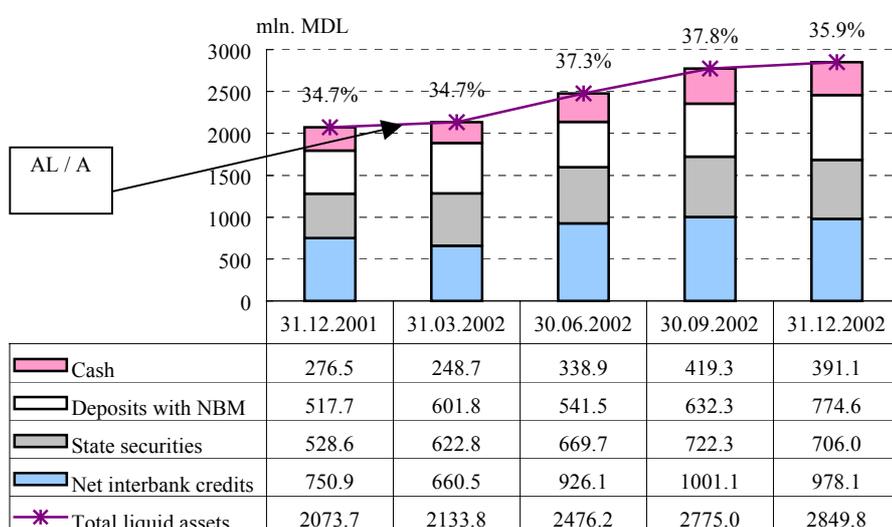
Liquidity indicators exhibited high values in 2002, demonstrating the capacity of commercial banks to honour assumed liabilities in due time.

According to the 1st liquidity principle (*assets with a term exceeding 2 years / financial resources with a term exceeding 2 years ≤ 1*), long-term liquidity accounted for 0.5 as on December 31, 2002. This indicator shows that banks still have capacities to increase the long-term lending.

Current liquidity, according to the 2nd principle (*liquid assets / total assets $\geq 20\%$*) accounted for 35.9% as at year-end.

Liquid assets significantly increased by lei 776.1 million or by 37.4% and amounted to lei 2849.8 million as on December 31, 2002. Such increase was generated by the evolution of each element. Thus, cash rose by lei 114.6 million (41.4%), deposits with the National Bank of Moldova – by lei 256.9 million (49.6%), liquid securities (state securities) – by lei 177.4 million (33.6%), loans and net interbank credits with the reimbursement term up to 1 month – by lei 227.2 million (30.3%) (chart no. 63).

Chart no. 63. Dynamics of liquid assets (million lei) and weights in total assets (%) in 2002

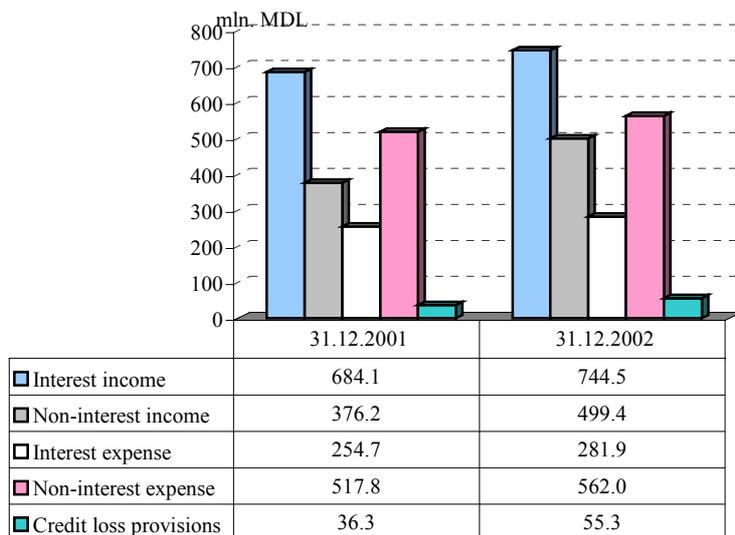


Within total liquid assets, like in the previous year, net interbank credits with the term of up to 1 month held the largest weight with 34.3%. The share of liquid securities (state securities) accounted for 24.8%; of deposits with the NBM – for 27.2%; and of cash – for 13.7%.

Income and Expense of Commercial Banks

Net income of commercial banks amounted in 2002 to lei 302.1 million, increasing by lei 80.0 million or 36.0% as compared to the previous year.

Chart no. 64. Dynamics of banking income and expense in 2001-2002

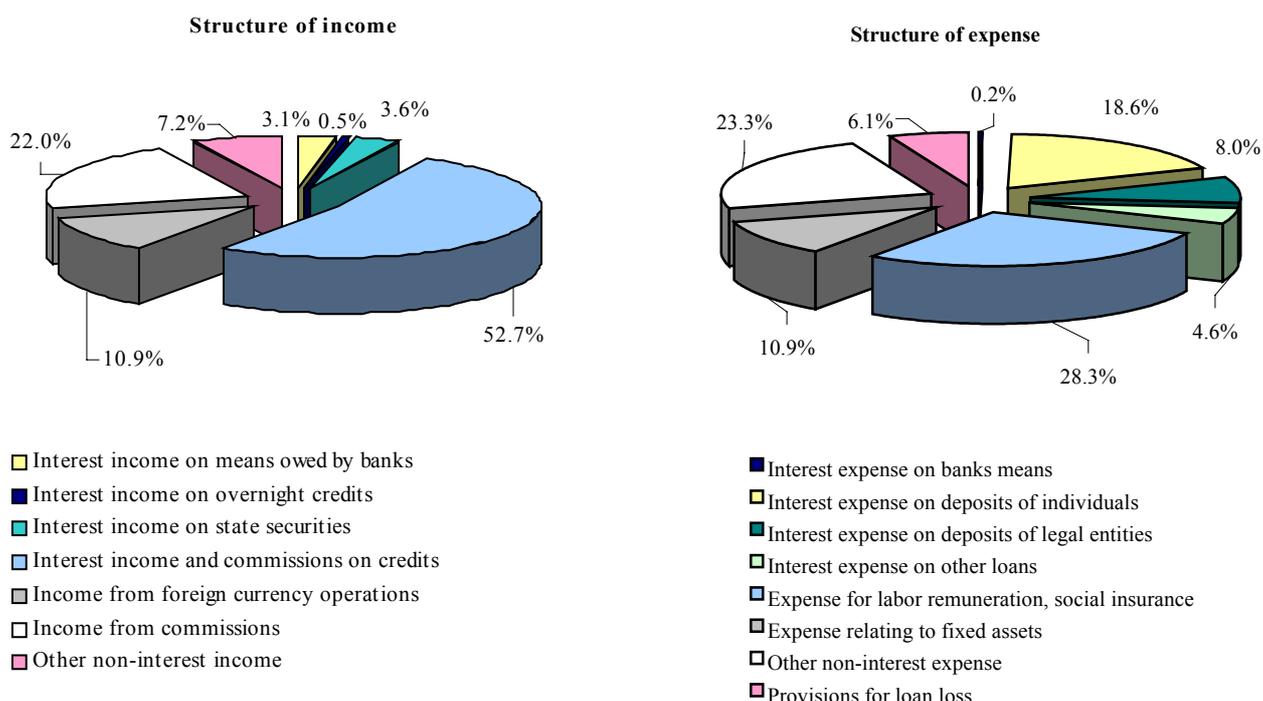


Interest related income rose by lei 60.4 million (8.8%) as against in 2001; non-interest income increased by lei 123.2 million (32.7%). Interest related expense and non-interest expense increased by lei 27.2 million (10.7%) and lei 44.2 million (8.5%) respectively.

At the same time, transfers to credit loss provisions (risk fund) rose by lei 19.0 million (52.3%) (chart no.64).

Income of commercial banks recorded in 2002 a stable growth and was mainly generated from basic banking activity (investments in interest-bearing assets). Thus, interest income amounted to lei 744.5 million or 59.9% of total income by banks.

Chart no. 65. Banking income and expense structure in Republic of Moldova in 2002



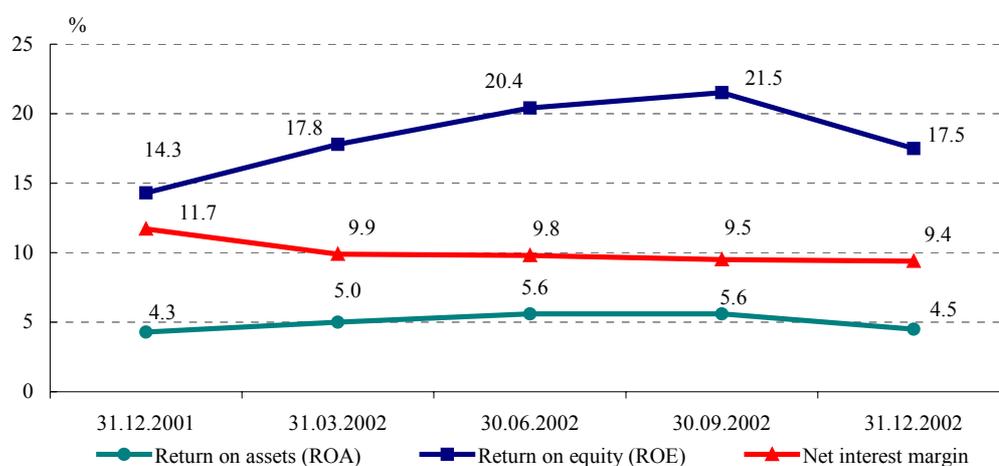
Revenues related to credit interest and commissions totalled lei 656.1 million or 52.7% and held the largest weight in the structure of interest income (chart no. 65).

Non-interest income amounted to lei 499.4 million or 40.1% of total income. Commissions totalling lei 273.1 million or 22.0% and revenues from foreign currency operations totalling lei 136.2 million or 10.9% of total income accounted for the largest weight in non-interest income.

