



National Bank of Moldova

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ANNUAL REPORT

2006

## LIST OF ABBREVIATIONS

<b>Ag</b>	Silver
<b>AIPS</b>	Automated Interbank Payments System
<b>BES</b>	Book Entry System
<b>BSCEE</b>	Bank Supervisors' Group of Central and Eastern Europe
<b>CB</b>	Commercial Bank
<b>CEB</b>	Council of Europe Development Bank
<b>CHIBOR</b>	Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan lei to other banks
<b>CI</b>	Competitiveness Index
<b>CIF</b>	Cost, insurance and freight
<b>CIS</b>	Commonwealth of Independent States
<b>CNB, NBC</b>	Certificates of the National Bank of Moldova
<b>CPI</b>	Consumer Prices Index
<b>DNS</b>	Designated-Time Net Settlement System
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EFF</b>	Extended Fund Facility by IMF
<b>EGPRS</b>	Economic Growth and Poverty Reduction Strategy
<b>EU</b>	European Union
<b>EUR</b>	Europe's Single Currency
<b>FISIM</b>	Financial Intermediation Services Indirectly Measured
<b>FOB</b>	Free on board
<b>GBP</b>	Pound Sterling
<b>GDP</b>	Gross Domestic Product
<b>IASB</b>	International Accounting Standards Board
<b>IASC</b>	International Accounting Standards Committee
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>ICS</b>	Internal Control System
<b>IDA</b>	International Development Association
<b>IFAD</b>	International Fund for Agricultural Development
<b>IFRS</b>	International Financial Reporting Standards
<b>ILO</b>	International Labour Office
<b>IMF</b>	International Monetary Fund
<b>MDL</b>	Moldovan Leu
<b>MEFP</b>	Memorandum of Economic and Financial Policies
<b>MoF</b>	Ministry of Finance of the Republic of Moldova
<b>NBB</b>	National Bank of Belarus
<b>NBM</b>	National Bank of Moldova
<b>NBS</b>	National Bureau of Statistics of the Republic of Moldova
<b>NEER</b>	Nominal effective exchange rate of the national currency
<b>PCA</b>	Partnership and Cooperation Agreement between the Republic of Moldova and the European Union
<b>PRGF</b>	Poverty Reduction and Growth Facility extended by IMF
<b>PRSC</b>	Poverty Reduction Support Credit extended by the World Bank
<b>REER</b>	Real Effective Exchange Rate of the national currency
<b>REPO</b>	Agreement of securities trading with the repurchase thereof on a determined date and price
<b>RISP</b>	Rural Investments and Services Project
<b>RM</b>	Republic of Moldova
<b>ROL, RON</b>	Romanian Leu
<b>RTGS</b>	Real-Time Gross Settlement System
<b>RUB</b>	Russian Rouble
<b>SDDS</b>	Special Data Dissemination Standard
<b>SDR, XDR</b>	Special Drawing Rights
<b>SS</b>	State Securities
<b>TB</b>	Treasury Bills
<b>TRC</b>	Total Regulatory Capital
<b>USD</b>	US Dollar
<b>WB</b>	World Bank

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# 1. Economic situation of the Republic of Moldova

## World economy

The world economy continued its expansion for the third consecutive year at a growth pace that exceeded significantly the trend. Most of the world's regions recorded increases meeting or exceeding expectations. Nevertheless, pick up in inflationary pressures, tighter conditions in financial markets and further increases in oil prices represented the downside of global activity expansion over the last years. The World economic growth for 2006 has been estimated at 5.1%, versus 4.9% in 2005.

The economy of the *United States of America* increased in 2006 by 3.3%, as compared to 3.2% in the previous year, mainly due to the strong results scored in the first quarter of the year. The rapid economic growth of the recent years was accompanied by the continuous reduction of the unemployment rate that, during the analyzed period, reached the level of 4.6% (5.1% in 2005). The annual average inflation constituted 3.2% as compared to 3.4% registered in 2005.

Table no. 1. Inflation rate and dynamics of the gross domestic product in 2006

	Inflation rate (annual), %	Gross domestic product, %
USA	3.2	3.3
Japan	0.3	2.2
EU 25	2.2	2.9
Euro area	2.2	2.7
Germany	1.8	2.7
France	1.9	2.2
China	1.5	10.7
Romania	6.6	7.7
Russia	9.7	6.7
Ukraine	9.1	7.1

Following a sustainable growth over 2004-2005, the economy recovery has accelerated in the *euro area*, according to estimations, the real growth accounting in 2006 for 2.7%, versus 1.4% in the previous year. The consumer prices posted an average increase of 2.2% as compared to the level of 2005, while the unemployment rate diminished to 7.8%. The economies of Germany and France recorded during the reported period an increase of 2.7 and 2.2%, accordingly.

Growth in the *EU25* registered over 2006 a higher growth rate as compared to that of the previous year (2.9%, versus 1.7%), while the inflation was at the same level with the one registered in the euro area – 2.2%.

In 2006 the *Japanese* economy recovery, started with 2000 and the longest in the country's post-war history, evolved into an economic regeneration, which was driven mainly by the expansion of the private domestic demand. According to estimations, the annualized growth rate of the Japanese economy reached in 2006 the level of 2.2%. At the same time, the deflation that affected the Japanese economy starting with 1999 was surmounted, and the consumer prices in 2006 accounted for an approx. 0.3%-rise as compared to the previous year.

After growing very rapidly in the first half of 2006, the *Chinese economy* continued its expansion posting high growth rates in the second half of the year and increasing in total by 10.7%. Concomitantly, the annual average inflation rate reduced down to 1.5%.

The level of the *Romanian* GDP growth accounted in 2006 for 7.7%, on the background of the annual average inflation rate reduction down to 6.6%.

*The Russian Federation* achieved during the reported period an increase of the gross domestic product by 6.7%. The inflation in 2006 constituted 9.7%.

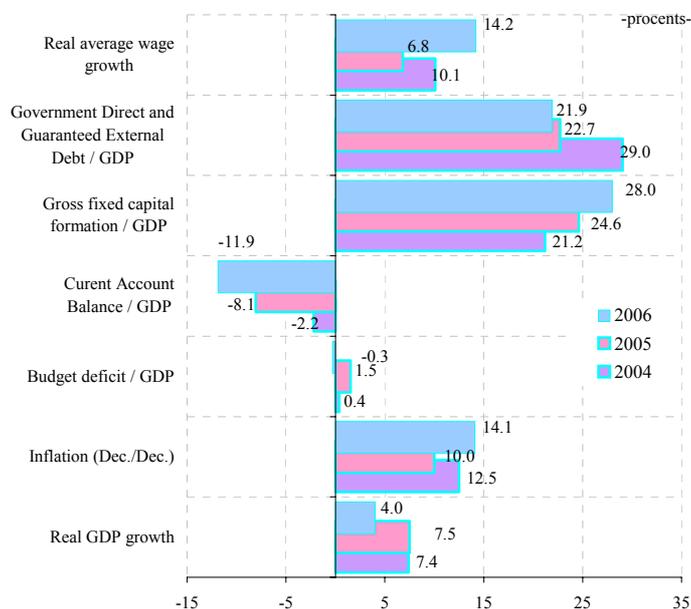
The *Ukrainian* economy resumed its expansion, following the slowdown from the previous year (2.7%), and recorded an increase by 7.1% in 2006, while the annual inflation accounted for 9.1%.

## Real sector\*

The year of 2006 was characterized by a slow economic growth, gross domestic product in comparable prices increased by 4.0%,

versus 7.5% in 2005 and 7.4% in 2004 (chart no. 1). The slower growth trend was determined by the real reduction of goods production, both in industrial and agricultural sectors, affected, at the same time, by the sharpening of the negative contribution of net exports. The external shocks, such as the two-fold increase of prices on natural gas and the ban imposed by the Russian Federation on agricultural products and wines imports from the Republic of Moldova had a negative impact on the economic activity of 2006.

Chart no. 1. Dynamics of indicators



recording a nominal increase by 17.3% as compared to 2005. The GDP deflator, which features the dynamics of the general prices level within the economy constituted 12.6% (versus 9.3% in 2005).

According to *GDP by resources*, GDP growth was determined, similarly to previous years, by the increase of the gross added value of services sector by 7.7% as compared to 2005, including in constructions – by 16.3% and in transportation and communications sector – by 14.8%. Net taxes on products and imports also registered an increase by 10.8%, though by 10.9 percentage points inferior to that recorded it in 2005. These results were faded by the decline of 7.0% and of 4.1%, in industry and in the agricultural sector, respectively.

*GDP structure* followed the trend of the previous years: services sector held the prevailing share of 56.0%, agriculture scored 15.1% of GDP (versus 16.4% in 2005), industry – 14.4% (versus 15.8%), net taxes on products and imports – 16.8% (versus 16.0%) and financial intermediations services indirectly measured (FISIM) – minus 2.3%.

Services and net taxes displayed the highest contribution to the real GDP growth – by 4.2 and 1.7 percentage points, accordingly.

\*Based on data of the National Bureau of Statistics of the Republic of Moldova

Chart no. 2. Contribution to real GDP growth  
(in % to previous year)



Chart no. 3. Contribution to GDP by uses (%)

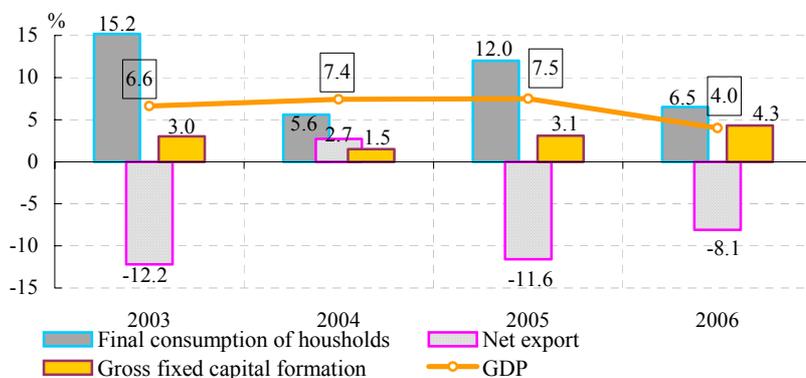
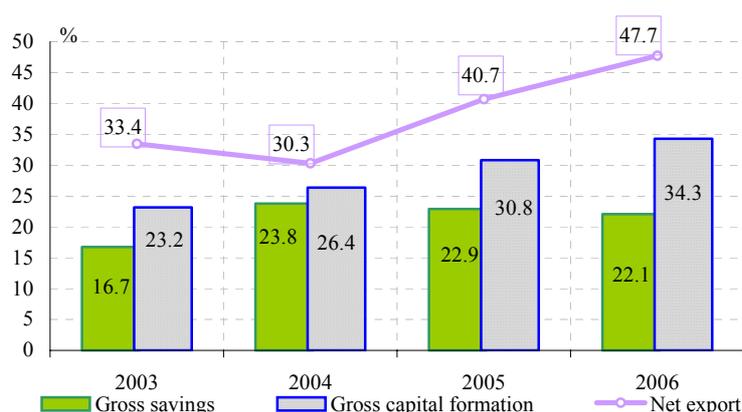


Chart no. 4. Dynamics of indicators (percent of GDP, %)



Industry and agriculture contributed with a negative value of 1.1 and 0.6 percentage points, respectively (chart no. 2).

Within the *GDP breakdown by uses*, the growth of the domestic aggregate demand by 8.6% posted an increase of final consumption by 6.7% (including of households – by 7.0%) and of gross capital formation by 15.1% (including gross fixed capital formation – by 17.4%). The dynamics of net exports of goods and

services reflected an increase by 10.3% of imports as compared to the increase by 2.8% of exports, which fact contributed to the real GDP growth by minus 8.1 percentage points (chart no. 3).

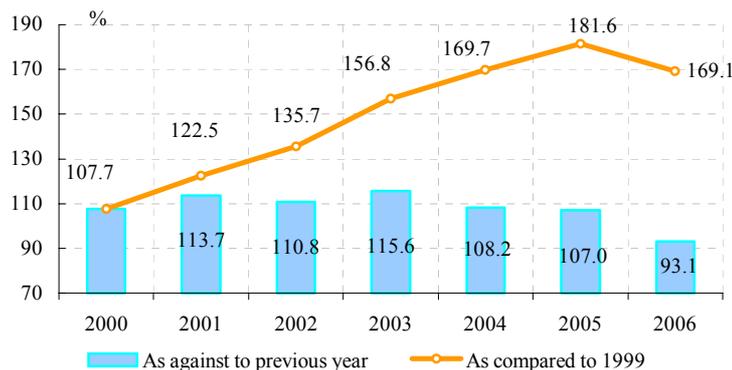
Within the *GDP structure by uses*, the weight of final consumption went up in 2006 by 3.5 percentage points as compared to 2005 and reached the level of 113.4%. At the same time, gross capital formation advanced to the level of 34.3% of GDP value (chart no. 4).

The investment rate, determined as ratio of gross capital formation to gross value added in the economy, constituted 33.6%, surpassing the indicators registered in the previous years (29.3% in 2005 and 24.7% in 2004).

*Industrial output* produced in 2006 by enterprises of all forms of ownership recorded a real reduction by 6.9% versus the previous year,

and accounted for 22243.2 million lei in current prices. Concomitantly, the volume of industrial output in 2006 enlarged by 69.1% as compared to 1999.

Chart no. 5. Industrial production real growth index



The volume of industrial output by large and medium-sized enterprises subject to monthly statistics recorded a diminution by 6.9% as compared to the previous year and equalled to 16759.6 million lei (chart no. 5). The dynamics of the industrial sector was mainly determined by the activity of the manufacturing industry enterprises, which registered a real decrease of the industrial output volume by 8.5%, contributing by 7.7 percentage points to the reduction of the

production volume in total industry. At the same time, the mining and quarrying industry registered a real increase by 22.5%, while the value of energy, heating, gas and water supply – by 5.5% as compared to the similar period of the previous year.

The labour productivity in the industrial sector in the period of January–December 2006 enlarged by 0.8% as compared to the

similar period of the previous year. It should be mentioned that out of enterprises subject to monthly statistics (684 enterprises), 52.6% reduced their industrial output value as against to previous year.

The analysis of the industrial output volume by forms of ownership revealed positive growth for enterprises with foreign capital – by 7.7% and for enterprises with mixed (public and private) capital – by 5.8%, which held 26.2% of total output volume. At the

same time, enterprises with other forms of ownership recorded reductions of the industrial output volume (chart no. 6).