Total expense amounted to lei 899.2 million. Within its structure: income related expense amounted to lei 281.9 million or 31.4% of total expense; non-interest income amounted to lei 562.0 million or 62.5%; and credit loss provisions (risk fund) amounted to lei 55.3 million or 6.1%.

Profitability indicators in 2002 recorded continuous high rates. Banking assets' profitability (ratio of net income to average assets) accounted for 4.5% as at year-end. The profitability of share capital of the banking system (ratio of net income to average share capital) accounted for 17.5% (as against 14.3% as on December 31, 2001).

Graficul nr. 66. Dynamics of net interest margin, return on assets and equity (ROA and ROE) in 2002 (%)



Net interest margin (ratio of net interest income to income-bearing assets) accounted for 9.4%, decreasing during the year by 2.3 p.p. (chart no. 66). This reduction was generated by the decrease of the indicator *interest income / average interest-bearing assets* by 3.5 p.p. to the level of 15.2%. This decline happened to be larger than the reduction of the

indicator *interest expense / average interest-bearing liabilities* that reduced by 2.2 p.p. to 7.7%.

The larger income-generating basis was enhanced by the increase of interest-bearing assets by lei 1542.4 million or 36.7%, amounting to lei 5747.0 million. The continuous increase of interest-bearing assets, as well as their significant weight in total banking assets (72.3%) indicates the banking sector's capacity to generate further revenues.

New Prudential Regulations

In 2002 the National Bank of Moldova has continuously promoted the policy of banking sector consolidation. The supervision of compliance by banks to minimal capital requirements represented the main instrument of banking supervision.

The National Bank of Moldova supervised the compliance by commercial banks to requirements provided in the Regulation on Risk Weighted Capital Adequacy. The NBM initiated remedy measures towards a number of banks as to bring and maintain the capital value in line with set requirements on capital depending on licence held. In cases when banks' owners and managers failed to implement remedy measures in due time, the National Bank excluded the relevant commercial banks from the financial services market.

With the view to improving prudential regulations on banking activity, the National Bank of Moldova introduced certain modifications of the normative framework as follows:

- The licensing process was modified as to allow the establishment of only those banks, which, at the moment of their licensing, do not show any preliminary condition that may imply future financial problems. The National Bank shall not issue licence if the bank's capital does not comply with the quantum capital required for the relevant licence plus required expenditures related to bank's establishment;
- The procedure to approve possible shareholders of the bank with regard to maintenance of substantial shares in the bank's capital was improved. Based on normative acts, the National Bank issues a written permission to maintain substantial shares, as well as shares exceeding the set limits of 25.0%, 33.0% and 50.0% only if these shareholders' activity is clearly provided to generate premises for a due bank's activity in compliance with legislative stipulations and prudential practice;
- the definition of "bank's affiliated persons" was modified as to prevent abuses resulted from loan provision to affiliated persons.

With the view to ensuring banking operation in line with the current legislation, the National Bank of Moldova has further implemented and supervised the maintenance by commercial banks of adequate internal control systems. The activity of those commercial banks that established new internal control mechanisms is based on internal procedures and is targeted to prevent insufficiently prudential activities.

Considering the banks' capacity to attract and maintain legitimate means from legitimate clients, the NBM imposed minimal requirements on elaboration and submission by commercial banks of relevant programs on anti-money laundering. Further on, within on-site controls, the NBM examined the compliance by banks to the legislation within the field of anti-money laundering, including the banks' internal control systems, as well as the banks' capacity to identify clients and clients' transactions. If any violation of the legislation or drawback is traced out in the activity of banks, the National Bank of Moldova applies sanctions towards banks or their administrators. The NBM modified also the banks' financial statements as for the banks to submit to the NBM a report (the first reporting was set for December 31, 2002), which would allow the monitoring of banks' activity in the field of money laundering prevention.

To ensure a transparent banking activity and to consolidate confidence in the banking sector, the National Bank promoted in 2002 the market discipline policy. During on-site controls at commercial banks the NBM verified the disclosure by banks of performed activity, as well as of prudential indicators.

As financial statements represent the information source based on which the central bank evaluates the banks' financial situation, the National Bank has, during on-site controls, supervised the level and correctness of accounting standards implementation in the activity of commercial banks. As a result, the NBM implied remedy measures towards a number of banks, having as target the compliance to bookkeeping standards on banking operations, including the correct reflection of balance-sheet values. At the same time, during the examination of audit reports, the NBM verified the compliance of banking activity to audit recommendations.

Functioning and Development of the Payments system

Exercising one of the basic attributions stipulated in Art. 5 of the Law on the National Bank of Moldova no. 548-XIII of 21 July 1995, the National Bank of Moldova elaborates and supervises the compliance of the normative framework for payment instruments usage by ensuring continuous non-interrupted performance of the main component of the national payments system – the interbank payments system (the payments system of the National Bank of Moldova).

As on December 31, 2002 direct participants in the interbank payments system included the National Bank of Moldova, 16 commercial banks authorized by the NBM and the Cash and Settlements Centre of Tiraspol.

Within the NBM payments system, the National Bank of Moldova acted as direct participant, settlement bank, collector, processor and exchanger of payment documents between participants.

The value of payments conducted via interbank payments system in 2002 increased by 28.5% as compared to 2001 and amounted to MDL 53691.3 million. The number of processed payment documents totalled 5.4 million units, by 31.0 % more than in 2001.

As on December 31, 2002 the number of cards in circulation, issued by NBM authorized commercial banks, increased by 2.9 times as compared to December 31, 2001 and totalled 148.1 thousand units.

The number of transactions performed in the Republic of Moldova in 2002 with cards issued by NBM authorized commercial banks increased by 2.9 times as compared to 2001, the relevant value rose by 3.4 times.

The number of transactions completed in the Republic of Moldova in 2002 with cards issued abroad increased by 2.0 times as compared to 2001, while their value rose by 1.7 times.

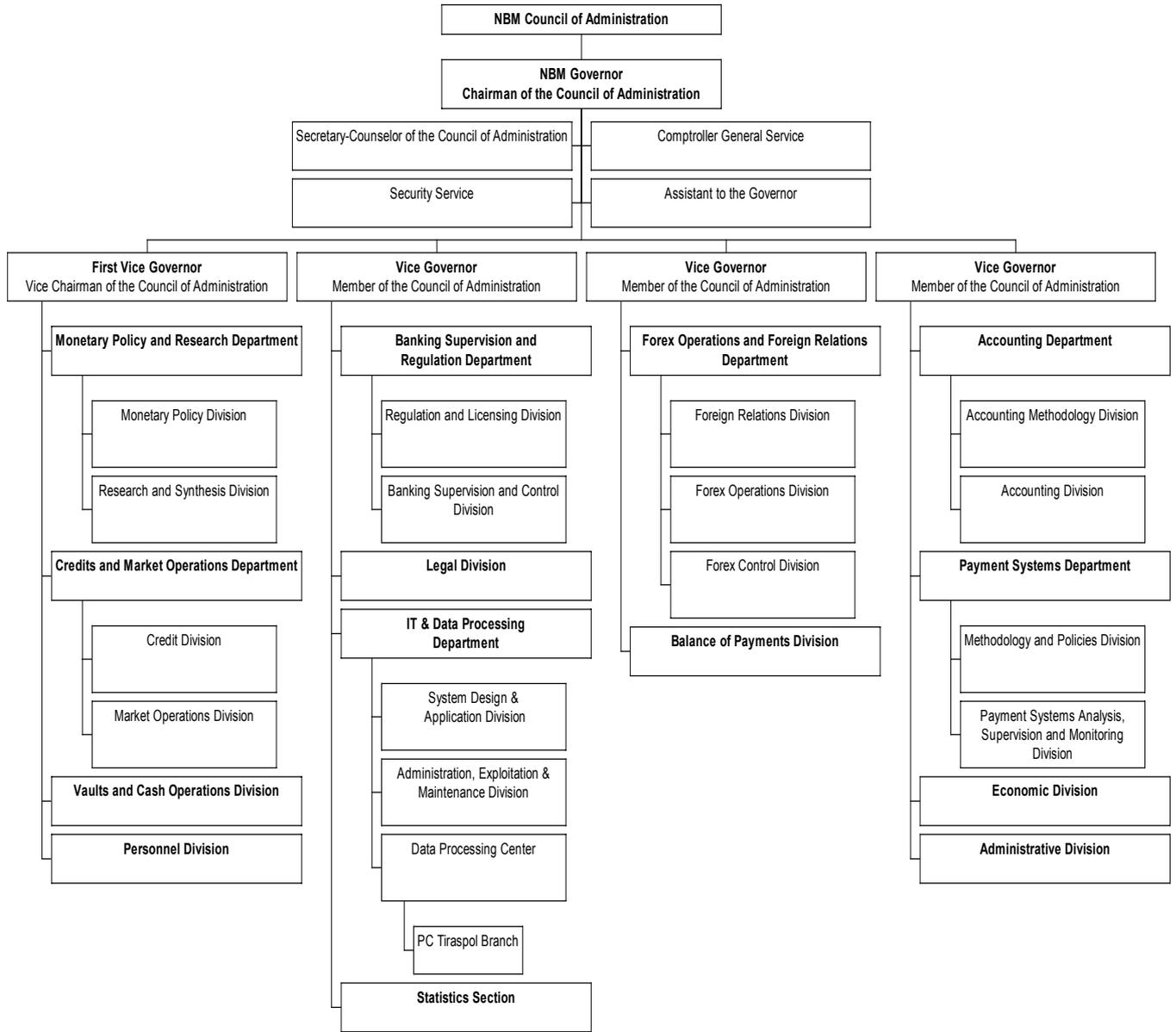
NBM Personnel and Professional Training

As on December 31, 2002 the NBM staff accounted for 97.8% (482 out of 493). Out of 482 employees, 353 persons (73.2%) have completed and uncompleted higher education, 49 persons (10.2%) have specialized studies. There are 9 persons with doctorates in economics and technical sciences employed at the National Bank of Moldova.

34 employees of the Bank have been promoted in 2002; more than 44% are under 30. Young employees constitute the NBM staff base: 266 employees (55.2%) are under 40, including 112 employees (23.2%) under 30; 135 employees (28.0%) are in their 40s; 73 (15.1%) are in their 50s and 8 (1.7%) are over 60.

In 2002, 124 employees of the NBM (74 managers and 50 specialists) have participated at training courses. Out of 50 specialists, 42 employees benefited from courses in economics and 8 – in engineering. 86 NBM employees participated at training courses abroad. The participation of over 33.0% of the Bank staff in different sources of training has contributed to a more efficient activity of the National Bank of Moldova.

NBM Organizational Chart



3. Financial Statements of the NBM

COMMENT
of the Comptroller General Service
on the Financial Statements of the National Bank of Moldova
as on December 31, 2002

The Comptroller General Service has, based on the Law on the National Bank of Moldova, Art. 33 (4) d) and the Regulation on Comptroller General Service, verified the balance sheet, income statement, cash flow statement, as well as trends in the Bank's equity, reserve fund and special reserve for the financial year ended December 31, 2002.

Following the above-mentioned verification, the Comptroller General Service states as follows:

- The balance sheet totalled lei 8269324,0 thousand as on December 31, 2002;
- The Bank's capital and the reserve fund amounted to lei 100000,0 thousand and lei 200000,0 thousand respectively and complied with the stipulations of the Law on the National Bank of Moldova (Art. 19 and Art. 20). There were no modifications in the Bank's capital and reserve fund in 2002.
- The revaluation of foreign exchange stocks as on December 31, 2002 represented net unrealised losses amounting to lei 22660,2 thousand covered by the amount of special reserve from unrealised gains from foreign exchange transactions. The special reserve formed as in accordance with the Regulation on Establishment and Use of Special Reserve, after deduction of unrealised losses amounted to lei 27339,1 thousand as on December 31, 2002;
- Income and expense amounted, as in accordance with the calculation method, to lei 304334,8 thousand and lei 162842,6 thousand respectively;
- The net profit of the NBM amounted to lei 164152,5 thousand.

Based on above stated, the Comptroller General Service confirms the authenticity of the underlying records of the NBM in all significant aspects, the balance sheet, the income statement, the cash flow statement, trends in the Bank's equity, reserve fund, as well as special reserve as on December 31, 2002.

Comptroller General

**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF
THE NATIONAL BANK OF MOLDOVA**

We have audited the accompanying balance sheet of the National Bank of Moldova ("the NBM") as at 31 December 2002, and the related statement of income, cashflows and changes in paid up capital and reserves for the year then ended. These financial statements are the responsibility of the National Bank of Moldova's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Bank of Moldova as at 31 December 2002 and the results of its operations for the year then ended in accordance with International Financial Reporting Standards including International Accounting Standards and interpretations issued by the International Accounting Standards Board ("IASB").

Without qualifying our opinion, we draw your attention to the fact that at present there is uncertainty in the Republic of Moldova surrounding the likely future direction of domestic economic policy, regulatory policy and political developments. We are unable to predict what changes in conditions will take place and what effect these might have on the financial position of the National Bank of Moldova.

PricewaterhouseCoopers Entreprises

Chişinău, Republic of Moldova
6 March 2003

NATIONAL BANK OF MOLDOVA

BALANCE SHEET

AS AT 31 DECEMBER 2002

(all the amounts are expressed in thousands of Moldovan Lei (MDL))

| | <u>Note</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|---|-------------|-------------------------|-------------------------|
| Assets | | | |
| Cash and short term funds | 1 | 2,870,317 | 2,024,259 |
| Assets with international organisations | 4 | 2,318,851 | 2,034,830 |
| Securities issued by non-residents | 5 | 852,977 | 974,298 |
| Due from the Government | 6 | 2,158,179 | 1,899,278 |
| Credits granted to banks and individuals | 7 | 36,926 | 38,679 |
| Other assets | 8 | 2,313 | 4,596 |
| Tangible and intangible assets | 9 | <u>29,761</u> | <u>35,808</u> |
| Total assets | | <u>8,269,324</u> | <u>7,011,748</u> |
| Liabilities | | | |
| National currency issued into circulation | | 2,477,640 | 1,967,344 |
| Due to Government and banks | 10 | 926,576 | 654,290 |
| Liabilities towards international organisations | 4 | 4,421,244 | 3,944,363 |
| Other liabilities | 11 | <u>109,484</u> | <u>88,711</u> |
| Total liabilities | | <u>7,934,944</u> | <u>6,654,708</u> |
| Capital and reserves | | | |
| Statutory fund | 12 | 100,000 | 100,000 |
| Reserve fund | 12 | 200,000 | 200,000 |
| Other reserves | 12 | <u>34,380</u> | <u>57,040</u> |
| Total capital and reserves | | <u>334,380</u> | <u>357,040</u> |
| Total liabilities, capital and reserves | | <u>8,269,324</u> | <u>7,011,748</u> |

NATIONAL BANK OF MOLDOVA

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2002

(all the amounts are expressed in thousands of Moldovan Lei (MDL))

| | <u>Note</u> | <u>31 December 2002</u> | <u>31 December 2001</u> |
|--|-------------|-------------------------|-------------------------|
| Interest income | 13 | 186,782 | 363,276 |
| Interest expense | 14 | <u>(73,926)</u> | <u>(96,540)</u> |
| Net interest income | | 112,856 | 266,736 |
| Other income | | 6,410 | 11,548 |
| Gains from dealing and other operations in foreign currency | 15 | 97,322 | 60,586 |
| Release of provision for impairment of loans | 16 | 8,730 | 5,630 |
| Operating income | | 202,658 | 344,500 |
| Operating expenses | 17 | <u>(61,166)</u> | <u>(55,037)</u> |
| Profit before allocation | | <u>164,152</u> | <u>289,463</u> |
| Profit allocation | | | |
| Statutory fund | | - | 25,000 |
| Reserve fund | | - | 50,000 |
| Special foreign exchange revaluation reserve | 15 | - | 19,704 |
| Distribution to the State budget | 11 | <u>164,152</u> | <u>194,759</u> |
| | | <u>164,152</u> | <u>289,463</u> |

NATIONAL BANK OF MOLDOVA

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all the amounts are expressed in thousands of Moldovan Lei (MDL))

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|---|-------------------------|-------------------------|
| Profit before allocation | 164,152 | 289,463 |
| Adjustments for: | | |
| Provision release | (8,797) | (4,560) |
| Depreciation charge | 9,343 | 9,829 |
| Loss on disposal fixed assets | 1,190 | - |
| Transfer from special foreign exchange revaluation reserve | <u>(22,660)</u> | <u>-</u> |
| Profit before changes in assets and liabilities | <u>143,228</u> | <u>294,732</u> |
| Decrease in assets with international organisations | (284,021) | (42,858) |
| (Increase)/decrease in securities issued by non-residents | 221,636 | (19,751) |
| Increase in amounts due from Government | (258,901) | (168,489) |
| Decrease in credits granted to banks and individuals | 10,483 | 14,475 |
| (Increase)/decrease in other assets | <u>2,350</u> | <u>(1,288)</u> |
| Increase in current assets | <u>(308,453)</u> | <u>(217,911)</u> |
| Increase in the national currency issued into circulation | 510,296 | 399,396 |
| Increase/(decrease) in amounts due to Government and banks | 272,286 | (168,341) |
| Increase in liabilities towards international organisations | 476,881 | 30,914 |
| Decrease in other liabilities | <u>(4,826)</u> | <u>(27,826)</u> |
| Increase in current liabilities | <u>1,254,637</u> | <u>234,143</u> |
| Operational cash flow | <u>1,089,412</u> | <u>310,964</u> |
| Fixed assets acquisitions | (4,486) | (6,584) |
| Disposals of fixed assets | <u>-</u> | <u>17</u> |
| Net cash flow from investing activities | <u>(4,486)</u> | <u>(6,567)</u> |
| Profit payments to the State | <u>(138,553)</u> | <u>(229,592)</u> |
| Increase in cash and cash equivalents | <u>946,373</u> | <u>74,805</u> |
| Cash and cash equivalents at the beginning of year | 2,776,921 | 2,702,116 |
| Cash and cash equivalents at the end of year | 3,723,294 | 2,776,921 |

Analysis of cash and cash equivalents

| | <u>31 December 2002</u> | <u>31 December 2001</u> | <u>Differences</u> |
|---|-------------------------|-------------------------|--------------------|
| Cash in foreign currency | 7,124 | 13,796 | (6,672) |
| Nostro accounts in foreign currency | 171,663 | 16,416 | 155,247 |
| Term deposits in foreign currency | 2,544,505 | 1,985,923 | 558,582 |
| Restricted deposits in foreign currency | 8,177 | 8,124 | 53 |
| Other placements in foreign currency | 138,848 | - | 138,848 |
| Securities issued by non-residents | <u>852,977</u> | <u>752,662</u> | <u>100,315</u> |
| Cash and cash equivalents | <u>3,723,294</u> | <u>2,776,921</u> | <u>946,373</u> |

NATIONAL BANK OF MOLDOVA

STATEMENT OF CHANGES IN PAID-UP CAPITAL AND RESERVES

FOR THE YEAR ENDED 31 DECEMBER 2002

(all the amounts are expressed in thousands of Moldovan Lei (MDL))

| | <u>Statutory fund</u> | <u>Reserve fund</u> | <u>Other reserves</u> | <u>Retained profit</u> | <u>Total capital and reserves</u> |
|--|---------------------------|-------------------------|---------------------------|----------------------------|---|
| Balance as at 1 January 2001 | 75,000 | 150,000 | 37,336 | - | 262,336 |
| Profit for the year 2001 | - | - | - | 289,463 | 289,463 |
| Increase in the statutory fund | 25,000 | - | - | (25,000) | - |
| Increase in the reserve fund | - | 50,000 | - | (50,000) | - |
| Set up of special revaluation reserve from unrealised gains from the foreign exchange position | - | - | 19,704 | (19,704) | - |
| Profit allocated to the State budget | - | - | - | (194,759) | (194,759) |
| Balance as at 31 December 2001 | <u>100,000</u> | <u>200,000</u> | <u>57,040</u> | <u>-</u> | <u>357,040</u> |
| Balance as at 1 January 2002 | 100,000 | 200,000 | 57,040 | - | 357,040 |
| Unrealised losses from special revaluation reserve | - | - | (22,660) | - | (22,660) |
| Profit for the year 2002 | - | - | - | 164,152 | 164,152 |
| Profit allocated to the State budget | - | - | - | (164,152) | (164,152) |
| Balance as at 31 December 2002 | <u>100,000</u> | <u>200,000</u> | <u>34,380</u> | <u>-</u> | <u>334,380</u> |

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

1 BASIS OF PREPARATION AND FORMAT OF PRESENTATION

These financial statements of National Bank of Moldova (“NBM” or the “Bank”) are prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards (“IAS”) and interpretations issued by the IASB. The financial statements are prepared under the historical cost convention and modified by the revaluation of financial assets available for sale, as described in Note 2 below.