Chart no. 6. Volume and growth rate of industrial production by forms of ownership

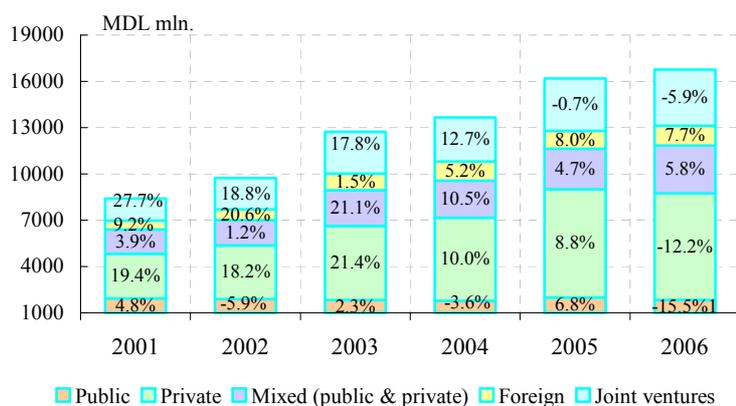
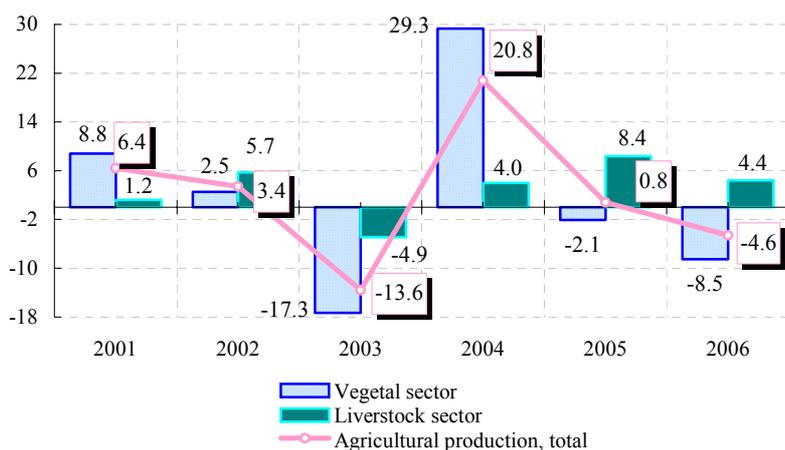


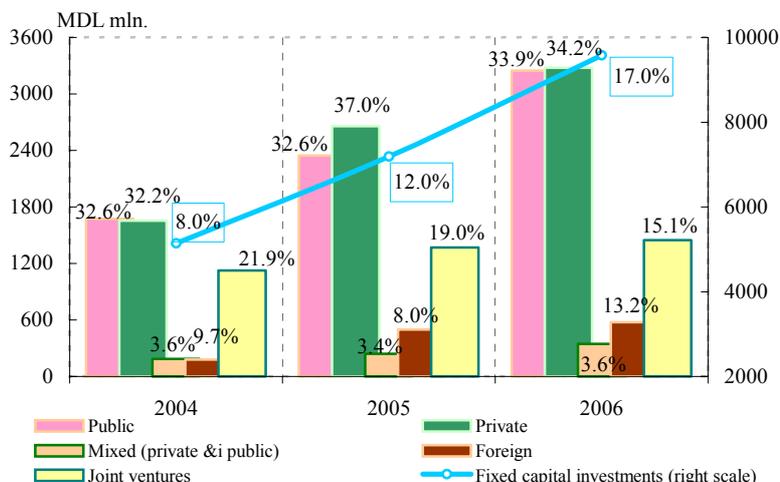
Chart no. 7. Agricultural production dynamics (versus the previous year,%)



**Agricultural output**, totalled in 2006, as by estimations, for 13695.0 million lei, decreasing in real terms by 4.6% as compared to the previous year as a result of the reduction of the vegetal production by 8.5%, while the livestock sector scored an increase of 4.4% versus the previous year (chart no. 7). Thus,

the vegetal production contributed by 6.0 percentage points to the decrease of total production, while the livestock sector had a positive impact (by 1.4 percentage points) on the global agricultural output volume.

Chart no. 8. Volume and structure of fixed capital investments by forms of ownership

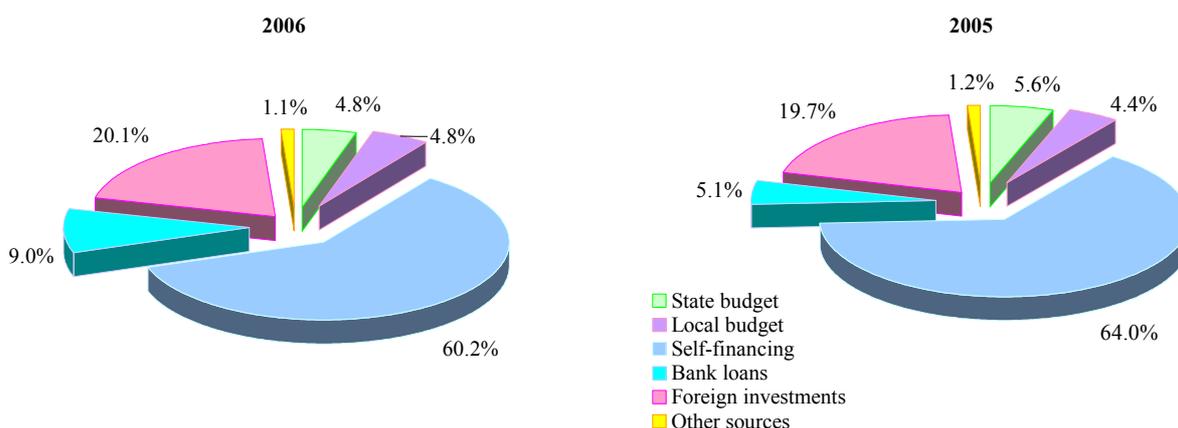


In 2006 *fixed capital investments* in economy were assigned in an amount of 9580.4 million lei, which represents 117.0% as compared to 2005 (chart no. 8). Concomitantly, the volume of constructions-assembly (51.3% of total investments) went up by 19.6% in comparable prices as compared to the level of the previous year.

Out of total investments, allocations for the public and private sectors hold the highest weights (34.2 and 33.9%, accordingly), increasing by 8.3 and 21.6%, respectively.

Most investments, like in the previous years, derived from own funds (including population funds) and accounted for 60.2%. Foreign investors' funds amounted to the weight of 20.1% of total fixed capital investments, while investments on account of state and local budgets equalled to 9.6% (chart no. 9).

Chart no. 9. Structure of fixed capital investments by sources of financing (%)



Fixed assets implemented in 2006 reached the value of 5504.5 million lei, of which 62.9% were made in public and private ownership.

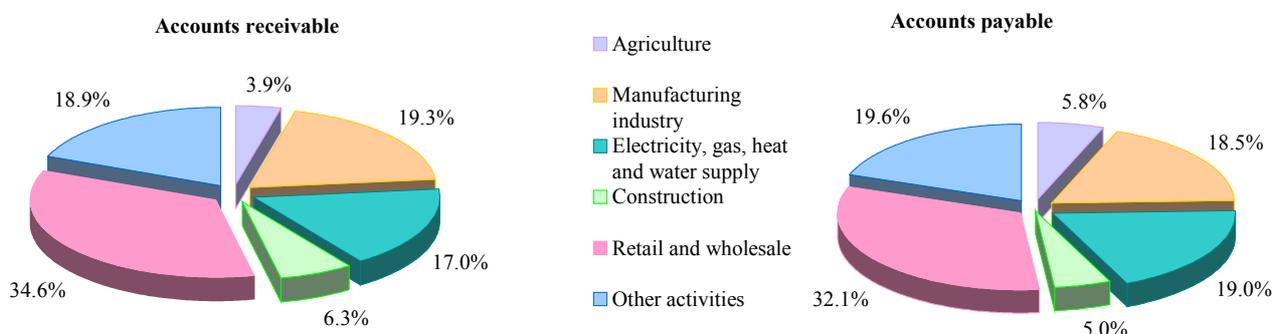
Within the fixed capital investments structure, most of investments (44.2% of total) were allocated to the acquisition of equipments, machinery and transport means. Construction of dwellings was

allotted 21.3% of fixed capital investments, which is by 6.9 percentage points superior to the level of 2005.

**Short-term accounts receivable** accounted as of September 30, 2006 for 30531.5 million lei, including those related to commercial invoices – 23686.3 million lei (77.6%). The stock of short-term accounts receivable advanced by 18.0% as compared to the end of 2005.

**Short-term accounts payable** of enterprises as of the same date totalled 54936.5 million lei, their stock expanded by 10.5% as compared to December 31, 2005. Short-term accounts receivable and payable of economic agents in breakdown by economic activities are shown in chart no. 10.

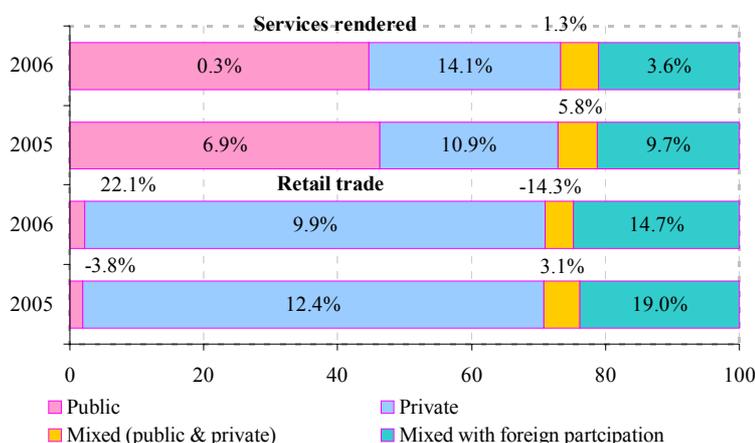
Chart no. 10. Short-term accounts receivable and payable by main economic activities as of 30.09.2006 (%)



The total value of **retail trade turnover** equalled to 23360.8 million lei, by 6.9% more in real terms as compared to the level of the previous year.

The volume of retail trade conducted in 2006 through commercial units in an amount of 13601.3 million lei was larger by 9.9% in real terms versus the previous year.

Chart no. 11. Structure and dynamics of retail trade and of rendered services, by forms of ownership (%)



The analysis of sales turnover by ownership structure revealed the reduction by 14.3% of the retail trade turnover only in commercial units with mixed (public and private) ownership (chart no. 11). Simultaneously, the largest share of sales was carried out through private commercial units (which is 68.8% of total), recording an increase of 9.9%. Commercial units with public and private ownership (with foreign capital participation) recorded sales turnover growth as well, by 22.1% and 14.7%, accordingly.

Goods traded in the local markets in 2006 accounted, according to estimations, to 9759.5 million lei, by 2.9% more as compared to the previous year.

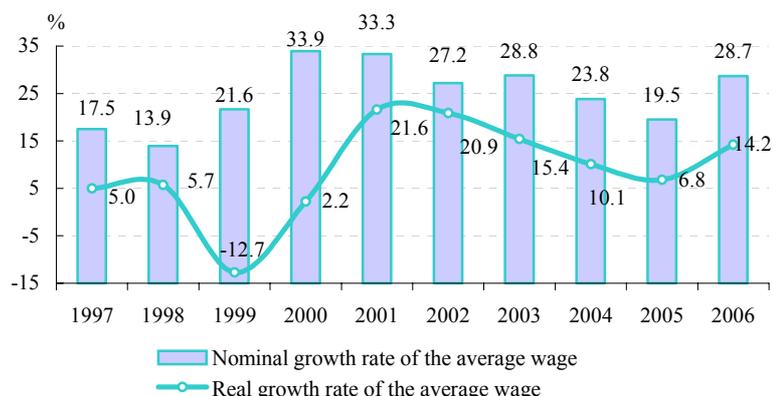
The value of *services rendered to the population* in 2006 reached the level of 9567.0 million lei, which is by 1.6% in comparable prices versus 2005.

Registered official units rendered paid services in an amount of 7994.8 million lei (83.6% of total value of paid services), and scored an increase of 4.7% as compared to the previous year. All forms of ownership recorded an increase of the volume of services; private units posted the highest growth (by 14.1%). At the same time, services rendered by public units represented 44.7% of total (chart no. 11).

During the analyzed period, individuals rendered services in an amount of 1572.2, or by 11.6% less as compared to the previous year.

*The number of employees in the economy\** (648.7 thousand employees) reduced as compared to 2005 by 14.2 thousand persons (by 2.1%). The agricultural sector faced the largest staff reduction (by 16.1%). Staff reductions were also observed in the transportation and communications sector (by 2.7%), in manufacturing industry (by 1.8%) and in energy, heating, gas and water supply (by 1.2%). Concomitantly, the number of employees in the majority of economic activities recorded increases, the highest of which were observed in mining and quarrying industry (by 10.0%) and in constructions (by 9.0%).

Chart no. 12. Evolution of the average annual wage



*The average monthly wage* of an employee of the national economy constituted during the reported period 1697.1 lei, increasing in real terms by 14.2% versus the previous year (chart no. 12). The wages fund equalled to 11660.2 million lei. Wage increases were noted over the year by all types of economic activities of the budgetary sector. The salary level was set in accordance with the provisions of Law no. 355-XVI of 23.12.2005 on wage system of the budgetary sector and of

the Decision of the Government of Republic of Moldova no. 19 of 04.01.2006 on the increase, starting with 01.12.05, by 40.0% of

\* For enterprises with 20 and more employees (5718 economic and social agents)

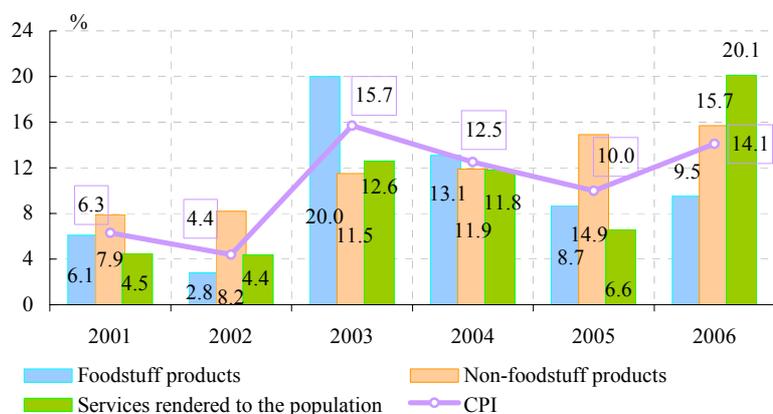
salaries by salary categories of teaching staff, including the leading functions from pre-university education establishments and, starting with 01.01.2006, by 30.0% of function salaries for military men, effective forces and corps of command of the national defence body, security and public order of the state.