Currency of presentation

These financial statements are prepared in the national currency of the Republic of Moldova, the Moldovan Leu (“MDL”).

Basis of accounting

The National Bank of Moldova maintains its accounting records and prepares its financial statements in accordance with the Law on the National Bank of Moldova (“NBM Law”) and International Financial Reporting Standards (“IFRS”). These financial statements are based on records to conform with International Financial Reporting Standards including International Accounting Standards and interpretations issued by the International Accounting Standards Board.

The Article 66 of the NBM Law requires that the accounts and records of the Bank reflect the operations and financial condition of the NBM in accordance with “internationally accepted accounting practices”. Article 20 provides the method to distribute the net income derived from this process.

For the year 2002, the official inflation rate was 4.4% whereas for the year 2001 the inflation rate was 6.3%.

Use of estimates

The preparation of financial statements in conformity with IFRS requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and reported amount for expenses during the reporting period. Actual results could differ from these estimates.

Reclassification of comparative amounts

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

2 SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash in hand and correspondent accounts, including overnight deposits and short term placements with other banks together with short term securities issued by non-residents.

Assets with international organisations

The amounts recorded in the balance sheet of NBM as assets with international organisations represent mainly the participation of the Republic of Moldova in the International Monetary Fund (“IMF”). This amount is disbursed in Special Drawing Rights (“SDR”) but is administered in MDL. In the balance sheet as at 31 December 2002, the participation of the Republic of Moldova in the IMF is disclosed as the Moldovan Leu equivalent of the agreed SDR amount.

Securities issued by non-residents

Those securities are classified as available for sale and disclosed in the balance sheet at fair value and include the interest accrued until the end of the year and not matured. All interest income and any gains/losses realised from trading with these securities are included in the statement of income.

Due from the Government of the Republic of Moldova

Securities issued by the Government of the Republic of Moldova

These securities are tradable but, due to the fact their trading volume is rather low, they cannot be valued at current market rates. In the balance sheet, the securities are classified as held to maturity and disclosed at amortised cost.

Loans granted to the Government of the Republic of Moldova

Loans are recorded at their nominal value. These loans are guaranteed with securities issued by the Government, which are recorded by the NBM in off balance sheet accounts.

REPO operations

The securities traded by the NBM under sale and repurchase (“REPO”) agreements are included in assets under the heading “Due from the Government”.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the liabilities section of the balance sheet, these operations are included in “Due to Government and banks” at the security selling value.

Credits granted to banks and individuals

Credits include both the credit facilities granted to banks and the loans granted to the employees of NBM. Loans are disclosed in the balance sheet at their nominal value adjusted with the correspondent provisions against losses on loans.

A specific provision is made against loan losses and other credit risks as soon as the recovery of a credit or interest becomes doubtful, with a view to provide to the management an estimation of the losses on loans. The provision is established following an assessment of the credit quality of loans within the portfolio of the NBM.

Loans that cannot be recovered are written off and charged against the provision for losses on loans. Such loans are written off after all the necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are treated as income by reducing the provision for losses on loans for the year.

Tangible and intangible assets

Premises and equipment are stated at cost or revalued amount adjusted with the accumulated depreciation and impairment provision, where necessary.

Depreciation is calculated on a straight-line basis using the following rates specified for each depreciable asset to write off the cost of each asset to their residual values over their estimated useful life:

| | <u>Percentage per annum</u> |
|---------------------------------|--|
| Premises | 5 % |
| Equipment | 30 % |
| Computer hardware | 30 % |
| Other fixed assets | 20 % |
| Motor vehicles – cars | 20 % |
| Motor vehicles – heavy vehicles | 10 % |

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

National currency issued into circulation

This is represented by the national currency in circulation. In the balance sheet this is disclosed at nominal value. Beginning with the year 2000 the costs of production of the money issued in circulation are amortised from the moment (the money is actually issued into circulation. During the year 2002, the Bank decided to record as expense the cost of money as they are produced not when are issued in circulation.

Due to Government and banks

Due to banks mainly represent mandatory reserves required to satisfy the obligatory reserve requirements of the NBM, in compliance with its prudential requirements.

The mandatory reserves are determined based on the average daily balances of deposit accounts and other similar liabilities of the commercial banks, specified for that reason.

Capital and reserves

Both Statutory Fund and reserves are disclosed in the balance sheet at nominal value.

Income taxes

The National Bank of Moldova is not subject to any income or profit taxes.

Interest income and expense

Interest income and expenses are recognised in the profit and loss account on an accrual basis.

The recognition of interest income related to credits granted to banks ceases when the payment of interest or principal is doubtful, and does so automatically if the principal or interest payments are 60 days or more in arrears. Any interest previously accrued but not received on a loan subsequently placed on a non-accruals basis is reversed. Subsequently, the interest is included in income only when received. Loans are again restated on an accruals basis only when the doubt about collectability is removed and when the outstanding arrears of interest and principal are received.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revaluation of foreign currency assets and liabilities

Unrealised gains/losses from foreign exchange currency position represents the daily revaluation of the foreign currency denominated assets and liabilities held by the NBM. By virtue of its activities as a central bank for currency market intervention purposes, NBM maintains open currency positions at reporting dates.

Management of NBM consider that, in line with international guidance, distribution of unrealised gains would be an inflationary emission of currency, therefore the unrealized portion of foreign revaluation exchange gains being reflected in the income statement, is transferred at year-end to a special reserve account against which future unrealized losses shall be charged. Unrealised losses which exceed the accumulated balance of unrealised gains within the special reserve account will be charged to the income statement. Unrealised gains are not available for distribution as part of net profit.

Fiduciary activities

The National Bank of Moldova in certain specific instances acts as fiscal agent of the State. Assets and income arising from these activities are excluded from these financial statements where the National Bank of Moldova acts in fiduciary capacity such as nominee or agent.

Pension obligations

The National Bank of Moldova, in the normal course of business, makes payments to the Republic of Moldova state pension fund on behalf of its employees for pension, health care, social insurance and employment benefits. The National Bank of Moldova's contributions are expensed as incurred.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The National Bank of Moldova's short term assets are carried on the financial statements at cost which approximates their fair value because these instruments have short maturity terms and are convertible into cash and are settled without significant transaction costs. The National Bank of Moldova's loans and advances are reported at nominal value less an estimate for impairment. The National Bank of Moldova's foreign securities are classified as "available for sale" and reported at fair value. These items have predominantly short repricing terms and carry interest rates which reflect current market conditions.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A market does not presently exist for Treasury bills issued in national currency in the local market which would facilitate obtaining prices for comparative instruments. Treasury bills are carried at amortised cost but bear interest which approximates current market rates.

The estimated fair values of financial instruments have been determined by the National Bank of Moldova using available market information and appropriate valuation methodologies, where they exist. However, judgement is required to interpret market data to determine the estimated fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Bank could realise in a current market exchange. The Republic of Moldova is facing a period of economic uncertainty which implies a low level of activity on local financial markets. While Management tried to use available market information in estimating the fair value of financial instruments issued by the Government of the Republic of Moldova, the market information may not be fully reflective of the value that could be realised in the current circumstances.

1 CASH AND SHORT TERM FUNDS

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|---|-------------------------|-------------------------|
| Cash in foreign currency | 7,124 | 13,796 |
| Nostro accounts | 171,663 | 16,416 |
| Term deposits in foreign currency | 2,544,505 | 1,985,923 |
| Restricted deposits in foreign currency | 8,177 | 8,124 |
| Other placements in foreign currency | <u>138,848</u> | <u>-</u> |
| | <u>2,870,317</u> | <u>2,024,259</u> |

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

4 ASSETS WITH/LIABILITIES TOWARDS INTERNATIONAL ORGANISATIONS

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|---|--------------------------------|--------------------------------|
| Assets | | |
| Quota of the Republic of Moldova with IMF | 2,315,093 | 2,025,063 |
| Current account with IMF | <u>3,758</u> | <u>9,767</u> |
| | <u>2,318,851</u> | <u>2,034,830</u> |
| Liabilities | | |
| Cash deposit of the IMF | 2,315,093 | 2,025,064 |
| Due to other international organisations | 440 | 307 |
| Credits granted by IMF to NBM | <u>2,105,711</u> | <u>1,918,992</u> |
| | <u>4,421,244</u> | <u>3,944,363</u> |

The cash deposit of the IMF represents the Account 1 and 2. These amounts represent the quota of the Republic of Moldova with the IMF.

The amounts included in the balance sheet of the NBM under the heading "Liabilities towards International organisations" mainly include the following:

- the deposit of IMF in cash (MDL) (account 1 and account 2) with NBM;
- the credits received by the NBM from the IMF. Due to the fact that these credits are denominated in SDR, they are disclosed in the balance sheet as the Moldovan Leu equivalent at year-end.

The loans received by NBM from IMF from the General Resources Account are secured by a bill of exchange issued by the National Bank of Moldova.

For loans which do not represent uses of the IMF General Resources Account funds, no securities are issued.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

5 SECURITIES ISSUED BY NON-RESIDENTS

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|------------------------------------|--------------------------------|--------------------------------|
| Coupon securities | 721,951 | 687,317 |
| Zero-coupon securities | 131,026 | 65,345 |
| External investment portfolio | <u>-</u> | <u>221,636</u> |
| Securities issued by non-residents | <u>852,977</u> | <u>974,298</u> |

The securities issued by non-residents represent mainly securities issued by entities from the United States of America and the European Union. Those securities are active, liquid have a low risk rating and are classified as available for sale.

6 DUE FROM THE GOVERNMENT

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|-------------------------------------|--------------------------------|--------------------------------|
| Securities issued by the Government | 402,771 | 384,522 |
| Loans granted to the Government | <u>1,755,408</u> | <u>1,514,756</u> |
| | <u>2,158,179</u> | <u>1,899,278</u> |

The securities issued by the Government of Moldova and included in the portfolio of the NBM are stated at nominal value adjusted by the unamortised discount.

Those securities held by the NBM either through purchase or following the guarantee submitted by the Government in support of all the loans granted by NBM represents a significant part of the value of the issued State securities.

As at 31 December 2002, about 76 % of these securities issued by the Government (including those underlying the loans granted to the Government) were held in the portfolio of the NBM (2001: 77.4%).

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

6 DUE FROM THE GOVERNMENT (CONTINUED)

As at 31 December 2002, the balance of the securities issued by the Government from NBM portfolio comprises securities issued through the conversion of the loans previously granted to the Moldovan Government. Upon maturity of the securities, the securities were re-issued at current market rates whereas the relate maturity was between 70 and 84 days.

In 2002, the weighted average nominal rate of the interest on state securities from the portfolio of NBM was of 5,21 % (2001: 12.62%), the highest rate 11.32 % (2001: 22.39%) being reached in December 2002 (January 2001), whereas the lowest in April 2002 (October 2001).

The loans granted to the Government are guaranteed by marketable securities issued by the Government of the Republic of Moldova with the same due date which can be traded on the market.

The matured loans are extended by at most 91 days, bearing the interest rate currently available on the primary market for the securities with the same due date.

In 2002, the average interest rate varied between 13.19% in December and 2,54 % in April for the loans granted to the Government of Moldova in local currency. The same rate, varied in 2001 between 19.52% in January and 6.08% in December.

7 CREDITS GRANTED TO BANKS AND OTHER INDIVIDUALS

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|--|-------------------------|-------------------------|
| Credits granted to banks | 81,397 | 91,149 |
| Credits granted to individuals | 6,371 | 7,102 |
| Less provisions for impairment | <u>(50,842)</u> | <u>(59,572)</u> |
| | <u>36,926</u> | <u>38,679</u> |
| | <u>31 December 2002</u> | <u>31 December 2001</u> |
| Provisions at the beginning of the year | (59,572) | (65,202) |
| Provisions charge | (2,425) | (8,748) |
| Release of provisions during the year | <u>11,155</u> | <u>14,378</u> |
| Provisions at the year-end | <u>(50,842)</u> | <u>(59,572)</u> |

The interest rates on the credits granted to banks varied between 10% and 13,5 % in 2002 (2001: 10% and 15%).

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

8 OTHER ASSETS

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|---|-------------------------|-------------------------|
| Prepayments | 82 | 2,495 |
| Other receivables | 1,567 | 1,080 |
| Inventories | 3,890 | 4,314 |
| Provisions for inventories and other assets | <u>(3,226)</u> | <u>(3,293)</u> |
| | <u>2,313</u> | <u>4,596</u> |
| | <u>31 December 2002</u> | <u>31 December 2001</u> |
| Provisions at the beginning of the year | (3,293) | (2,207) |
| Provisions charge | (34) | (1,477) |
| Income from release of provisions during the year | 118 | 408 |
| Revaluation differences | <u>(17)</u> | <u>(17)</u> |
| Provisions at year-end | <u>(3,226)</u> | <u>(3,293)</u> |

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

9 TANGIBLE AND INTANGIBLE ASSETS

| | <u>Buildings</u> | <u>Equipment</u> | <u>Assets in progress</u> | <u>Intangible assets</u> | <u>Total tangible and intangible assets</u> |
|--|------------------|------------------|-------------------------------|------------------------------|---|
| Gross Book Value | | | | | |
| As at 31 December 2001 | 32,080 | 60,937 | 306 | 8,845 | 102,168 |
| Additions | - | 4,242 | - | 244 | 4,486 |
| Disposals | <u>(1,195)</u> | <u>(2,569)</u> | <u>-</u> | <u>(212)</u> | <u>(3,976)</u> |
| Balance as at 31 December 2002 | <u>30,885</u> | <u>62,610</u> | <u>306</u> | <u>8,877</u> | <u>102,678</u> |
| Accumulated depreciation | | | | | |
| As at 31 December 2001 | 12,945 | 49,034 | - | 4,381 | 66,360 |
| Depreciation charge in 2002 | 1,596 | 6,109 | - | 1,638 | 9,343 |
| Disposals | <u>(81)</u> | <u>(2,493)</u> | <u>-</u> | <u>(212)</u> | <u>(2,786)</u> |
| Balance as at 31 December 2002 | <u>14,460</u> | <u>52,650</u> | <u>-</u> | <u>5,807</u> | <u>72,917</u> |
| Net Book Value | | | | | |
| as at 31 December 2001 | <u>19,135</u> | <u>11,903</u> | <u>306</u> | <u>4,464</u> | <u>35,808</u> |
| Net Book Value as at 31 December 2002 | <u>16,425</u> | <u>9,960</u> | <u>306</u> | <u>3,070</u> | <u>29,761</u> |

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

10 DUE TO GOVERNMENT AND BANKS

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|------------------------------|--------------------------------|--------------------------------|
| Due to Government | 118,330 | 117,175 |
| Obligatory reserve | 785,153 | 521,583 |
| Repo transactions with banks | 23,082 | 15,507 |
| Other | <u>11</u> | <u>25</u> |
| | <u>926,576</u> | <u>654,290</u> |

Obligatory reserve mainly represents the minimum reserves requirements to be held by Moldovan incorporated commercial banks in the accounts of the National Bank of Moldova, in order to comply with the prudential requirements of the National Bank of Moldova.

During the year 2002, as part of its liquidity management role, the NBM allowed commercial banks to place term deposits in local currency. No such balances were held at year end.

11 OTHER LIABILITIES

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|-------------------------|--------------------------------|--------------------------------|
| Due to the State budget | 102,593 | 76,994 |
| Other liabilities | <u>6,891</u> | <u>11,717</u> |
| | <u>109,484</u> | <u>88,711</u> |

The amounts due to the State budget represent the gross profit determined in accordance with the NBM Law, from which the allocations stipulated by this Law and the prepayments to the State during the year have been deducted.

Reconciliation between profit allocation and liability towards the State budget at year end.

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|---------------------------------|--------------------------------|--------------------------------|
| Profit allocation | 164,152 | 194,759 |
| Less prepayment during the year | <u>(61,559)</u> | <u>(117,765)</u> |
| Due to the State budget | <u>102,593</u> | <u>76,994</u> |

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

12 CAPITAL AND RESERVES

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|----------------|--------------------------------|--------------------------------|
| Statutory fund | 100,000 | 100,000 |
| Reserve fund | 200,000 | 200,000 |
| Other reserves | <u>34,380</u> | <u>57,040</u> |
| | <u>334,380</u> | <u>357,040</u> |

In accordance with the Parliament of the Republic of Moldova's decision, the Statutory Fund of the NBM was increased from MDL 75 million to MDL 100 million at 31 December 2001. This increase was made through profit allocation.

Under the Article 20 of the NBM Law, 20 % of the net income must be distributed to the Statutory Reserve up to twice the amount of capital. At 31 December 2001 an amount of MDL 50 million was transferred to the Statutory Reserve to bring the reserve up to the statutory level of MDL 200 million.

Other reserves represent the unrealised gain on net foreign exchange position, as a result of the revaluation of the NBM foreign currency assets and liabilities. The constitution of these reserves is based on the provisions of the Article 54 of the NBM law.

13 INTEREST INCOME

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|--|--------------------------------|--------------------------------|
| Interest from loans granted to the Government | 79,018 | 178,315 |
| Interest from securities of the Government | 19,125 | 50,909 |
| Interest from securities issued by non-residents | 23,377 | 42,946 |
| Interest from credits granted to banks | 9,923 | 12,495 |
| Interest from deposits in foreign banks | 53,114 | 77,273 |
| Other interest | <u>2,225</u> | <u>1,338</u> |
| | <u>186,782</u> | <u>363,276</u> |

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

14 INTEREST EXPENSE

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|---|--------------------------------|--------------------------------|
| Credits received from the international organisations | 48,235 | 73,184 |
| Loro accounts and deposits from banks | 25,267 | 21,947 |
| REPO operations with banks | <u>424</u> | <u>1,409</u> |
| | <u>73,926</u> | <u>96,540</u> |

15 GAINS/(LOSSES) FROM DEALING AND OTHER OPERATIONS IN FOREIGN CURRENCY

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|---|--------------------------------|--------------------------------|
| Gains/(losses) from dealing securities of non-residents | 3,675 | (1,176) |
| Realised gains from foreign currency transactions | 93,647 | 42,058 |
| Unrealised gains from foreign exchange transactions | <u>-</u> | <u>19,704</u> |
| | <u>97,322</u> | <u>60,586</u> |

Unrealised gains/losses from foreign exchange transactions represents the daily revaluation of the foreign currency denominated assets and liabilities held by the NBM.

In order to prevent inflationary distribution of unrealised gains this unrealised portion of foreign exchange gains is transferred at year-end to a special reserve account against which future unrealised losses shall be charged. Unrealised losses which exceed the accumulated balance of unrealised gains within the special reserve account will be charged to the income statement. Unrealised gains are not available for distribution as part of net profit.