Wage arrears amounted as of 31.12.2007 to 114.7 million lei, increasing by 18.7 million lei as compared to the end of 2005.

## Evolution of prices\*

*The inflation rate* in 2006 measured by consumer prices index

Chart no. 13. Dynamics of inflation level (at the year-end)



accounted for 14.1% as compared to 10.0% in 2005 and 12.5% in 2004 (chart no. 13). Prices increase in 2006 after a period of the inflation level reduction from the period of 2004-2005 was influenced by a series of factors, among which the most important were:

- the double increase by the Russian Federation of the price for gas supply to the Republic of Moldova, up to the level of USD 160 per 1000 cubic metres;

- prices growth for goods and services which are influenced by imports and energy factors;

- national currency depreciation in the first 8 months of 2006 by 3.8% against USD and by 12.2% against EUR.

It should be mentioned that the prices growth trend was recorded for all three groups of goods and services included in the consumer prices index calculation. Yet, for the first time starting from 2000, the inflation rate was more emphasized in relation with prices and tariffs for *services rendered to the population*, which advanced by 20.1% and contributed to a greater extent to the inflation rate in 2006, by 5.1 percentage points, or by 36.2% (table no. 2). Within this group, the most important prices increases were recorded for utilities – by 31.8% (including for natural gas supply – by 114.1% and for water supply and sewerage – by 19.6%), in public catering – by 20.0%, for public transportation – by 17.9%, for dwellings' reparation and maintenance – by 15.1%.

\*Based on data from the National Bureau of Statistics of the Republic of Moldova

Table no. 2. Components contribution to CPI (%)

	2005			2006		
	Price growth	Contribution	Contribution / CPI	Price growth	Contribution	Contribution / CPI
<b>CPI</b>	<b>10.0</b>	<b>10.0</b>	<b>100.0%</b>	<b>14.1</b>	<b>14.1</b>	<b>100.0%</b>
Foodstuff products	8.7	4.0	40.0	9.5	4.2	29.8
Non-foodstuff products	14.9	4.4	44.0	15.7	4.8	34.0
Services rendered to the population	6.6	1.6	16.0	20.1	5.1	36.2

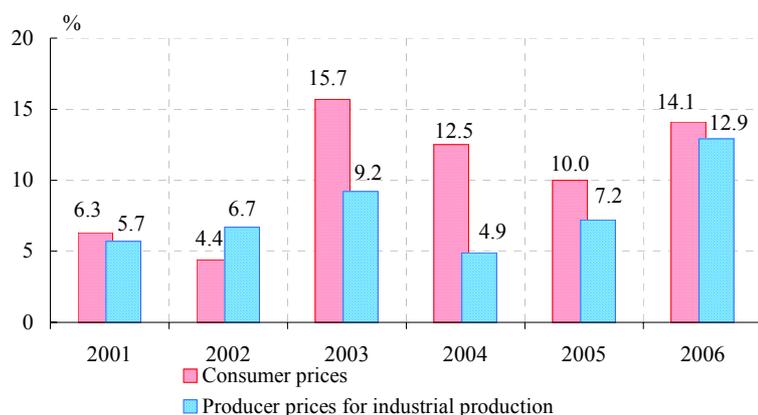
Source: NSB, NBM

Prices rise for *non-foodstuff products* constituted 15.7%, contributing, thus, by 4.8 percentage points, or by 34.0% to the annual inflation rate. In this context significant prices increases were highlighted for products, the price of which greatly depends upon the imports and energy factors, such as drugs – by 29.2%, fuel – by 28.7% and building materials – by 17.8%.

The increase by 9.5% of prices for *foodstuff products* generated 4.2 percentage points of the recorded inflation rate. The highest prices

increase with seasonal character was registered for fresh fruit – by 68.3%. At the same time, considerable prices increases were recorded for eggs – by 18.1%, for alcoholic beverages – by 16.2%, for rice – by 15.5%, for sugar – by 14.0%.

Chart no. 14. Annual dynamics of price level (%)



*Producer prices for industrial production* enlarged from the beginning of 2006 by 12.9%, and accounted for a 5.7-percentage points growth rate as compared to the previous year, mainly

on the account of the evolution of producer prices from the manufacturing industry and from the mining and quarrying industry (15.4 - and 18.6% - increase, respectively).

## Public Finance Sector\*

In 2006 the revenues of the *national public budget* were projected in an amount of 17539.2 million lei, while the expenditures in an amount of 18523.7 million lei.

The revenues to the national public budget totalled 17847.8 million lei, which is 101.8% of the projected amount and by 22.9% (3320.1 million lei) more as against to 2005. According to operative data,

\*Based on preliminary data of the Ministry of Finance of the Republic of Moldova

public budget expenditures amounted to 17973.9 million lei, which represented 97.0% as compared to yearly projections. The national public budget registered a deficit of 126.1 million lei.

*Tax collection* (84.6% of total revenues) constituted 15100.0 million lei and amounted to 101.6% of set projections.

*Non-fiscal* revenues equalled to 941.1 million lei, or 103.7% of the projected amount. Their weight in the total amount of national public budget revenues posted 5.3%. *Revenues from public institutions' special means* scored 1268.7 million lei, *special funds revenues* – 222.5 million lei and *grants* – 315.5 million lei.

Out of total volume of national public budget expenditures, 63.2% (11360.2 million lei) were used for social programs implementation, 15.1% (2721.1 million lei) – for the national economy sectors, 6.7% (1206.0 million lei) – for defence, public order maintenance and national security, 8.1% (1461.8 million lei) – for general state services.

**State budget** revenues in 2006 valued 11117.3 million lei (101.8% of provisions stipulated in the Law on the State Budget no. 291-XVI of 16.11.2005 and further completions), exceeding by 2089.3 million lei (23.1%) the volume of revenues collected in 2005. State budget expenditures accounted for 11019.3 million lei (97.7% of the yearly provisions), by 29.9% more as compared to the previous year.

The state budget was closed in 2006 with a surplus of 98.0 million lei versus the foreseen deficit in an amount of 357.6 million lei.

*Total state budget revenues* constituted 9569.9 million lei, surpassing the annual projections by 1.7%. *Total expenditures of the state budget* accounted for 9177.7 million lei, or 98.5% of the annual provisions. Thus, total components of the state budget were closed with a surplus of 392.2 million lei.

Revenues accumulated in 2006 for **budgets of territorial-administrative units** accounted for 4796.0 million lei, or 102.6% of the annual provisions. Expenditures constituted 95.5% of projections, and amounted to 5063.0 million lei. Overall, budgets of territorial-administrative units were closed with a deficit of 267.0 million lei.

**Domestic public debt** as of 31.12.2006 equalled to 3790.18 million lei. Within total domestic public debt, the debt to the National Bank of Moldova constituted 2492.24 million lei, including 2092.24 million lei – in form of loans and 400.0 million lei – in form of state securities. Banks' and other investors' portfolios held state securities in an amount of 1297.94 million lei.

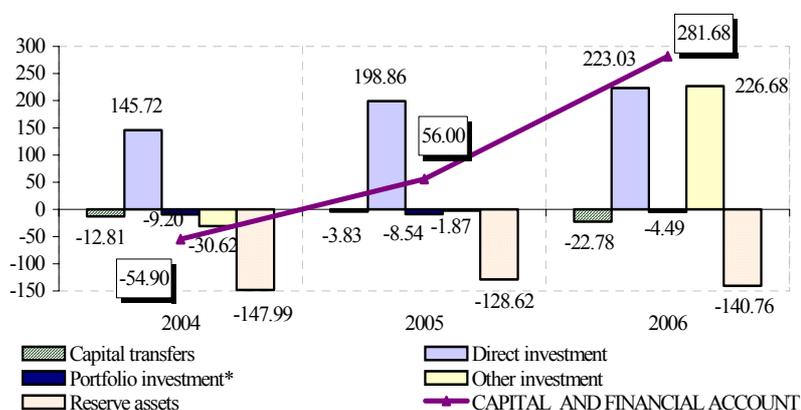
## Balance of payments\*

Table no.3. Balance of Payments of Moldova (main aggregates) (USD, million)

	2004	2005	2006
<b>CURRENT ACCOUNT</b>	<b>-57.56</b>	<b>-241.41</b>	<b>-398.96</b>
Goods and services	-780.56	-1,214.48	-1,596.89
Goods	-754.17	-1191.50	-1,590.90
exports (FOB)	994.07	1,104.58	1,053.48
imports (FOB), including:	-1,748.24	-2,296.08	-2,644.38
imports of energy resources (without electricity)	-308.57	-425.86	-544.89
Services	-26.39	-22.98	-5.99
exports	336.88	402.38	482.46
imports	-363.27	-425.36	-488.45
Income	356.64	403.45	399.57
receivable, out of which:	490.04	539.27	605.88
compensation of residents from labour abroad	480.00	520.00	573.00
payable, out of which:	-133.40	-135.82	-206.31
dividends and distributed branch profits	-3.93	-6.06	-54.77
reinvested income and undistributed branch profits	-38.07	-32.15	-43.27
interest on loans and on governmental debt securities	-47.14	-50.79	-54.34
Current transfers	366.36	569.62	798.36
inflow, out of which:	402.19	612.71	857.54
workers' remittances from abroad	221.37	395.08	602.82
outflow	-35.83	-43.09	-59.18
<b>CAPITAL AND FINANCIAL ACCOUNT</b>	<b>-54.90</b>	<b>56.00</b>	<b>281.68</b>
Capital transfers	-12.81	-3.83	-22.78
Direct investment	145.72	198.86	223.03
of which: in the national economy	148.94	198.70	222.29
equity capital and reinvested earnings	152.19	111.78	161.20
loans from parent companies	-3.25	86.92	61.09
Portfolio investment	-9.77	-6.95	-4.68
Assets*	-1.46	-1.19	-0.21
equity securities	-0.16		-0.21
debt securities	-1.30	-1.19	
Liabilities**	-8.31	-5.76	-4.47
equity securities	-0.81	0.60	1.89
debt securities	-7.50	-6.36	-6.36
Financial derivatives (net), - banks	0.57	-1.59	0.19
Other investment	-30.62	-1.87	226.68
Assets*	-31.64	-77.93	-31.72
currency and deposits abroad	-5.63	-52.50	-66.78
other short-term flows	-26.01	-25.43	35.06
Liabilities**	1.02	76.06	258.40
long-term loans***	2.19	-9.87	147.78
disbursed	154.62	159.53	360.05
reimbursed	-152.43	-169.40	-212.27
non-residents' deposits	14.73	12.64	53.32
arrears on external debt (including those related to rescheduling)	-45.69	13.69	22.55
other short-term flows	29.79	59.60	34.75
Reserve assets*	-147.99	-128.62	-140.76
Errors and omissions	112.46	185.41	117.28

\* (-) - increase (+) - decrease: \*\* (+) - increase (-) - decrease: \*\*\* - including rescheduled loans

Chart no.15. Main components of the current account (USD, million)



\* Provisional data

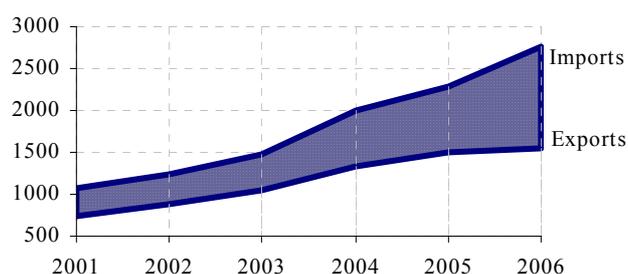
The evolution of the external sector of the national economy, reflected in the balance of payments aggregates (table no.3) was influenced by the following main events: the resumption of the external financing of the Republic of Moldova by international organizations, partial rescheduling of the governmental external debt with Paris Club, cessation of exports of wines and of other agricultural and foodstuff products to Russia, increase of prices for imports of energy resources, expansion of foreign investments in the banking sector, etc.

The current account of the balance of payments recorded a deficit of USD 399.0 million, by 65.3% more as compared to the previous year, its ratio to GDP reached the level of 11.9% (increasing by 3.8

percentage points). The current account impairment was determined by the increment of the trade balance deficit (chart no. 15). The summary surplus of income and current transfers covered 75.0% of the external trade with goods and services deficit.

The value of the external trade with goods and services increased by

Chart no. 16. Deficit of foreign trade with goods and services (USD, million)



10.4% as compared to the previous year: exports rose by 1.9%, imports by 15.1%. Imports coverage by exports amounted to 49.0% and reduced versus the previous year by 6.4 percentage points. The deficit of the external trade with goods and services posted USD 1596.9 million (chart no.16).

The difference between *exports and imports of*

Table no. 4. Dynamics of Foreign Trade with Goods

	Unit measure	2004	2005	2006
Exports of goods (EX)	USD, million	994.07	1104.58	1053.48
	% versus the previous year	123.5	111.1	95.4
Imports of goods (IM)	USD, million	-1748.24	-2296.08	-2644.38
	% versus the previous year	122.4	131.3	115.2
Trade balance (EX-IM)	USD, million	-754.17	-1191.50	-1590.90
	% versus the previous year precedent	121.1	158.0	133.5
Foreign trade with goods turnover(EX+IM)	USD, million	2742.31	3400.66	3697.86
	% versus the previous year	122.8	124.0	108.7
Exports/ GDP	%	38.3	37.0	31.4
Imports / GDP	%	-67.3	-76.8	-78.8
Trade balance / GDP	%	-29.0	-39.9	-47.4
Exports to imports ratio	%	56.9	48.1	39.8
Economy' openness degree (EX+IM) / GDP	%	105.5	113.8	110.2

*goods* increased to USD 1590.9 million (FOB prices), by 33.5% more as compared to that of the previous year. The ratio of the goods trade balance to GDP went up by 7.5 percentage points and reached 47.4% (table no. 4). It should be mentioned that trade deficit exceeded the exports with goods by USD 537.4 million.