16 RELEASE OF PROVISION FROM IMPAIRMENT OF LOANS

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|--|--------------------------------|--------------------------------|
| Release of provision for impairment of loans | 11,155 | 14,378 |
| Loans impairment provision expense | <u>(2,425)</u> | <u>(8,748)</u> |
| | <u>8,730</u> | <u>5,630</u> |

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

17 OPERATING EXPENSES

| | <u>31 December 2002</u> | <u>31 December 2001</u> |
|--|--------------------------------|--------------------------------|
| Cost of production of notes and coins | 7,959 | 2,555 |
| Staff costs | 24,360 | 25,200 |
| Depreciation of tangible and intangible assets | 9,343 | 9,829 |
| Other operating expenses | 19,588 | 16,384 |
| Charge/(release) of provision for low value items | <u>(84)</u> | <u>1,069</u> |
| | <u>61,166</u> | <u>55,037</u> |

Staff costs also include social security contributions, which represent 29 % of salaries.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

18 CURRENCY RISK

Assets and liabilities expressed in MDL and other currencies

As at 31 December 2002, NBM held the following foreign exchange positions:

| | <u>MDL</u> | <u>USD</u> | <u>Convertible currencies</u> | <u>Non convertible currencies</u> | <u>SDR</u> | <u>Total</u> |
|---------------------------|--------------------|------------------|-----------------------------------|---|--------------------|------------------|
| Assets | | | | | | |
| Cash and | | | | | | |
| short term funds | - | 1,671,040 | 1,199,235 | 42 | - | 2,870,317 |
| Assets with international | | | | | | |
| organisations | 2,315,093 | - | - | - | 3,758 | 2,318,851 |
| Securities | | | | | | |
| of non residents | - | 555,650 | 297,327 | - | - | 852,977 |
| Due from | | | | | | |
| the Government | 2,158,179 | - | - | - | - | 2,158,179 |
| Credits granted to banks | | | | | | |
| and individuals | 36,926 | - | - | - | - | 36,926 |
| Other assets | 1,087 | 1,224 | 2 | - | - | 2,313 |
| Tangible and intangible | | | | | | |
| assets | <u>29,761</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>29,761</u> |
| Total assets | 4,541,046 | 2,227,914 | 1,496,564 | 42 | 3,758 | 8,269,324 |
| Liabilities | | | | | | |
| National currency | | | | | | |
| in circulation | 2,477,640 | - | - | - | - | 2,477,640 |
| Due to Government | | | | | | |
| and banks | 844,334 | 80,522 | 1,720 | - | - | 926,576 |
| Due to international | | | | | | |
| financial | | | | | | |
| organisations | 2,321,279 | - | - | - | 2,099,965 | 4,421,244 |
| Other liabilities | <u>108,638</u> | <u>821</u> | <u>25</u> | <u>-</u> | <u>-</u> | <u>109,484</u> |
| Total liabilities | <u>5,751,891</u> | <u>81,343</u> | <u>1,745</u> | <u>-</u> | <u>2,099,965</u> | <u>7,934,944</u> |
| Net position | <u>(1,210,845)</u> | <u>2,146,571</u> | <u>1,494,819</u> | <u>42</u> | <u>(2,096,207)</u> | <u>334,380</u> |

Other convertible currencies include mainly EURO and GBP.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

18 CURRENCY RISK (CONTINUED)

Assets and liabilities expressed in MDL and other currencies

As at 31 December 2001, NBM held the following foreign exchange positions:

| | <u>MDL</u> | <u>USD</u> | <u>Convertible currencies</u> | <u>Non convertible currencies</u> | <u>SDR</u> | <u>Total</u> |
|--|------------------|------------------|-----------------------------------|---|--------------------|------------------|
| Assets | | | | | | |
| Cash and short term funds | - | 1,416,231 | 607,998 | 30 | - | 2,024,259 |
| Assets with international organisations | 2,025,063 | - | - | - | 9,767 | 2,034,830 |
| Securities of non residents | - | 665,320 | 308,978 | - | - | 974,298 |
| Due from the Government | 1,899,278 | - | - | - | - | 1,899,278 |
| Credits granted to banks and individuals | 38,679 | - | - | - | - | 38,679 |
| Other assets | 3,872 | 724 | - | - | - | 4,596 |
| Tangible and intangible assets | <u>35,808</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>35,808</u> |
| Total assets | 4,002,700 | 2,082,275 | 916,976 | 30 | 9,767 | 7,011,748 |
| Liabilities | | | | | | |
| National currency in circulation | 1,967,344 | - | - | - | - | 1,967,344 |
| Due to Government and banks | 554,872 | 93,511 | 5,907 | - | - | 654,290 |
| Due to international financial organisations | 2,026,849 | - | - | - | 1,917,514 | 3,944,363 |
| Other liabilities | <u>79,814</u> | <u>8,888</u> | <u>9</u> | <u>-</u> | <u>-</u> | <u>88,711</u> |
| Total liabilities | <u>4,628,879</u> | <u>102,399</u> | <u>5,916</u> | <u>-</u> | <u>1,917,514</u> | <u>6,654,708</u> |
| Net position | <u>(626,179)</u> | <u>1,979,876</u> | <u>911,060</u> | <u>30</u> | <u>(1,907,747)</u> | <u>357,040</u> |

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

19 RISK MANAGEMENT

Through its normal operations, the National Bank of Moldova is exposed to a number of risks, the most significant of which are currency, operating, credit, interest rate, and liquidity risks. The structure of the NBM's assets and liabilities is primarily determined by the nature of the National Bank of Moldova's statutory functions, rather than commercial considerations. At the same time the NBM continually manages its exposure to risk, through a variety of risk management techniques. Risk management of the National Bank of Moldova is regulated by its internal instructions, and is closely monitored by the Board of Directors of the National Bank of Moldova, as well as Committees and Commissions of the National Bank of Moldova. The Board of Directors, Committees, Commissions and related workgroups consider matters related to the monetary, investment and foreign exchange policy of the National Bank of Moldova, and set limits for volumes of operations, as well as the requirements for assessing counterparties of the National Bank of Moldova.

Operating risk is the risk of loss arising from the breakdown of internal controls. The National Bank of Moldova manages this risk through the Internal Audit Department of the National Bank of Moldova, which exercises control over accounting policies and procedures and the effective functioning of the system of internal controls of the NBM. Operating risk relating to operations with currency reserves is controlled by a number of internal instructions of the National Bank of Moldova. Segregation of duties between the different departments of the National Bank of Moldova (front-office, middle-office and back-office) is also considered as one of the mechanisms of managing operating risk.

Interest rate risk

The National Bank of Moldova is exposed to interest rate price risk in domestic and foreign markets, principally as a result of investing international foreign exchange reserves, lending to Government and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds. Furthermore as the National Bank of Moldova's main objective is to reach monetary stability, it may happen that the return on interest represents no priority of the monetary policies.

Liquidity risk

Liquidity risk is defined as the risk of loss arising due to the mismatch of the maturities of assets and liabilities. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the National Bank of Moldova and its exposure to changes in interest and exchange rates.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

19 RISK MANAGEMENT (CONTINUED)

Securities issued by Government of the Republic of Moldova and held in the National Bank of Moldova's portfolio have a contractual maturity not longer than 90 days. However, at maturity, those securities are rolled over, being repurchased by the Government at current market rates and new securities are issued and purchased by the National Bank of Moldova.

Loans granted to Government which also have a contractual maturity not longer than 90 days are also rolled over and accordingly have a longer term duration. At maturity, interest accrued is however paid to the National Bank of Moldova.

Credit risk

The National Bank of Moldova takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The NBM's maximum exposure to credit risk, excluding the value of collateral, is generally reflected in the carrying value of financial assets. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Management of credit risk. Credit risk on transactions with currency reserves is managed through the approval of transactions and placements of funds, the establishment of limits restricting risk and constant monitoring of positions. Counterparty limits are set based on credit ratings and are subject to regular review. Credit risk in the local currency portfolio is also monitored and managed, but is not subject to formal limits.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

Currency Reserves Management

In accordance with the NBM's law, the tasks of maintaining the safety and liquidity of reserve assets, as well as the profitability of reserve assets management transactions, are achieved through active diversification of investment by entering into transactions in international capital and money markets. Analysis of risks, applied by the National Bank of Moldova in the process of managing its currency reserves is maintained by comparing factual risks level with set limits. Credit risks are additionally limited by the minimum acceptable credit ratings and operational limits.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

19 RISK MANAGEMENT (CONTINUED)

The main objective of currency reserves management activity is to ensure the optimal combination of safety, liquidity and profitability for reserve assets. In this regard, the maximization of the reserves' profitability is a secondary priority in relation to ensuring their safety and liquidity.