Table no. 5. Trade Balance (FOB-CIF) with Goods by Groups of Countries

	2004	2005	2006	2006 versus 2005
	USD, million			%
<b>European Union 25</b>	<b>-279.15</b>	<b>-397.29</b>	<b>-450.24</b>	<b>113.3</b>
<b>European Union 15, of which:</b>	<b>-156.57</b>	<b>-264.90</b>	<b>-317.51</b>	<b>119.9</b>
Germany	-89.10	-126.21	-144.89	114.8
France	-25.92	-30.72	-40.11	130.6
Italy	26.87	8.80	-38.86	
Belgium	-11.15	-21.22	-22.87	107.8
Austria	-13.18	-23.90	-18.17	76.0
United Kingdom	4.72	-5.47	1.71	
<b>European Union 10, of which:</b>	<b>-122.58</b>	<b>-132.39</b>	<b>-132.73</b>	<b>100.3</b>
Poland	-43.81	-52.52	-46.39	88.3
Hungary	-18.28	-26.55	-27.50	103.6
Czech Republic	-14.79	-21.75	-24.58	113.0
Slovenia	-10.79	-12.90	-17.73	137.4
<b>Balkan Countries, of which:</b>	<b>-214.20</b>	<b>-346.39</b>	<b>-426.22</b>	<b>123.0</b>
Romania	-129.48	-250.65	-322.42	128.6
Turkey	-47.52	-56.76	-77.85	137.2
Bulgaria	-32.94	-34.22	-23.47	68.6
<b>CIS, of which:</b>	<b>-280.31</b>	<b>-381.50</b>	<b>-633.45</b>	<b>166.0</b>
Ukraine	-396.72	-434.28	-434.55	100.1
Russia	109.44	44.07	-226.81	
Belarus	-6.72	-13.56	-0.42	3.1
Kazakhstan	4.93	10.43	18.11	173.6
<b>Other countries, of which:</b>	<b>-9.75</b>	<b>-76.80</b>	<b>-131.65</b>	<b>171.4</b>
China	-12.93	-37.13	-66.34	178.7
Switzerland	-5.92	-9.68	-7.09	73.2
U.S.A.	24.96	8.96	-6.40	
<b>TOTAL</b>	<b>-783.41</b>	<b>-1200.98</b>	<b>-1641.56</b>	<b>136.7</b>

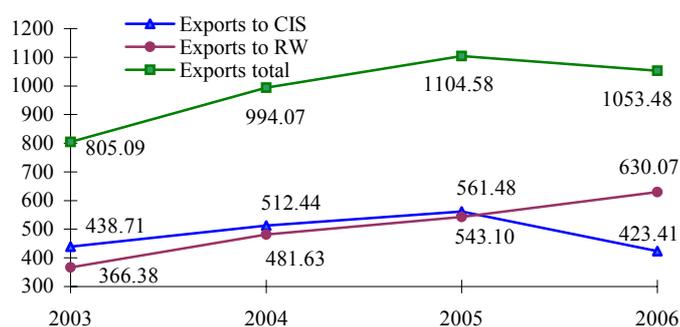
Source: NBS, selection on imports (CIF prices) by country of shipment, shuttle trade not included

The balances of foreign trade with goods registered deficits for all groups of countries (table no. 5), and scored for *European Union countries*: USD 450.2 million, for *Balkan countries*: USD 426.2 million, for *CIS countries*: USD 633.5 million.

*Exports of goods* registered in the balance of payments decreased as compared to the previous year by 4.6% and totalled USD 1053.5 million (chart no. 17), of which exports to CIS – USD 423.4 million (reduced by 24.6%), and to the rest of the world – USD 630.1 million (went up by 16.0%).

Pursuant to data submitted by NBS, exports were focused in the

Chart no. 17. Exports of goods, yearly dynamics  
(USD, million)



proportion of 80.9% to 11 countries – Russian Federation (17.3%), Romania (14.8%), Ukraine (12.2%), Italy (11.1%), Belarus (7.0%), Germany (4.9%), Poland (3.7%), Turkey (2.7%), United Kingdom (2.6%), Kazakhstan (2.3%) and France (2.3%) (table no. 6).

Exports to the Russian Federation equalled to USD 182.0 million, which is 47.6% less as against 2005. This reduction was caused by the embargo on wine products laid in

March 2006 (wines and vermouth supply in the market recorded a decrease by 76.5%), as well as by other commercial barriers (on meat and vegetable products).

Table no. 6. Exports with Goods by Groups of Countries

	2004	2005	2006	Structure		2006 versus 2005
				2005	2006	
	USD, million			%		
<b>European Union 25</b>	<b>296.18</b>	<b>324.09</b>	<b>367.99</b>	<b>29.7</b>	<b>35.0</b>	<b>113.5</b>
<b>European Union 15, of which:</b>	<b>264.24</b>	<b>251.18</b>	<b>269.09</b>	<b>23.0</b>	<b>25.6</b>	<b>107.1</b>
Italy	136.43	133.44	116.87	12.2	11.1	87.6
Germany	71.28	47.43	51.92	4.3	4.9	109.5
United Kingdom	10.02	11.14	27.34	1.0	2.6	2.5 times
France	11.31	16.49	23.85	1.5	2.3	144.6
Belgium	11.78	14.56	14.13	1.3	1.3	97.0
Austria	10.03	11.68	13.14	1.1	1.2	112.5
<b>European Union 10, of which:</b>	<b>31.94</b>	<b>72.91</b>	<b>98.90</b>	<b>6.7</b>	<b>9.4</b>	<b>135.6</b>
Poland	6.55	25.30	39.22	2.3	3.7	155.0
Slovak Republic	1.70	15.06	22.72	1.4	2.2	150.9
Hungary	14.47	14.74	14.63	1.4	1.4	99.3
<b>Balkan Countries, of which:</b>	<b>117.91</b>	<b>146.06</b>	<b>202.16</b>	<b>13.4</b>	<b>19.2</b>	<b>138.4</b>
Romania	98.92	111.66	155.56	10.2	14.8	139.3
Turkey	12.27	24.66	28.46	2.3	2.7	115.4
Bulgaria	5.49	7.63	14.11	0.7	1.3	184.9
<b>CIS, of which:</b>	<b>502.43</b>	<b>551.36</b>	<b>424.13</b>	<b>50.5</b>	<b>40.3</b>	<b>76.9</b>
Russia	353.33	347.48	182.01	31.8	17.3	52.4
Ukraine	64.76	99.91	128.79	9.2	12.2	128.9
Belarus	58.65	71.16	73.96	6.5	7.0	103.9
Kazakhstan	15.43	17.30	24.15	1.6	2.3	139.6
<b>Other countries, of which:</b>	<b>68.66</b>	<b>69.75</b>	<b>57.32</b>	<b>6.4</b>	<b>5.5</b>	<b>82.2</b>
U.S.A.	42.70	37.48	16.22	3.4	1.5	43.3
Switzerland	1.10	7.39	14.23	0.7	1.4	192.6
<b>TOTAL</b>	<b>985.18</b>	<b>1091.26</b>	<b>1051.60</b>	<b>100.0</b>	<b>100.0</b>	<b>96.4</b>

Source: NBS, shuttle trade not included

Exports to *Romania* went up by 39.3% versus 2005 and reached the level of USD 155.6 million, of which: foodstuff products, beverages and tobacco – USD 39.8 million (increased 3.3 times); textiles and textile articles – USD 20.4 million; fats and oils – USD 14.1 million.

Exports to *Ukraine* included goods in an amount of USD 128.8 million, by 28.9% more as compared to the previous year, out of which the supply of foodstuff products, beverages and

tobacco constituted USD 45.5 million (increased by 62.1%); vegetable products – USD 16.2 million; mineral products – USD 15.7 million.

Exports to *Italy* went down by 12.4% and amounted to USD 116.9 million. This reduction was determined by the decrease recorded for raw hides, tanned leather, furs and articles thereof – 4.7 times to the level of USD 11.6 million. At the same time, the supply of textiles

Table no. 7. Exports by Main Groups of Goods

	2004	2005	2006	Structure 2006	2006 versus 2005
	USD, million			%	
<b>TOTAL, of which:</b>	<b>985.18</b>	<b>1091.26</b>	<b>1051.60</b>	<b>100.0</b>	<b>96.4</b>
Live animals and animal products	20.16	17.21	16.23	1.5	94.3
Vegetable products	119.97	131.90	136.49	13.0	103.5
Animal or vegetable fats and oils	41.19	37.80	34.86	3.3	92.2
Prepared foodstuffs; beverages; tobacco	345.88	395.96	276.34	26.3	69.8
Mineral products	30.36	20.11	27.43	2.6	136.4
Products of the chemical industry	9.29	15.60	20.81	2.0	133.4
Plastics, rubber and articles thereof	8.32	11.83	16.00	1.5	135.2
Raw hides, tanned leather; furs and articles thereof	77.89	71.57	23.65	2.2	33.0
Wood and articles thereof (furniture not included)	3.58	2.29	3.98	0.5	173.8
Wood pulp, paper, paperboard and articles thereof	8.04	11.83	18.40	1.7	155.5
Textiles and textile articles	170.10	193.95	228.27	21.7	117.7
Footwear, headgear, umbrellas and the like	21.96	26.60	30.95	2.9	116.4
Articles of stone, plaster, cement; ceramic products, glass and glassware	17.16	18.73	32.58	3.1	173.9
Base metals and articles of base metals	29.89	48.74	75.84	7.2	155.6
Machinery and mechanical appliances; electrical equipment; image and sound recorders and reproducers	39.30	46.22	53.13	5.1	115.0
Vehicles, aircraft, and auxiliary transport equipment	22.81	15.30	16.29	1.5	106.5

Source: NBS, shuttle trade not included

and textile articles increased up to USD 83.0 million.

*The agricultural and foodstuffs products* represented the main category within the exports of goods with the weight of 44.1% of total, and equalled to USD 463.9 million (20.4% less as compared to the previous year) (table no. 7).

*Exports of alcoholic beverages* diminished by 40.6% as compared to the previous year due to the embargo laid by the Russian Federation (table no. 8). Concomitantly, exports of these products to other countries increased both in absolute value and weight.

Table no. 8. Exports of Alcoholic Beverages

	2005	2006	Structure		2006 versus 2005	Countries' contribution to the increase (+), the decrease (-) of alcoholic beverages exports
			2005	2006		
	USD, million		%		percentage points	
<b>TOTAL</b>	<b>314.25</b>	<b>186.51</b>	<b>100.0</b>	<b>100.0</b>	<b>59.4</b>	<b>-40.6</b>
Russia	234.94	58.78	74.8	31.5	25.0	-56.0
Ukraine	18.38	37.27	5.8	20.0	2.0 times	6.0
Belarus	36.56	37.00	11.6	19.8	101.2	0.1
Romania	1.58	24.29	0.5	13.0	15.4 times	7.2
Poland	2.39	4.09	0.8	2.2	171.1	0.6
Kazakhstan	7.46	9.69	2.4	5.2	129.9	0.7
Other countries	12.94	15.39	4.1	8.3	118.9	0.8

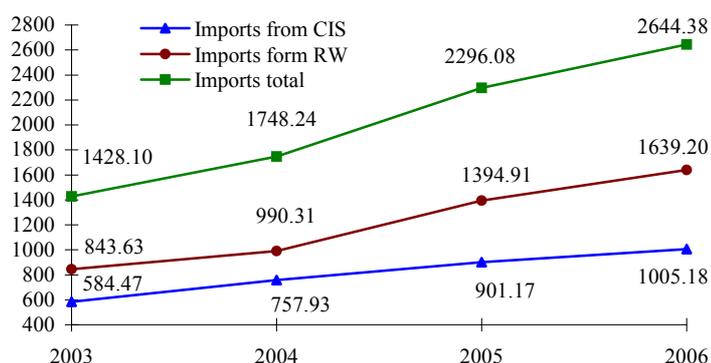
Source: NBS

*The textiles*, with the weight of 21.7% in exports, soared by 17.7% versus the previous year and totalled USD 228.3 million. *Base metals and articles thereof* held the weight of 7.2% of total, increasing by 55.6% up to USD 75.8 million.

*Imports of goods* registered in the balance of payments advanced versus the previous year by 15.2% and reached the value of USD

2644.4 million (FOB prices), imports from CIS countries totalled

Chart no. 18. Imports of goods, yearly dynamics (FOB prices)  
(USD, million)



USD 1005.2 million, increasing by 11.5%, from the rest of the world – USD 1639.2 million, increasing by 17.5% (chart no. 18).

According to NBS data, 76.8% of total imports of goods derived from 8 countries: Ukraine (20.9%), Romania (17.7%), Russian Federation (15.2%), Germany (7.3%), Italy (5.8%), Turkey (3.9%), Poland (3.2%) and Belarus (2.8%) (table no. 9).

Goods in an amount of USD 563.3

million (increasing by 5.5%) were purchased from *Ukraine*, of which: mineral products – USD 221.0 million (increasing by 15.7%); base metals and articles thereof – USD 86.7 million (29.3%-increase); foodstuff products, beverages, tobacco – USD 54.9 million (37.9%-increase).

Imports from *Romania* equalled to USD 478.0 million (by 31.9% more), of which

prevailed: mineral products – USD 196.5 million (43.4%-increase); machinery and appliances – USD 42.6 million (55.4%-increase); base metals and articles thereof – USD 39.5 million (increasing by 52.5%).

Imports from the *Russian Federation* advanced by 34.7% and totalled USD 408.8 million. This growth was due to the increase in imports of mineral products by 65.8% (up to USD 206.09 million). Within the mineral products, natural gas held the highest weight – 82.6%, in value terms – USD 170.2 million (75.2%-increase, due to

Table no. 9. Imports (CIF prices) of Goods by Groups of Countries

	2004	2005	2006	Structure		2006 versus 2005
				2005	2006	
				%		
	USD, million			%		
<b>European Union 25</b>	<b>575.33</b>	<b>721.38</b>	<b>818.23</b>	<b>31.5</b>	<b>30.4</b>	<b>113.4</b>
<b>European Union 15, of which:</b>	<b>420.81</b>	<b>516.08</b>	<b>586.60</b>	<b>22.5</b>	<b>21.8</b>	<b>113.7</b>
Germany	160.38	173.64	196.81	7.6	7.3	113.3
Italy	109.56	124.64	155.73	5.4	5.8	124.9
France	37.23	47.21	63.96	2.1	2.4	135.5
Belgium	22.93	35.78	37.00	1.6	1.4	103.4
Austria	23.21	35.58	31.31	1.6	1.2	88.0
United Kingdom	5.30	16.61	25.63	0.7	1.0	154.3
<b>European Union 10, of which:</b>	<b>154.52</b>	<b>205.30</b>	<b>231.63</b>	<b>9.0</b>	<b>8.6</b>	<b>112.8</b>
Poland	50.36	77.82	85.61	3.4	3.2	110.0
Hungary	32.75	41.29	42.13	1.8	1.6	102.0
Czech Republic	16.66	26.18	30.17	1.1	1.1	115.2
<b>Balkan Countries, of which:</b>	<b>332.11</b>	<b>492.45</b>	<b>628.38</b>	<b>21.5</b>	<b>23.3</b>	<b>127.6</b>
Romania	228.40	362.31	477.98	15.8	17.7	131.9
Turkey	59.79	81.42	106.31	3.6	3.9	130.6
Bulgaria	38.43	41.85	37.58	1.8	1.4	89.8
<b>CIS, of which:</b>	<b>782.74</b>	<b>932.86</b>	<b>1057.58</b>	<b>40.7</b>	<b>39.3</b>	<b>113.4</b>
Ukraine	461.48	534.19	563.34	23.3	20.9	105.5
Russia	243.89	303.41	408.82*	13.2	15.2	134.7
Belarus	65.37	84.72	74.38	3.7	2.8	87.8
<b>Other countries, of which:</b>	<b>78.41</b>	<b>145.55</b>	<b>188.97</b>	<b>6.3</b>	<b>7.0</b>	<b>129.8</b>
China	13.02	37.75	66.71	1.6	2.5	176.7
U.S.A.	17.74	28.52	22.62	1.2	0.8	79.3
<b>TOTAL</b>	<b>1768.59</b>	<b>2292.24</b>	<b>2693.16</b>	<b>100.0</b>	<b>100.0</b>	<b>117.5</b>

Source: NBS (shuttle trade not included), selections on imports by country of shipment

\* including Moldovan wines return

prices increase: from USD 80 up to USD 110 / 1000 m<sup>3</sup> – in the first semester and afterwards up to USD 160 / 1000 m<sup>3</sup> – in the second semester), the physical volume of imported gas was kept unchanged.

Within the structure of imports, mineral products prevailed (24.6% of total), and totalled USD 663.7 million, of which: *petroleum or mineral oil* – USD 338.1 million, increasing by 13.1%; *gas and other gaseous hydrocarbons* – USD 218.1 million, increased by 62.7%; *electric energy* – USD 73.1 million, increased by 91.4% (table no. 10).

Table no. 10. Imports of Goods, by Main Sections (CIF prices)

	2004	2005	2006	Structure 2006	2006 versus 2005
	USD, million			%	
<b>TOTAL, of which:</b>	<b>1768.52</b>	<b>2292.24</b>	<b>2693.16</b>	<b>100.0</b>	<b>117.5</b>
Live animals; animal products	38.78	57.19	51.92	1.9	90.8
Vegetable products	73.54	65.02	72.76	2.7	111.9
Foodstuff products; alcoholic and soft beverages; tobacco	105.25	147.47	179.80*	6.7	121.9
Mineral products	384.87	504.66	663.73	24.6	131.5
Products of the chemical industry	161.81	232.29	223.26	8.3	96.1
Plastics, rubber and articles thereof	101.10	139.74	168.54	6.3	120.6
Raw hides, tanned leather; furs and articles thereof	72.52	69.57	22.80	0.8	32.8
Wood and wood articles (furniture not included)	33.98	43.62	52.08	1.9	119.4
Wood pulp, paper, paperboard and articles thereof	63.42	82.25	75.52	2.8	91.8
Textiles and articles thereof	150.56	179.86	206.54	7.7	114.8
Articles of stone, plaster, cement; ceramic products, glass and glassware	64.37	67.28	79.93	3.0	118.8
Base metals and articles thereof	111.90	160.59	219.42	8.1	136.6
Machinery and appliances; electrical equipment; image and sound recorders and reproducers	239.71	312.99	379.77	14.1	121.3
Vehicles, aircraft and auxiliary transport equipment	95.95	130.32	162.39	6.0	124.6
Optical, photographic, cinematographic, medical and surgical instruments and apparatuses; clocks and watches; musical instruments; parts and accessories thereof	20.88	26.98	33.49	1.2	124.1

Source: NBS (shuttle trade not included), selections on imports by country of shipment

\* including Moldovan wines return

The balance of services recorded a deficit of USD 6.0 million, which lessened 3.8 times as compared to the previous year. The value of foreign trade with services went up by 17.3%, of which: services rendered to CIS countries advanced by 28.7%, to the rest of the world – by 16.4%; services imports from CIS countries enlarged by 20.0%, from the rest of the world – by 13.0%.

Table no. 11. Balance of Services

	2004	2005	2006	2006 versus 2005
	USD, million			%
<b>Balance of services</b>	<b>-26.39</b>	<b>-22.98</b>	<b>-5.99</b>	<b>26.1</b>
Exports	336.88	402.38	482.46	119.9
Imports	-363.27	-425.36	-488.45	114.8
Transportation	26.60	22.47	53.16	2.4 times
Exports	142.64	169.55	223.32	131.7
Imports	-116.04	-147.08	-170.16	115.7
Travel	-27.39	-40.28	-80.27	199.3
Exports	96.00	106.62	113.72	106.7
Imports	-123.39	-146.90	-193.99	132.1
Communications	26.53	32.09	35.39	110.3
Exports	45.34	59.37	63.29	106.6
Imports	-18.81	-27.28	-27.90	102.3
Other services	-52.13	-37.26	-14.27	38.3
Exports	52.90	66.84	82.13	122.9
Imports	-105.03	-104.10	-96.40	92.6

Rendering of services abroad advanced by 19.9% up to USD 482.5 million, due to the impact of increases in transportation – by USD 53.8 million, travel – by USD 7.1 million. The growth of services imports by 14.8% to the level of USD 488.5 million was determined by

the increases in travel – by USD 47.1 million and in transportation – by USD 23.1 million (table no. 11).

The income balance recorded in 2006 a surplus of USD 399.6 million (table no.12).

Table no. 12. Income Balance

	2004	2005	2006	2006 versus 2005
	USD, million			%
<b>Income balance</b>	<b>356.64</b>	<b>403.45</b>	<b>399.57</b>	<b>99.0</b>
Credit	490.04	539.27	605.88	112.4
Debit	-133.40	-135.82	-206.31	151.9
<b>Compensation of employees</b>	<b>438.94</b>	<b>476.83</b>	<b>522.60</b>	<b>109.6</b>
Credit	480.00	520.00	573.00	110.2
Debit	-41.06	-43.17	-50.40	116.7
<b>Investment income</b>	<b>-82.30</b>	<b>-73.38</b>	<b>-123.03</b>	<b>167.7</b>
Credit	10.04	19.27	32.88	170.6
Debit	-92.34	-92.65	-155.91	168.3
<i>Income on direct investment, of which:</i>	<i>-49.75</i>	<i>-50.32</i>	<i>-109.41</i>	<i>2.2 times</i>
Dividends and distributed branch profits	-3.93	-6.06	-54.77	9.0 times
Reinvested earnings and undistributed branch profits	-38.07	-32.15	-43.27	134.6
Interest	-7.75	-12.11	-11.37	93.9
<i>Income on portfolio investment</i>	<i>0.12</i>	<i>2.68</i>	<i>8.35</i>	<i>3.1 times</i>
Credit	2.37	5.12	10.87	2.1 times
Debit	-2.25	-2.44	-2.58	105.7
<i>Income on other investment</i>	<i>-32.67</i>	<i>-25.74</i>	<i>-21.97</i>	<i>85.4</i>
Credit	7.67	14.15	22.01	155.5
Debit	-40.34	-39.89	-43.92	110.1

Income inflow totalled USD 605.9 million, by 12.4% more as compared to the previous year, income outflow equalled to USD 206.3 million, increasing by 51.9%.

The compensation of Moldovan employees engaged in work abroad was estimated at USD

573.0 million, representing a 94.6% of total income inflow.

The highest weight within income outflow was held by the income on direct investments – 53.0%, which doubled in value terms as compared to the previous year.

The main payments were scheduled for the interest service on government debt securities – USD 2.3 million and on loans: IMF loans – USD 2.6 million, governmental loans – USD 23.5 million, banks' loans – USD 2.9 million and on other sectors' loans – USD 23.1 million (including the interest due on loans extended by

affiliated companies – USD 11.3 million).

Current transfers account registered a surplus of USD 798.4 million (table no. 13). Transfers inflows went up by 40.0% versus the previous year, while outflows – by 37.3%.

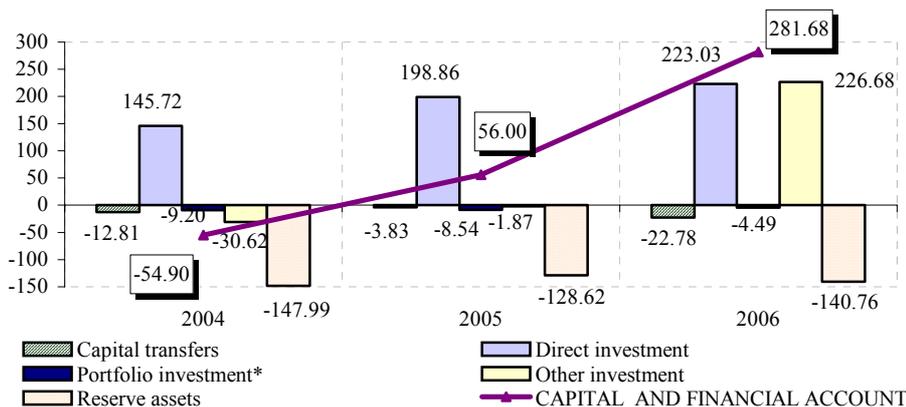
Table no. 13. Current Transfers

	2004	2005	2006	2006 versus 2005
	USD, million			%
<b>Balance of current transfers</b>	<b>366.36</b>	<b>569.62</b>	<b>798.36</b>	<b>140.2</b>
Credit	402.19	612.71	857.54	140.0
Debit	-35.83	-43.09	-59.18	137.3
Grants and technical assistance	115.39	132.20	153.38	116.0
Credit	117.67	133.27	154.85	116.2
Debit	-1.21	-0.79	-1.47	186.1
Education and professional training	9.72	10.94	6.86	62.7
Credit	10.34	11.48	7.10	61.8
Debit	-0.62	-0.54	-0.24	44.4
Humanitarian aid	17.64	9.84	10.50	106.7
Credit	17.67	9.99	10.50	105.1
Debit	-0.03	-0.15		
Fees to international organizations	-4.71	-4.68	-5.85	125.0
Credit			0.05	
Debit	-4.71	-4.68	-5.90	126.1
Workers' remittances	220.60	391.98	596.36	152.1
Credit	221.37	395.08	602.82	152.6
Debit	-0.77	-3.10	-6.46	2.1
Other current transfers	6.65	29.06	37.11	126.5
Credit	35.14	62.89	82.22	130.7
Debit	-28.49	-33.83	-45.11	134.5

The value of grants and technical assistance extended to Moldova in 2006 by international organizations and foreign governments was evaluated at USD 154.9 million. Humanitarian aid inflows registered by customs statistics constituted USD 10.5 million. The fees paid by Moldova to international organizations amounted to USD 5.9 million.

Workers' remittances from abroad held the highest weight (70.3%) in the total current transfers inflows and were estimated at USD 602.8 million.

Chart no. 19. Main components of capital and financial account (USD, million)



\*including financial derivatives

Capital and financial account of the balance of payments registered net inflow of USD 281.7 million (chart no. 19).

Capital transfers recorded net outflow in an amount of USD 22.8 million, due to emigration reasons.

Foreign direct investment in the national economy carried out over the year of 2006 were evaluated according to provisional data to USD 358.8 million, of which equity capital – USD 126.3 million. The reinvested earnings by non-residents amounted to USD 43.3 million (table no. 14).

Table no. 14. Direct Investment (USD, million)

	2004			2005			2006		
	inflow	outflow	net	inflow	outflow	net	inflow	outflow	net
<b>Direct investment</b>	<b>241.08</b>	<b>95.36</b>	<b>145.72</b>	<b>268.12</b>	<b>69.26</b>	<b>198.86</b>	<b>367.26</b>	<b>144.23</b>	<b>223.03</b>
Abroad	1.81	5.03	-3.22	1.60	1.44	0.16	8.51	7.77	0.74
In the national economy	239.27	90.33	148.94	266.52	67.82	198.70	358.75	136.46	222.29
Equity capital	126.45	12.33	114.12	98.81	19.18	79.63	126.29	8.36	117.93
banking sector	6.31	1.22	5.09	2.22	4.42	-2.20	33.18		33.18
other sectors	120.14	11.11	109.03	96.59	14.76	81.83	93.11	8.36	84.75
reinvested earnings	38.07		38.07	32.15		32.15	43.27		43.27
banking sector	6.80		6.80	8.45		8.45	7.38		7.38
other sectors	31.27		31.27	23.70		23.70	35.89		35.89
other capital (other sectors)	74.75	78.00	-3.25	135.56	48.64	86.92	189.19	128.10	61.09
<b>Structure by sectors of direct investment flows in the national economy (%)</b>									
banking sector	5.5	1.4	8.0	4.0	6.5	3.1	11.3		18.2
other sectors	94.5	98.6	92.0	96.0	93.5	96.9	88.7	100.0	81.8

Drawings on new loans from non-resident parent companies (other capital) constituted USD 189.2 million, increasing by 39.6%. There were scheduled reimbursements in an amount of USD 128.1 million, out of which USD 113.6 million were actually paid.

The stock of direct investment accumulated in the national economy till the end of 2006 was evaluated at USD 1284.3 million, of which:

equity capital and reinvested earnings – USD 951.0 million, other capital – USD 333.3 million. Foreign direct investment per capita amounted to USD 359.0.

*Portfolio investment flows* were insignificant and the net outflow of USD 4.7 million were determined by the principal payments due on Eurobonds (USD 6.4 million).

*Other investment* recorded net capital inflow of USD 226.7 million, the external assets increased by USD 31.7 million, while the liabilities to non-residents – by USD 258.4 million.

In 2006 the Republic of Moldova was granted external financing from international financial organizations. The National Bank of

Moldova disbursed the first two tranches in an amount of USD 65.2 million, of the IMF new financing program, and reimbursed USD 24.1 million on loans contracted previously (table no. 15).