The table below shows assets and liabilities as at 31 December 2002 grouped by remaining contractual maturity.

| | <u>Less than 3 months</u> | <u>Between 3 and 6 months</u> | <u>Between 6 and 12 months</u> | <u>More than 1 year</u> | <u>Undefined maturity</u> | <u>Total</u> |
|---|-------------------------------|---------------------------------------|--|-----------------------------|-------------------------------|----------------|
| Assets | | | | | | |
| Cash and short term funds | 2,870,317 | - | - | - | - | 2,870,317 |
| Assets with international financial organisations | 3,758 | - | - | - | 2,315,093 | 2,318,851 |
| Securities of non-residents | 852,977 | - | - | - | - | 852,977 |
| Due from Government | 2,158,179 | - | - | - | - | 2,158,179 |
| Credits granted to banks and individuals | 666 | 658 | 1,317 | 34,285 | - | 36,926 |
| Other assets | 1,856 | - | - | 457 | - | 2,313 |
| Tangible and intangible assets | - | - | - | 13,336 | 16,425 | 29,761 |
| Total assets | 5,887,753 | 658 | 1,317 | 48,078 | 2,331,518 | 8,269,324 |
| Liabilities | | | | | | |
| National currency in circulation | 2,477,640 | - | - | - | - | 2,477,640 |
| Due to Government and banks | 926,576 | - | - | - | - | 926,576 |
| Due to international financial organisations | 30,551 | 52,850 | 221,190 | 1,801,119 | 2,315,534 | 4,421,244 |
| Other liabilities | 109,410 | - | - | 74 | - | 109,484 |
| Total liabilities | 3,544,177 | 52,850 | 221,190 | 1,801,193 | 2,315,534 | 7,934,944 |
| Net liquidity surplus/(deficit) | <u>2,343,576</u> | <u>(52,192)</u> | <u>(219,873)</u> | <u>(1,753,115)</u> | <u>15,984</u> | <u>334,380</u> |
| Cumulated net liquidity surplus/(deficit) | <u>2,343,576</u> | <u>2,291,384</u> | <u>2,071,511</u> | <u>318,396</u> | <u>334,380</u> | <u>-</u> |

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

19 RISK MANAGEMENT (CONTINUED)

The table below shows assets and liabilities as at 31 December 2001 grouped by remaining contractual maturity.

| | <u>Less than 3 months</u> | <u>Between 3 and 6 months</u> | <u>Between 6 and 12 months</u> | <u>More than 1 year</u> | <u>Undefined maturity</u> | <u>Total</u> |
|---|-------------------------------|---------------------------------------|--|-----------------------------|-------------------------------|----------------|
| Assets | | | | | | |
| Cash and short term funds | 2,024,259 | - | - | - | - | 2,024,259 |
| Assets with international financial organisations | 9,766 | - | - | - | 2,025,064 | 2,034,830 |
| Securities of non-residents | 752,662 | - | - | - | 221,636 | 974,298 |
| Due from Government | 1,899,278 | - | - | - | - | 1,899,278 |
| Credits granted to banks and individuals | 4,313 | 1,361 | 3,930 | 29,075 | - | 38,679 |
| Other assets | 1,627 | - | - | 2,969 | - | 4,596 |
| Tangible and intangible assets | - | - | - | - | 35,808 | 35,808 |
| Total assets | 4,691,905 | 1,361 | 3,930 | 32,044 | 2,282,508 | 7,011,748 |
| Liabilities | | | | | | |
| National currency in circulation | 1,967,344 | - | - | - | - | 1,967,344 |
| Due to Government and banks | 654,290 | - | - | - | - | 654,290 |
| Due to international financial organisations | 74,523 | 46,230 | 113,006 | 1,685,233 | 2,025,371 | 3,944,363 |
| Other liabilities | 80,927 | - | 182 | 7,602 | - | 88,711 |
| Total liabilities | 2,777,084 | 46,230 | 113,188 | 1,692,835 | 2,025,371 | 6,654,708 |
| Net liquidity surplus/(deficit) | <u>1,914,821</u> | <u>(44,869)</u> | <u>(109,258)</u> | <u>(1,660,791)</u> | <u>257,137</u> | <u>357,040</u> |
| Cumulated net liquidity surplus/(deficit) | <u>1,914,821</u> | <u>1,869,952</u> | <u>1,760,694</u> | <u>99,303</u> | <u>357,040</u> | <u>-</u> |

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(all amounts expressed in thousands of Moldovan Lei (MDL))

19 RISK MANAGEMENT (CONTINUED)

Market risk

The Republic of Moldova is in process of transition to a market-oriented economy and currently managed to achieve good macroeconomic results. Nevertheless, the NBM management are unable to predict what changes in condition will take place in Moldova and what effect there might have on the financial position and the results of operations and cash flows of the National Bank of Moldova.

20 COMMITMENTS AND CONTINGENCIES

General claims

From time to time and in the normal course of business, claims against the NBM are received from its partners. The Management resists such claims and considers that no material losses will be incurred.

Legal proceedings

As at 31 December 2002, the National Bank of Moldova was not engaged in any material litigation proceedings.

Credit related commitments

As at 31 December 2002, there were no outstanding credit related commitments

21 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

As at 25 February 2003, the official exchange rate of USD computed by NBM was of 1 USD = 14.2042 MDL as compared to 1 USD = 13.822 MDL as at 31 December 2002 (1 USD = 13.0909 MDL as at 31 December 2001).

Table no. 1. DYNAMICS OF MAJOR MACROECONOMIC INDICATORS

| | 2000 | 2001 | 2002 |
|--|----------------|----------------|---------------------------|
| Gross Domestic Product (at current prices, mln. MDL) | 16019.6 | 19051.5 | 22040.4 |
| – % change over the previous year (in real terms) | 102.1 | 106.1 | 107.2 |
| GDP deflator, % | 127.3 | 112.1 | 107.9 |
| Industrial Production , (mln. MDL) | 8167.7 | 10427.6 | 11870.8 |
| – % change over the previous year (in real terms) | 107.7 | 113.7 | 110.6 |
| Industrial Producer Price Index (annual average) | 128.5 | 112.3 | 104.7 |
| Agricultural Production , (mln. MDL) | 8268.0 | 8646.0 | 9408.0 |
| – % change over the previous year (in real terms) | 96.7 | 106.4 | 103.0 |
| Fixed Capital Investments , (mln. MDL) | 1759.3 | 2315.1 | 2074.7¹ |
| – % change over the previous year (in real terms) | 85.0 | 111.0 | 104.0 |
| Consolidated Budget Deficit , (mln. MDL) | 166.4 | 1.0 | 109.7 |
| - as % of GDP | 1.0 | 0.01 | 0.5 |
| Prices | | | |
| Consumer Price Index (annual average) | 131.0 | 109.6 | 105.2 |
| Consumer Price Index at year-end | 118.4 | 106.3 | 104.4 |
| Labor market | | | |
| Average number of employed persons at year-end, (thousand) | 713.6 | 704.5 | 689.8 |
| Number of officially registered unemployed persons at year-end, (thousand) | 28.9 | 27.6 | 24.0 |
| Unemployment rate (ILO definition), % | 8.5 | 7.3 | 6.8 |
| Average nominal employee wage , (MDL) | 407.9 | 543.7 | 691.9¹ |
| – % change over the previous year (in real terms) | 102.2 | 121.6 | 126.7 |
| Minimum consumer budget , (MDL) | 944.5 | 1052.8 | 1137.4 |
| Coverage level of the minimum consumer budget with the average nominal wage, % | 43.2 | 51.6 | 60.8 |
| Arrears of wages , (mln. MDL) | 270.7 | 222.7 | 137.8 |
| External Debt , (mln. US\$) | 1230.1 | 1224.6 | 1330.1 |
| Domestic Public Debt , (mln. MDL) | 2022.2 | 2400.5 | 2821.4 |
| - loans extended by the National Bank of Moldova (against SS as collateral) | 1315.2 | 1507.1 | 1744.1 |
| - outstanding value of State Securities, including in the NBM portfolio | 707.0 | 893.4 | 1077.3 |
| | 360.7 | 400.0 | 400.0 |

¹ preliminary data for January-December 2002

Source: Department of Statistics and Sociology, Ministry of Finance and NBM

Table no. 2. GROSS DOMESTIC PRODUCT

| | current prices, mln. MDL | | | % change in real terms | | | weight, % | | |
|---|--------------------------|----------------|----------------|------------------------|-------------|-------------|--------------|--------------|--------------|
| | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 | 2000 | 2001 | 2002 |
| Breakdown by resource category | | | | | | | | | |
| Gross Domestic Product | 16019.6 | 19051.5 | 22040.4 | 2.1 | 6.1 | 7.2 | 100.0 | 100.0 | 100.0 |
| Gross added value, total | 14022.1 | 16773.0 | 19193.6 | 0.3 | 5.8 | 5.7 | 87.5 | 88.0 | 87.1 |
| Goods | 6684.3 | 7835.5 | 8727.3 | 5.8 | 7.2 | 6.0 | 41.7 | 41.1 | 39.6 |
| Agriculture | 4070.4 | 4271.4 | 4630.5 | 2.3 | 7.4 | 4.0 | 25.4 | 22.4 | 21.0 |
| Industry | 2613.9 | 3564.1 | 4096.8 | 10.8 | 7.0 | 8.3 | 16.3 | 18.7 | 18.6 |
| Services | 7717.3 | 9370.5 | 10925.4 | -7.7 | 4.8 | 5.2 | 48.2 | 49.2 | 49.5 |
| Construction | 432.7 | 583.5 | 642.0 | -30.3 | 24.5 | 3.0 | 2.7 | 3.1 | 2.9 |
| Wholesale trade | 2002.7 | 2287.2 | 2536.7 | -23.9 | 0.9 | 4.0 | 12.5 | 12.0 | 11.5 |
| Transportation and communications | 1527.7 | 1974.3 | 2251.8 | 21.4 | 9.1 | 10.2 | 9.5 | 10.4 | 10.2 |
| Financial intermediation services indirectly measured | -379.5 | -432.9 | -459.1 | -53.6 | 10.2 | -1.8 | -2.4 | -2.3 | -2.0 |
| Net taxes on goods and imports | 1997.5 | 2278.5 | 2846.8 | 17.2 | 8.6 | 18.0 | 12.5 | 12.0 | 12.9 |
| Breakdown by expenditures | | | | | | | | | |
| Final consumption: | 16502.7 | 19262.7 | 22625.9 | 17.2 | 4.4 | 9.5 | 103.1 | 101.1 | 102.7 |
| Households | 14030.9 | 16384.7 | 18640.2 | 20.7 | 6.1 | 8.2 | 87.6 | 86.0 | 84.6 |
| Public administration and non-profit organizations providing services to households | 2471.8 | 2878.0 | 3985.7 | 0.4 | -5.8 | 17.1 | 15.5 | 15.1 | 18.1 |
| Gross capital formation | 3836.2 | 4435.6 | 5003.9 | 11.9 | 5.2 | 1.1 | 23.9 | 23.3 | 22.7 |
| Gross fixed capital formation | 2472.5 | 3190.0 | 3653.3 | -8.7 | 17.3 | 4.1 | 15.4 | 16.8 | 16.5 |
| Change in inventories | 1363.7 | 1245.7 | 1350.6 | 97.6 | -16.8 | -6.8 | 8.5 | 6.5 | 6.2 |
| Net exports | -4319.3 | -4646.8 | -5589.4 | 124.6 | -1.5 | 11.0 | -26.9 | -24.4 | -25.4 |
| Exports | 7945.7 | 9536.2 | 12238.1 | 9.5 | 17.2 | 18.4 | 49.6 | 50.0 | 55.5 |
| Imports | 12265.0 | 14183.0 | 17827.5 | 32.3 | 10.6 | 16.0 | 76.5 | 74.4 | 80.9 |