The Government borrowed from abroad USD 31.2

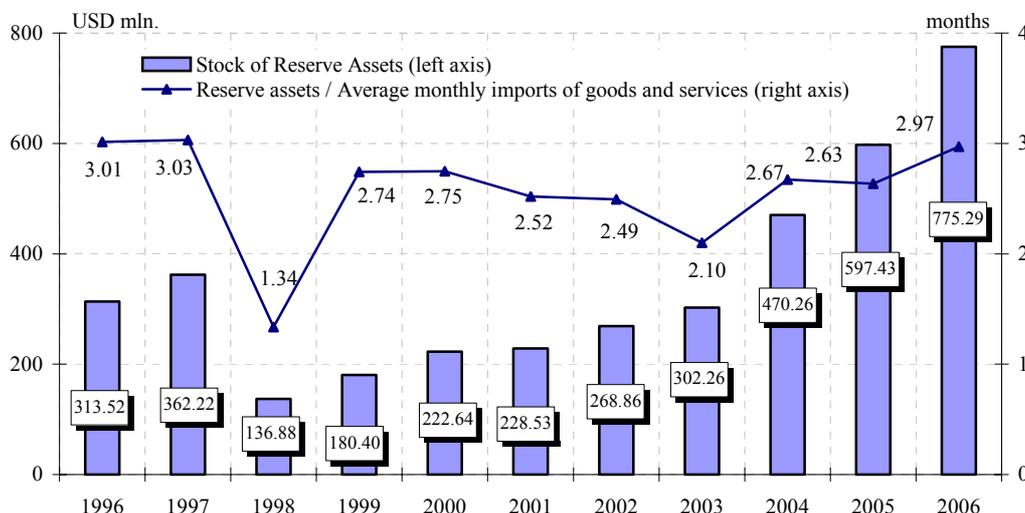
million, scheduling USD 61.1 million for reimbursement out of which, USD 14.5 million were rescheduled, and USD 41.7 million were reimbursed. Following the negotiations with the Paris Club, the Government of the Republic of Moldova obtained in May 2006 the rescheduling of a part of the bilateral external debts.

The economic agents of other sectors received external loans in an amount of USD 163.9 million. According to the schedule, there were USD 115.8 million were due to reimbursement, out of which USD 83.9 million were paid, while the unpaid amounts (arrears)

Table no. 15. External Loans (USD, million)

	2004		2005		2006	
	disbursed	reimbursed	disbursed	reimbursed	disbursed	reimbursed
<b>Monetary authorities loans (NBM from IMF)</b>		21.61		21.62	65.15	24.10
<b>Governmental loans</b>	40.41	59.46	25.91	40.70	118.87	61.08
of which: rescheduled	17.73	15.42			87.71	14.45
<b>Banking loans</b>	23.39	21.13	15.57	14.29	24.22	16.73
long-term	20.39	12.03	15.57	12.29	24.22	16.73
short-term	3.00	9.10		2.00		
<b>Other sectors' loans</b>	94.39	60.62	126.82	102.06	163.88	115.81
long-term	93.82	59.33	118.05	94.79	151.81	110.36
of which: rescheduled			2.51	10.50		
short-term	0.57	1.29	8.77	7.27	12.07	5.45
<b>TOTAL</b>	<b>158.19</b>	<b>162.82</b>	<b>168.30</b>	<b>178.67</b>	<b>372.12</b>	<b>217.72</b>
<b>TOTAL except for rescheduled</b>	<b>140.46</b>	<b>147.40</b>	<b>165.79</b>	<b>168.17</b>	<b>284.41</b>	<b>203.27</b>

Chart no. 20. Reserve assets of the Republic of Moldova



were registered under other liabilities.

*Arrears* accrued over the year of 2006 amounted for USD 22.6 million in net value, of which: the governmental arrears diminished by USD 60.9 million (as a result of rescheduling), while those of the economic agents of other sectors increased by USD 83.5 million.

At the end of 2006 the *official reserve assets* equalled to USD 775.3 million, sufficient to cover the current imports of goods and services for the period of 3 months (chart no. 20).

## External debt of the Republic of Moldova

Table no. 16. External debt of Moldova, by sectors (USD, million)

	31.12.2004*	31.12.2005*	31.12.2006
<b>Governmental</b>	<b>699.78</b>	<b>657.96</b>	<b>718.62</b>
<i>Short-term</i>	<i>20.86</i>	<i>36.30</i>	<i>0.13</i>
Other debt liabilities	20.86	36.30	0.13
Arrears	20.86	36.30	0.13
<i>Long-term</i>	<i>678.92</i>	<i>621.66</i>	<i>718.49</i>
Bonds and notes	31.76	25.40	19.05
Loans	647.16	596.26	699.44
<b>Monetary authorities</b>	<b>125.94</b>	<b>95.44</b>	<b>140.96</b>
<i>Long-term</i>	<i>125.94</i>	<i>95.44</i>	<i>140.96</i>
Loans	125.94	95.44	140.96
<b>Banks</b>	<b>74.36</b>	<b>86.67</b>	<b>150.85</b>
<i>Short-term</i>	<i>41.55</i>	<i>50.95</i>	<i>106.78</i>
Loans	2.00		
Currency and deposits	39.55	50.95	106.78
<i>Long-term</i>	<i>32.81</i>	<i>35.72</i>	<i>44.07</i>
Loans	32.81	35.72	44.07
<b>Other sectors</b>	<b>790.97</b>	<b>956.71</b>	<b>1105.59</b>
<i>Short-term</i>	<i>540.64</i>	<i>685.75</i>	<i>789.83</i>
Loans	0.12	1.27	7.93
Trade credits	175.02	318.81	347.72
Other debt liabilities	365.50	365.67	434.18
Arrears	52.22	54.24	89.95
Other	313.28	311.43	344.23
of which debt for energy resources	287.06	288.58	319.74
<i>Long-term</i>	<i>250.33</i>	<i>270.96</i>	<i>315.76</i>
Loans	250.33	270.96	315.76
<b>Direct Investment: Intercompany lending</b>	<b>206.80</b>	<b>283.70</b>	<b>366.05</b>
Debt liabilities to direct investors	206.80	283.70	366.05
Arrears	20.68	16.19	32.77
Other	186.12	267.51	333.28
<b>TOTAL</b>	<b>1897.85</b>	<b>2080.48</b>	<b>2482.07</b>

\*revised data

The gross external debt at the end of 2006 constituted USD 2482.1 million, of which short-term liabilities amounted to 37.4% (table no. 16).

Within the sectorial structure of the external debt, other sectors held the highest weight in total – 44.5%.

In May 2006 the Paris Club decided upon the rescheduling of the bilateral external governmental debt with the subsequent specification of conditions with each creditor. Thus, the stock of public and publicly guaranteed debt amounted to USD 876.7 million at the end of 2006 (table no. 17).

The external private non-guaranteed debt constituted USD 1605.3

Table no. 17. External Public and Publicly Guaranteed Debt, and Non-guaranteed Private Sector Debt (USD, million)

	31.12.2004	31.12.2005	31.12.2006
<b>Public and publicly guaranteed debt</b>	<b>880.11</b>	<b>774.09</b>	<b>876.73</b>
<i>Short-term</i>	<i>30.48</i>	<i>36.30</i>	<i>0.13</i>
Other debt liabilities*	30.48	36.30	0.13
Arrears (on principal and interest)	30.48	36.30	0.13
<i>Long-term</i>	<i>841.53</i>	<i>737.79</i>	<i>876.60</i>
Bonds and notes	31.76	25.40	19.05
Loans	809.77	712.39	857.55
<b>Direct investment: Intercompany lending</b>	<b>8.10</b>		
Debt liabilities to direct investors*	8.10		
Arrears	8.10		
<b>Non-guaranteed private debt</b>	<b>1017.74</b>	<b>1306.39</b>	<b>1605.34</b>
<i>Short-term</i>	<i>572.57</i>	<i>736.70</i>	<i>896.61</i>
Loans	2.12	1.27	7.93
Currency and deposits	39.55	50.95	106.78
Trade credits	175.02	318.81	347.72
Other debt liabilities*	355.88	365.67	434.18
Arrears (on principal and interest)	42.60	54.24	89.95
Other	313.28	311.43	344.23
<i>Long-term</i>	<i>246.47</i>	<i>285.99</i>	<i>342.68</i>
Loans	246.47	285.99	342.68
<b>Direct investment: Intercompany lending</b>	<b>198.70</b>	<b>283.70</b>	<b>366.05</b>
Debt liabilities to direct investors	198.70	283.70	366.05
of which arrears*	12.58	16.19	32.77
<b>Total</b>	<b>1897.85</b>	<b>2080.48</b>	<b>2482.07</b>

\* corresponds to other liabilities in the net international investment position

Table no. 18. External Loans and Debt Securities by Creditor\* (USD, million)

	31.12.2004	31.12.2005	31.12.2006
<b>Monetary authorities</b>	<b>125.94</b>	<b>95.44</b>	<b>140.96</b>
IMF	125.94	95.44	140.96
<b>Direct governmental debt</b>	<b>671.58</b>	<b>634.26</b>	<b>698.80</b>
<b>Multilateral creditors</b>	<b>413.26</b>	<b>387.79</b>	<b>412.66</b>
IBRD, IDA	385.76	370.60	393.39
EBRD	6.35	5.37	4.39
EU	13.61	3.55	
IFAD	7.54	8.27	12.25
CEB			2.63
<b>Bilateral creditors</b>	<b>226.56</b>	<b>221.07</b>	<b>267.09</b>
USA	58.10	58.10	56.99
Japan	27.31	24.06	22.26
Russia	98.30	98.30	137.30
Other	42.85	40.61	50.54
<i>Debt securities</i>	<i>31.76</i>	<i>25.40</i>	<i>19.05</i>
<b>Private debt guaranteed by the government**</b>	<b>82.59</b>	<b>44.39</b>	<b>36.97</b>
<i>Multilateral creditors</i>	<i>54.69</i>	<i>20.88</i>	<i>17.29</i>
EBRD	54.69	20.88	17.29
<i>Other creditors</i>	<i>27.90</i>	<i>23.51</i>	<i>19.68</i>
<b>Private debt non-guaranteed by the government</b>	<b>489.89</b>	<b>625.20</b>	<b>806.61</b>
<i>Multilateral creditors</i>	<i>91.18</i>	<i>82.03</i>	<i>75.48</i>
<i>Other creditors</i>	<i>398.71</i>	<i>543.17</i>	<i>731.13</i>
<b>Total</b>	<b>1370.00</b>	<b>1399.29</b>	<b>1683.34</b>

\* including arrears on principal and on interest

\*\* loans under the government's guarantee, serviced by debtor and by the government

million, increasing by 22.9% from the end of 2005, mainly due to the disbursements of new loans from affiliated companies, as well as of arrears accrued thereto, by postponing payments.

Public debt held 49.9% of liabilities in the form of loans and debt securities followed by private non-guaranteed debt (47.9%) and publicly guaranteed debt (2.2%).

The international organizations remained the main creditors of the Republic of Moldova (table no. 18).

During 2006 the National Bank of Moldova received from IMF USD 65.2 million, and reimbursed USD 24.1 million, increasing, thus, its liabilities by USD 45.5 million (table no. 19).

The governmental sector benefited from USD 31.2 million within previously contracted loans. Principal payments on loans and securities as scheduled equalled to USD 64.5 million, of which USD 47.3 million were paid, while the rest of the amount was rescheduled pursuant to the of the Paris Club agreements.

The stock of publicly guaranteed private external debt decreased at the end of 2006 by 16.7% as compared to

the end of 2005. No new loans under the government's guarantee were contracted. According to the conditions accepted by Paris Club,

USD 4.7 million were reclassified to the direct government debt. Real principal payments amounted to USD 4.6 million.

Table no. 19. External Loans and Debt Securities – additional data\* (USD, million)

	Stock as of 31.12. 2005	Drawings **	Principal payments	Interest arrears (net)	Other adjustments	Exchange rate changes	Stock as of 31.12. 2006
<b>Loans from IMF</b>	<b>95.44</b>	<b>65.15</b>	<b>-24.10</b>			<b>4.47</b>	<b>140.96</b>
<b>Direct governmental debt</b>	<b>634.26</b>	<b>31.16</b>	<b>-47.27</b>		<b>62.86</b>	<b>17.79</b>	<b>698.80</b>
<i>Multilateral creditors</i>	387.79	28.45	-18.72			15.14	412.66
<i>Bilateral creditors</i>	221.07	2.71	-22.20		62.86	2.65	267.09
<i>Long-term governmental bonds</i>	25.40		-6.35				19.05
<b>Private debt guaranteed by the government</b>	<b>44.39</b>		<b>-4.59</b>		<b>-5.13</b>	<b>2.30</b>	<b>36.97</b>
<i>Multilateral creditors</i>	20.88		-3.77			0.18	17.29
<i>Other creditors</i>	23.51		-0.82		-5.13	2.12	19.68
<b>Private debt non-guaranteed by the government</b>	<b>625.20</b>	<b>377.29</b>	<b>-210.44</b>	<b>5.81</b>		<b>8.75</b>	<b>806.61</b>
<i>Multilateral creditors</i>	82.03	14.63	-22.54	0.31		1.05	75.48
<i>Other creditors</i>	543.17	362.66	-187.90	5.50		7.70	731.13
<b>Total</b>	<b>1399.29</b>	<b>473.60</b>	<b>-286.40</b>	<b>5.81</b>	<b>57.73</b>	<b>33.31</b>	<b>1683.34</b>

\*including arrears on principal and on interest

\*\*except reclassified and rescheduled amounts

The private sector benefited from new external loans in an amount of USD 377.3 million, of which USD 24.2 million were contracted by commercial banks, while the rest – by the economic agents of other sectors. The real principal payments on private external loans constituted USD 210.4 million.

The dynamics of indicators revealing the indebtedness degree of Moldova is shown in table no. 20.

Table no. 20. Indicators of External Indebtedness of Moldova

	Unit measure	2004	2005	2006
External debt at the end of the year	USD, mln.	1897.85	2080.48	2482.07
Exports of goods and services	USD, mln.	1330.95	1506.96	1535.94
External debt in form of loans and debt securities	USD, mln.	1370.00	1399.29	1683.34
Public external debt service* (schedule)	USD, mln.	111.48	99.65	123.76
Public external debt service* (effective)	USD, mln.	136.26	87.36	98.16
Governmental external debt service** (effective)	USD, mln.	103.53	52.41	66.45
Public external debt service* (schedule)	%	8.4	6.6	8.1
Public external debt service* (effective)	%	10.2	5.8	6.4

\*in the form of loans and debt securities, including service of loans under the government's guarantee

\*\*including service of loans under the government's guarantee carried out by the government

## 2. Activity of the National Bank of Moldova

### Monetary and Foreign Exchange Policy Implementation

#### Monetary Policy Objectives and Results

Within the framework of the state economic policy, the National Bank of Moldova elaborates and implements the Monetary and Foreign Exchange Policy, which is aimed at ensuring and maintaining the prices stability.

During the year of 2006 the achievement of the monetary policy was performed in compliance with the Monetary and Foreign Exchange Policy of the National Bank of Moldova for the year of 2006, approved by the Council of administration of the National Bank of Moldova on 23.12.2005.

The Monetary and Foreign Exchange Policy of the National Bank of Moldova for the year of 2006 was based on the following provisions:

- inflation maintenance within the limits of 8.0–10.0%;
- net offer of foreign currency in the domestic foreign exchange market shall preserve the trends of the year of 2005;
- servicing of the external debt by the state according to the Law of the state budget for the year of 2006 and reimbursement of credits of the International Monetary Fund by the National Bank of Moldova (USD 25.7 million).

While establishing the monetary indicators, the trend of the currency demand enhancement adequate to the level of the foreseen economic growth (the GDP growth by 6.5% in 2006) was taken into consideration. In this context, the growth of broad money M2 was foreseen by 40.0%, in conditions of forecasting the growth of reserve money by 20.0% and of the monetisation degree M2 at the level of approximately 35.0% at the end of 2006.

#### *Evolution of the legal framework of the Monetary and Foreign Exchange Policy in 2006*

In 2006 the Government of the Republic of Moldova, the National Bank of Moldova and the International Monetary Fund signed the Memorandum on the Economic and Financial Policies for the period of 2006 – 2008.

At the same time, by approving Law no. 191-XVI of 30.06.2006 on the modification of Law no. 548-XIII of July 21, 1995 on the National Bank of Moldova, the fundamental objective was changed from “the realisation and the maintenance of the national currency stability” into “the ensuring and the maintenance of prices stability”. By modifying article 41 it was forbidden to extend loans and guarantees in any form

to the state or to the agencies thereof, including by state securities purchase in the primary market.

In 2006, with a view to coordinate the monetary, foreign exchange and budget and fiscal policies, the National Bank of Moldova and the Ministry of Finance created the Liquidity Management Committee, whose objective is to ensure an efficient communication and collaboration for the achievement of the attributions of liquidities management and monitoring in the financial market.

### ***Results of the Monetary and Foreign Exchange Policy in 2006***

The Monetary Policy achievement and promotion in 2006 was influenced by the external shocks related to the import ban imposed by the Russian Federation on wines from the Republic of Moldova and the two-fold increase of prices for natural gas. Another factor that had a negative impact was the ungrounded agiotage in the foreign exchange market, which stirred up an increased demand for foreign currency in the period of May-July.

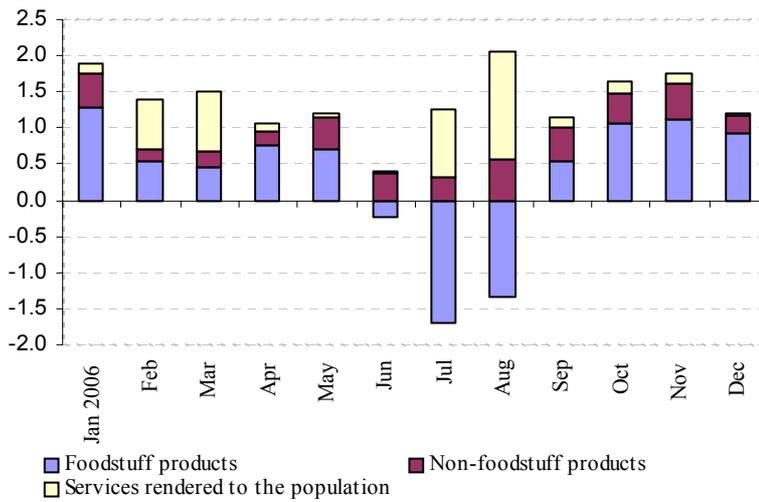
The evolution of the gross domestic product, the situation of the state balance of payments and the prices dynamics differed from the macroeconomic forecast, which served as basis for the working out and the implementation of the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2006. Due to this reason, the Council of administration of the National Bank of Moldova rectified the Monetary and Foreign Exchange Policy for 2006, establishing as follows:

- maintaining the inflation level within the limit of 12.0% per year;
- increase of reserve money within the ceiling of 2.0%;
- increase of broad money M2 within the ceiling of approx. 10.0%;
- monetisation degree at the level of approx. 30.0% at the end of the year.

As according to preliminary data of the National Bureau of Statistics the real GDP growth in 2006 constituted 4.0%. In the same period of time, the growth trend of the goods and services exports recorded 1.9%, while that of imports – 15.1% as compared to the previous year. The average annual exchange rate for 2006 accounted for MDL 13.1319 per USD 1, while the state budget registered a surplus of 0.2% of GDP.

At the end of 2006 the inflation constituted 14.1%, including the prices for foodstuff products went up by 9.5%, for non-foodstuff products by 15.7% and for services rendered to the population by 20.1% (chart no. 21).

Chart no. 21. Monthly dynamics of consumer prices index components in 2006 (%)



The inflation rate exceeding by 4.1 percentage points over limit foreseen initially for 2006 was conditioned factors, which basically are not dependent upon the Monetary and Foreign Exchange Policy measures and which are beyond the control of the National Bank of Moldova. The main factors represented the increase of tariffs for energy resources and services, including for natural gas by 2.1 times, for water and sewerage by 19.6%, for railway transport by 24.9%, for trolley-bus and motor transport by 20.0%, as well as of prices for fuel by

28.7% and for drugs by 29.2%.

Perceived from the prospective of the need for lessening the inflationist impact and within the context of the existent economic situation, the Monetary Policy promoted in 2006 was featured by an enhanced restrictiveness degree. At the same time, the National Bank of Moldova operated interventions in the domestic foreign exchange market as a net buyer of foreign currency. Thus, during the reported period, the National Bank of Moldova purchased USD 122.1 million, causing the increase of the net international reserves by USD 130.6 million (26.0%), up to the level of USD 632.2 million. Higher amounts transactions were conducted over Quarter IV 2006, and accounted for USD 97.6 million, or 67.3% of the value of net foreign currency acquisitions in the interbank foreign exchange market.

Under these conditions, the National Bank of Moldova actions were targeted at maintaining the balance between the maximum acceptable value of the monetary emission and the non-admission of excess fluctuations of the national currency. The National Bank of Moldova conducted a strict control over the excess liquidity by larger sterilization operations and by increasing the interest rates on monetary policy instruments. As a result, the reserve money diminished, and M2 indicator recorded the lowest growth of the last years.

## Dynamics of monetary indicators

### *Reserve money*

In 2006 *reserve money*\* dipped by 7.0% (490.6 million lei) versus the previous year and equalled to 6512.3 million lei at the end of December 2006 (chart no. 22). The reduction of reserve money was

mainly determined by the dynamics of the *net domestic assets* of the National Bank of Moldova, which diminished by 2197.3 million lei, as a result of the decrease of claims to the Government by 26.6% (608.3 million lei) and of the National Bank of Moldova claims to banks by 71.3% (845.0 million lei).

Concomitantly, the net external assets of the National Bank of Moldova augmented by 26.5% (1706.7 million lei) as compared to 2005 and constituted 8140.3 million lei at the end of 2006. The main factor that supported their evolution represented the net foreign currency acquisitions

in the interbank foreign exchange market.

Within the structure of reserve money in 2006, the weight of currency in circulation enlarged from 65.3% to 79.0%. At the same time, the share of banking reserves fell from 34.7% to 21.0%. The decrease by 43.8% of the banking reserves in the course of 2006 was determined by the sterilization operations of excess liquidity within the banking system.

*Monetary multiplier* (ratio between reserve money and broad money M2) advanced during the reported period by 20.8% (from 1.59 to

1.92), which revealed the financial intermediation increase and broad money (M2) growth at paces higher as compared to the increase of reserve money.

### *Money supply evolution*

*Broad money* (M2)\*\* accounted at the end of 2006 for 12485.2 million lei, increasing by 1359.6 million lei, or by 12.2%, including currency in circulation by 12.6% and deposits in

Chart no. 22. Dynamics of reserve money components versus December 2005 (million lei)

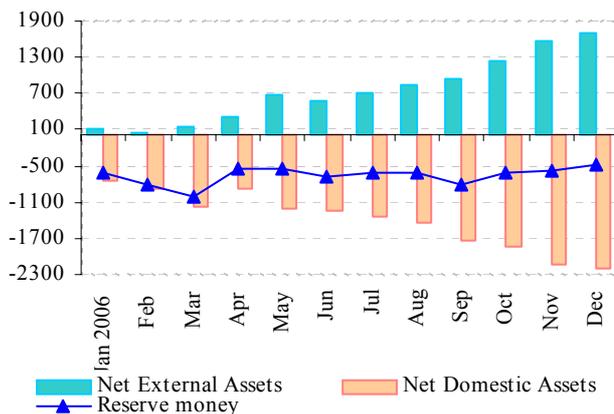
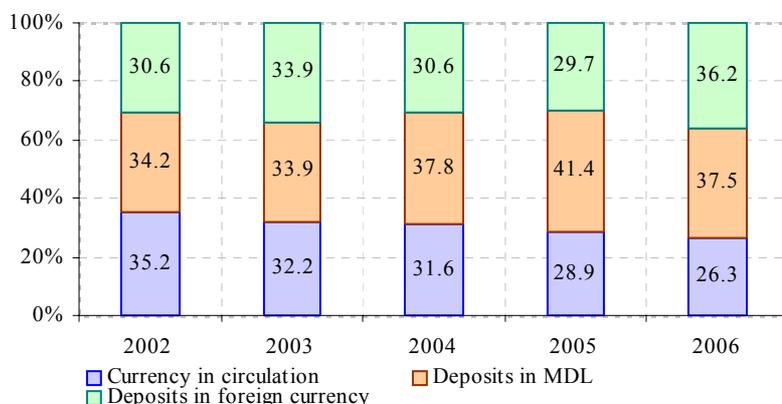


Chart no. 23. Structure of money supply M3 components in 2002–2006



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

\*\* Broad money M2 includes currency in circulation (M0), deposits in MDL and money market instruments.

national currency by 11.7%.

Simultaneously, **money supply** (M3)\* raised by 3731.2 million lei or by 23.6% and equalled as of December 31, 2006 to 19558.0 million lei (chart no. 23).

Changes within the money supply (M3) structure were influenced by the dynamics of deposits in foreign currency. While the weight of **currency in circulation** (M0)\*\* in the total money supply reduced from 28.9% in 2005 to 26.3% in 2006, the weight of the balance of residents' deposits in foreign currency expressed in MDL went up

Table no. 21. Money supply by components at period-end (MDL, million)

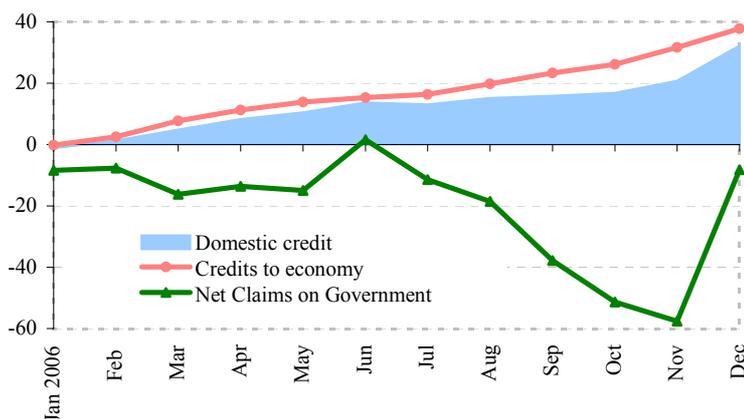
Period	2005	2006	Growth, %	Absolute growth
Money supply (M 3)	15826.8	19558.0	23.6	3731.2
Broad money (M 2)	11125.6	12485.2	12.2	1359.6
Currency in circulation (M0)	4571.2	5145.8	12.6	574.6
Deposits	11255.5	14397.2	27.9	3141.7
in MDL	6554.3	7324.4	11.7	770.1
in foreign currency	4701.2	7072.8	50.4	2371.6
Money market instruments	0.1	15.0		14.9

from 29.7% to 36.2% (table no. 21)

**Currency in circulation** (M0) increased in 2006 by 12.6% (574.6 million lei) as compared to the previous year, and amounted at the end of December 2006 to 5145.8 million lei. The monthly average growth rate of currency in circulation (1.0%) was lower the money supply M3 growth rate (1.8%). The most essential increase of currency in circulation was recorded during Quarters II and IV of the reported year.

**Net domestic assets** of the banking system augmented by 1686.6 million lei, and totalled 10091.9 million lei. At the same time, *the domestic credit* within the banking system enlarged by 3663.4 million lei (32.2%), up to the level of 15040.9 million lei, its growth was determined by the increase of the balance of *credits to economy*. At the same time, the *net claims on the Government* declined in 2006 by 113.9 million lei (8.2%) (chart no. 24).

Chart no. 24. Growth components of the domestic credit



**Net (convertible) external assets** of the banking system enlarged by USD 158.9 million and constituted USD 737.0 million. Within their structure, the net external assets of the National Bank of Moldova grew by USD 153.9 million, while those of the banks – by USD 5.0 million.

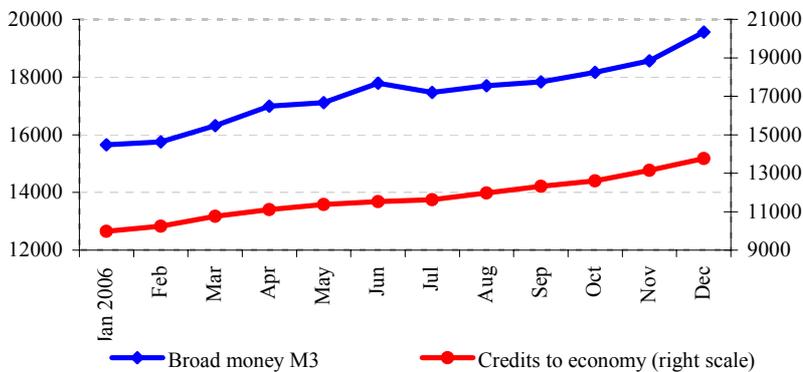
\* Money supply M3 includes broad money M2 and deposits in foreign currency of residents expressed in MDL.

\*\* Currency in circulation (M0) represents cash money issued into circulation by the National Bank of Moldova, excluding cash money with the banks' vaults and the vault of the National Bank of Moldova

## Credits market

**The total balance of credits to economy\*** as at the end of 2006 equalled to 13767.8 million lei, recording a 37.8%-increase (3777.3 million lei) (chart no. 25).