Source: Department of Statistics and Sociology

Table no. 3. DINAMICS OF INFLATION

| | % change over the previous month | | | % change over December of preceding year | | | % change over the corresponding month of the previous year | | |
|------------------|----------------------------------|-------------|-------------|--|-------------|-------------|--|-------------|-------------|
| | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> |
| January | 2.9 | 1.2 | 1.3 | 2.9 | 1.2 | 1.3 | 40.4 | 16.0 | 6.0 |
| February | 1.3 | 0.3 | -0.4 | 4.2 | 1.5 | 0.9 | 40.1 | 15.0 | 6.0 |
| March | 0.1 | 0.3 | 0.5 | 4.3 | 1.8 | 1.4 | 39.4 | 16.0 | 6.0 |
| April | 1.6 | 1.5 | 1.9 | 6.0 | 3.3 | 3.3 | 38.9 | 15.0 | 6.3 |
| May | 1.4 | 0.5 | 1.6 | 7.5 | 3.8 | 5.0 | 35.3 | 14.0 | 7.5 |
| June | 4.4 | -0.5 | -3.4 | 12.2 | 3.3 | 1.4 | 31.7 | 9.0 | 4.3 |
| July | 0.7 | -1.7 | -1.5 | 13.0 | 1.5 | -0.1 | 29.4 | 6.0 | 4.6 |
| August | 0.8 | -0.5 | -0.6 | 13.9 | 1.0 | -0.7 | 29.5 | 5.0 | 4.5 |
| September | 1.4 | 0.9 | 0.8 | 15.5 | 1.9 | 0.1 | 29.2 | 4.0 | 4.4 |
| October | 1.0 | 1.3 | 1.2 | 16.6 | 3.2 | 1.3 | 27.8 | 5.0 | 4.3 |
| November | 0.8 | 1.1 | 1.2 | 17.5 | 4.3 | 2.5 | 23.5 | 5.0 | 4.5 |
| December | 0.8 | 1.9 | 1.9 | 18.4 | 6.3 | 4.4 | 18.4 | 6.3 | 4.4 |

Source: Department of Statistics and Sociology

Table no. 4. MONETARY INDICATORS at year-end, (mln. MDL)

| | 2000 | 2001 | 2002 |
|--|---------------|---------------|---------------|
| 1. Monetary aggregates | | | |
| Monetary base | 1945.7 | 2488.9 | 3262.7 |
| M0 (currency in circulation) | 1469.3 | 1834.2 | 2288.5 |
| Transferable deposits | 493.8 | 739.3 | 1056.9 |
| M1 | 1963.0 | 2573.5 | 3345.5 |
| Non-transferable deposits | 551.2 | 890.9 | 1172.1 |
| Money market instruments | 0.2 | 0.3 | 0.3 |
| M2 | 2514.4 | 3464.8 | 4517.9 |
| Foreign currency deposits | 995.2 | 1322.5 | 1993.6 |
| M3 | 3509.6 | 4787.3 | 6511.5 |
| Velocity (M3) | 4.56 | 3.98 | 3.38 |
| Money multiplier (M3) | 1.80 | 1.92 | 2.00 |
| 2. Deposits (total) | 2040.1 | 2952.8 | 4222.7 |
| Deposits by legal entities, including in foreign currency | 1103.7 | 1299.1 | 1835.7 |
| Deposits by individuals, including in foreign currency | 936.4 | 1653.7 | 2387.0 |
| 3. Credits | | | |
| Credits to commercial banks | 62.3 | 75.6 | 81.4 |
| Credits to economy, total | 2291.2 | 3101.3 | 4165.7 |
| In national currency: | 1358.8 | 1838.2 | 2422.2 |
| – state enterprises | 181.4 | 247.4 | 279.2 |
| – private sector | 1017.7 | 1407.4 | 1844.7 |
| – households | 124.4 | 180.2 | 315.3 |
| In foreign currency | 932.4 | 1263.1 | 1743.5 |

Source: NBM

Table no. 5. AVERAGE INTEREST RATE ON CREDITS

| Period | Credits extended | | | | |
|---------------------|------------------|--------------------|------------------|---------------------|------------------|
| | total | in MDL | | in foreign currency | |
| | | value, mln. MDL | interest rate, % | value, mln. MDL | interest rate, % |
| January 2002 | 266.7 | 179.4 | 26.07 | 87.3 | 13.08 |
| February | 359.3 | 236.1 | 24.51 | 123.2 | 12.47 |
| March | 402.0 | 307.8 | 24.86 | 94.2 | 12.83 |
| April | 406.5 | 277.1 | 25.08 | 129.4 | 12.94 |
| May | 318.2 | 181.9 | 25.08 | 136.3 | 12.63 |
| June | 373.4 | 213.7 | 24.52 | 159.7 | 12.59 |
| July | 461.0 | 266.8 | 23.51 | 194.2 | 12.58 |
| August | 457.1 | 276.1 | 23.19 | 181.0 | 11.51 |
| September | 714.0 | 395.4 | 22.52 | 318.6 | 11.95 |
| October | 589.0 | 352.2 | 22.08 | 236.8 | 11.91 |
| November | 527.0 | 323.3 | 21.68 | 203.7 | 11.44 |
| December | 597.4 | 414.1 | 19.29 | 183.3 | 11.90 |
| Total | 5471.6 | 3423.9 | 23.14 | 2047.7 | 12.19 |

Source: NBM

Table no. 6. AVERAGE INTEREST RATE ON DEPOSITS

| Period | Time deposits | | | | |
|---------------------|---------------|--------------------|---------------------|---------------------|------------------|
| | total | in MDL | | in foreign currency | |
| | | value, mln. MDL | interest rate, % | value, mln. MDL | interest rate, % |
| January 2002 | 315.1 | 171.9 | 17.30 | 143.2 | 3.84 |
| February | 263.9 | 138.2 | 17.21 | 125.7 | 3.16 |
| March | 281.6 | 137.0 | 15.04 | 144.6 | 2.90 |
| April | 331.3 | 163.5 | 13.33 | 167.8 | 2.87 |
| May | 293.7 | 104.8 | 15.06 | 188.9 | 2.82 |
| June | 305.3 | 119.8 | 13.93 | 185.5 | 3.29 |
| July | 282.2 | 128.3 | 14.95 | 153.9 | 3.88 |
| August | 319.9 | 152.1 | 14.69 | 167.8 | 3.11 |
| September | 380.1 | 165.5 | 13.37 | 214.6 | 2.84 |
| October | 331.3 | 172.3 | 12.71 | 159.0 | 3.60 |
| November | 358.0 | 138.1 | 12.54 | 219.9 | 2.92 |
| December | 347.3 | 143.5 | 12.64 | 203.8 | 3.35 |
| Total | 3809.7 | 1735.0 | 14.38 | 2074.7 | 3.19 |

Source: NBM

Table no. 7. YIELD ON STATE SECURITIES ISSUED ON PRIMARY MARKET

| | Maturity | Dec. 2001 | Jan. 2002 | Feb. | Mar. | Apr. | May | Jun. | Jul. | Aug. | Sep. | Oct. | Nov. | Dec. | Average nominal weighted yield |
|---------------------------------------|----------|-----------|-----------|------|------|------|------|------|------|------|------|------|------|-------|--------------------------------|
| <i>Average weighted yield</i> | 91 days | 7.41 | 6.92 | 4.73 | 3.73 | 2.94 | 3.85 | 5.03 | 5.98 | 4.54 | 3.00 | 4.79 | 6.91 | 10.45 | 5.26 |
| | 182 days | 11.22 | 10.11 | 7.39 | 4.99 | 3.73 | 4.40 | 5.59 | 6.44 | 5.60 | 4.07 | 5.55 | 7.60 | 10.84 | 6.07 |
| | 273 days | 13.40 | 11.59 | 8.30 | 5.66 | 3.84 | 5.74 | 7.27 | 7.13 | 6.46 | 5.35 | 5.94 | 8.01 | 10.91 | 6.78 |
| | 364 days | 13.60 | 13.61 | 9.55 | 7.94 | 6.96 | 6.96 | 7.63 | 7.58 | 6.96 | 6.27 | 6.83 | 8.72 | 11.28 | 7.48 |
| <i>Average nominal weighted yield</i> | | 8.84 | 7.86 | 5.98 | 4.42 | 3.49 | 4.35 | 5.66 | 6.30 | 5.22 | 4.12 | 5.31 | 7.30 | 10.49 | 5.75 |

Source: NBM

Table no. 8. OFFICIAL EXCHANGE RATE (MDL)

| | 2000 | | 2001 | | 2002 | |
|------------|----------|----------------|----------|----------------|----------|----------------|
| | year-end | annual average | year-end | annual average | year-end | annual average |
| USD (1\$) | 12.3833 | 12.4334 | 13.0909 | 12.8668 | 13.8220 | 13.5730 |
| RUR (1) | 0.4322 | 0.4415 | 0.4340 | 0.4406 | 0.4329 | 0.4324 |
| EURO (1€) | 11.4979 | 11.4945 | 11.5337 | 11.5239 | 14.3963 | 12.8337 |
| ROL (1000) | 0.4780 | 0.5810 | 0.4160 | 0.4440 | 0.4130 | 0.4110 |

Source: NBM