Chart no. 25. Dynamics of monetary aggregates (million lei)



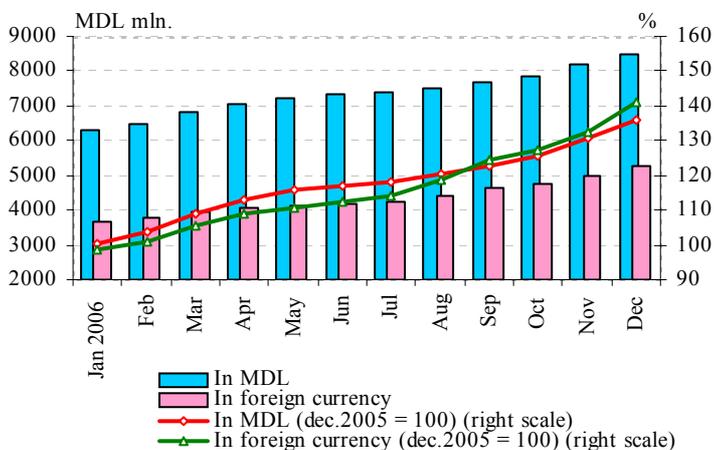
Over the reported year, the industry and trade sectors recorded a larger demand for credits (increasing by 41.6%, or by 2033.8 million lei), which posted the weight of 50.3% of total credits, followed by credits to agriculture and food industry with the weight of 19.2% of total credits, scoring an increase of 8.4%. At the

same time, the financial market development determined the increment of the weight of credits for real estate, construction and development and of the weight of consumer credits, up to the level of 10.9 and 9.5%, respectively (table no. 22).

Table no. 22. Breakdown of loans by sectors of economy (MDL, million)

	As of 31.12.2005	Weight in 2005, %	As of 31.12.2006	Weight in 2006, %	Absolute change MDL, million	Change %
Loans to agriculture and food industry	2437.6	24.4	2643.4	19.2	205.8	8.4
Loans for real estate, construction and development	697.9	7.0	1502.2	10.9	804.3	115.2
Consumer credit	793.2	7.9	1302.6	9.5	509.4	64.2
Loans to energy and fuel industry	294.0	3.0	205.7	1.4	-88.3	-30.0
Loans to industry /trade	4890.1	48.9	6923.9	50.3	2033.8	41.6
Loans for road construction and transportation	297.2	3.0	478.4	3.5	181.2	61.0
Other loans	580.5	5.8	711.6	5.2	131.1	22.6
<b>Total</b>	<b>9990.5</b>	<b>100.0</b>	<b>13767.8</b>	<b>100.0</b>	<b>3777.3</b>	<b>37.8</b>

Chart no. 26. Dynamics of credits to economy



**The balance of credits in national currency** registered an increase of 2254.0 million lei (36.0%), up to the level of 8509.0 million lei, which represents 61.8% of total banking credits (chart no. 26).

**The volume of credits in national currency** went up by 13.4% and totalled 10235.6 million lei, as compared to the increase of 57.9% of the previous year.

Within the maturity structure, the weight of credits with terms of over 12 months recorded an increase (from 46.3% in 2005 to

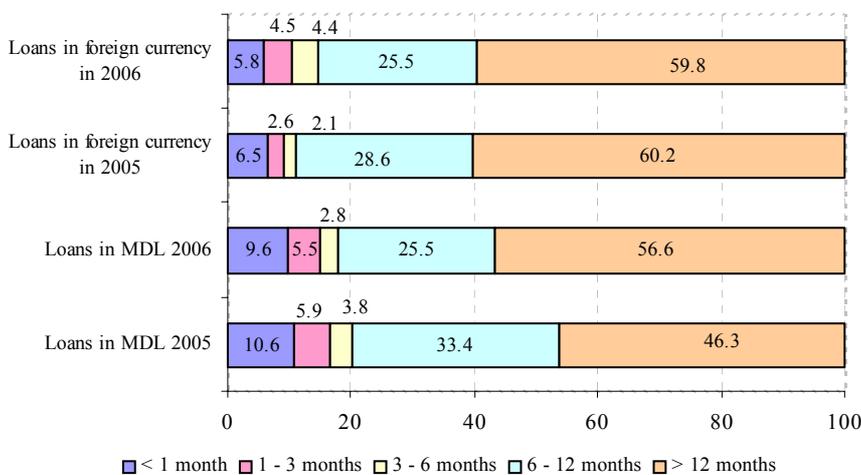
\* According to IMF methodology, out of total credits to economy (including accrued interest on credits) are deducted interbank credits and credits to the Government

56.6% in 2006), while the weight of credits with terms of 6 to 12 months reduced by 7.9 percentage points, down to the level of 25.5% in 2006, which reflects the continuous development of medium- and long-term financing.

**The balance of credits in foreign currency** increased by a 1523.3 million lei (USD 116.4 million, or by 40.0%) and accounted for 5258.8 million lei (USD 407.5 million) as at the end of 2006.

**The volume of credits in foreign currency** equalled to 6354.7 million lei, increasing by 43.8% versus the previous year. Their equivalent in foreign currency augmented by USD 133.3 million (38.0%) and constituted USD 483.9 million.

Chart no. 27. Structure of credits by terms (%)



During the reported period, credits in foreign currency extended for a longer period (over 12 months) kept their higher share (59.8% of total), enlarging by USD 78.2 million USD (chart no. 27).

The policy of gradual interest rates reduction promoted by the National Bank of Moldova over the last years, conditioned the continuous decline of the interest rates on credits applied by banks.

Consequently, **the annual average weighted interest rate on credits in national currency** fell from 18.93% in 2005 to 18.18% in 2006.

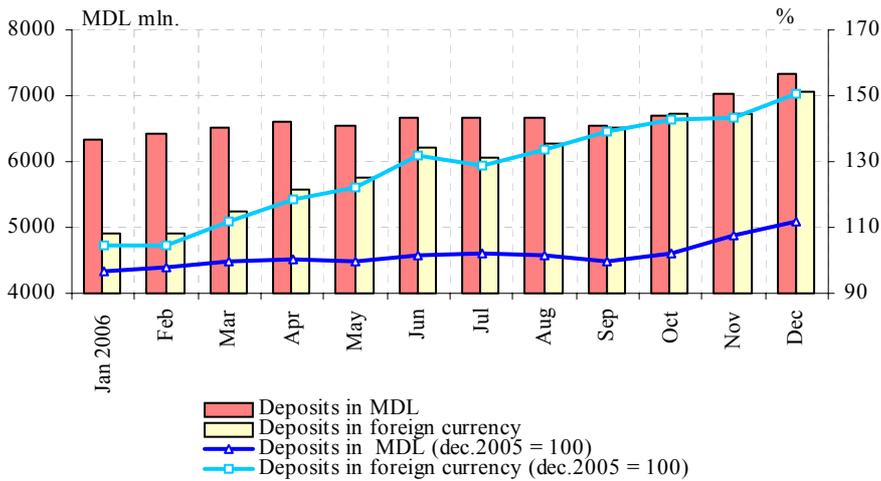
The dynamics of interest rates on credits in foreign currency extended in the course of the year was relatively steady; **the annual average weighted interest rate on credits in foreign currency** did not change practically and constituted 11.06% in 2006.

### Deposits market

**The balance of deposits\*** within the banking system accounted as at the end of 2006 for 14397.2 million lei, exceeding by 27.9% (3141.7 million lei) the level of the previous year. The growth of the total balance of deposits was generated by both components, the one in foreign currency with a more accelerated dynamics (50.4%) as compared to that in national currency (11.7%) (chart no. 28).

\* According to IMF methodology, out of total deposits within the banking system are excluded: deposits of commercial banks and other financial institutions; state budget accounts; extra-budgetary funds; deposits of non-resident individuals and legal entities.

Chart no. 28. Dynamics of deposits in 2006



At the same time, the increase of deposits in national currency in 2006 (by 770.1 million lei, or by 11.7%) up to the level of 7324.4 million lei was more reduced as compared to 2005 (by 2117.7 million lei, or by 47.7%).

Term deposits in national currency, with the weight of 21.5% in the total money supply (M3), advanced by 10.8%, up to 4202.0 million lei. Their growth was due to the deposits by individuals, which increased by

15.0% (462.5 million lei) versus the end of 2005.

The balance of deposits in foreign currency by residents, expressed in MDL, accounted for 7072.8 million lei (the equivalent of USD 548.1 million), enlarging by 2371.6 million lei, which represents 75.5% of the annual growth of deposits within the banking system.

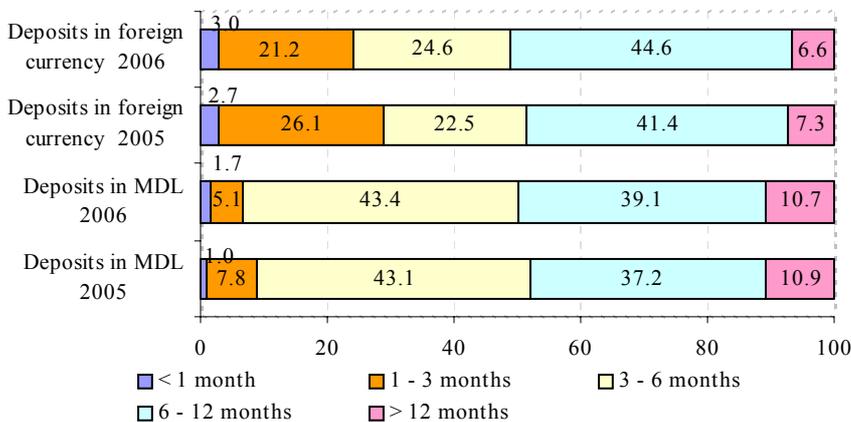
*The balance of term deposits in foreign currency by residents* augmented by 56.4% up to 4893.2 million lei. Expressed in USD, they climbed by USD 135.4 million and amounted as at the end of 2006 to USD 379.2 million. Simultaneously, *term deposits in foreign currency by individuals* posted 91.3% of this growth, increasing by 59.9% (USD 123.7 million) as compared to the end of 2005.

Hence, the weight of deposits in foreign currency within the structure of total deposits enlarged by 7.3 percentage points, prompting the growth of the dollarization level of deposits from 41.8% in December 2005 to 49.1% in December 2006.

The volume of term deposits attracted by banks during the reported year constituted 13674.9 million lei, going up by 28.7% as compared to the year of 2005. At the same time, the growth trends of the volumes of term deposits attracted in national currency recorded an essential reduction (5.3% in 2006 as compared to the growth of 61.5% in 2005), down to the volume of 5942.9 million lei. Within the structure, like in the previous year, deposits with terms of 3 to 6 months took the basic segment (43.4%), followed by deposits with terms of 6 to 12 months, whose weight increased by 1.9 percentage points, or by 227.1 million lei.

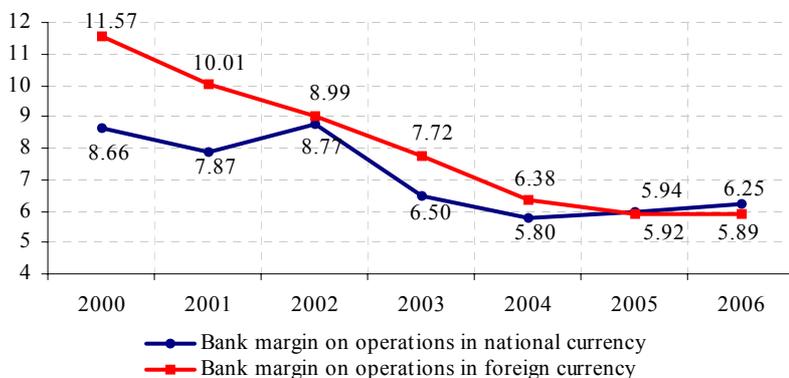
*The volume of term deposits in foreign currency attracted* in 2006 enhanced by 2750.6 million lei (55.2%), up to the total amount of 7732.0 million lei. Their equivalent in USD represents USD 588.8 million, advancing by 48.9% as compared to the previous year. Out of total term resources attracted in foreign currency, deposits by individuals held 83.6%. According to terms, within the structure of deposits in foreign currency, deposits with terms of 6 to 12 months prevailed and accounted for 3451.3 million lei, or USD 262.8 million (increasing by USD 99.1 million), followed by deposits with terms of 3 to 6 months with the weight of 24.6% (by 2.1 percentage points more as compared to the previous year) (chart no. 29).

Chart no. 29. Structure of term deposits in MDL and in foreign currency (%)



*The annual average interest rate on term deposits in national currency* dipped by 1.06 percentage point as compared to 2005, and constituted 11.93%.

Chart no. 30. Dynamics of the bank margin on operations in national and foreign currency (percentage points)



*The annual average interest rate on term deposits in foreign currency* kept the level of the previous year and posted 5.17%.

*The bank margin* (difference between average rate on credits and deposits) on transactions in national currency advanced by 0.31 percentage point, up to the level of 6.25 percentage point, while the bank margin on transactions in foreign currency reduced by 0.03 percentage point, and constituted 5.89

percentage points in 2006 (chart no. 30).

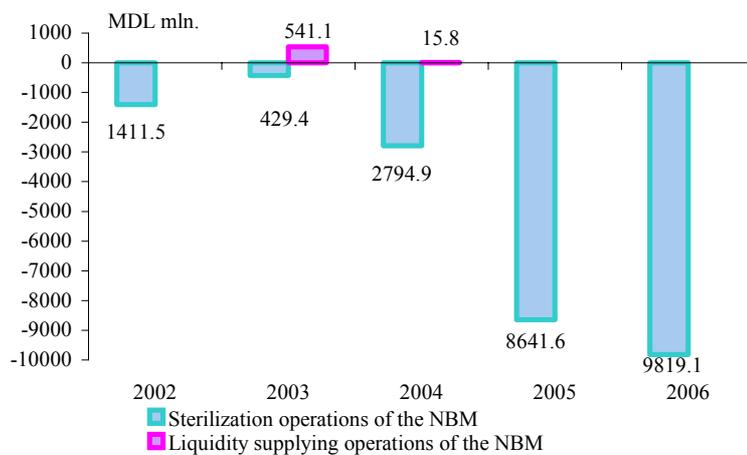
### Monetary Policy Instruments

In 2006 the money market continued to be featured by foreign currency in-comings and issuance performance in case of its purchase by the National Bank of Moldova.

With a view to achieve its fundamental objective – the maintenance of prices stability, the National Bank of Moldova conducted interventions in the money market by sterilization operations of liquidities in volumes higher than in the previous years.

## Liquidity Management Operations of the National Bank of Moldova

Chart no. 31. NBM operations in the money market



The achievement of the monetary policy was performed by using market-like instruments.

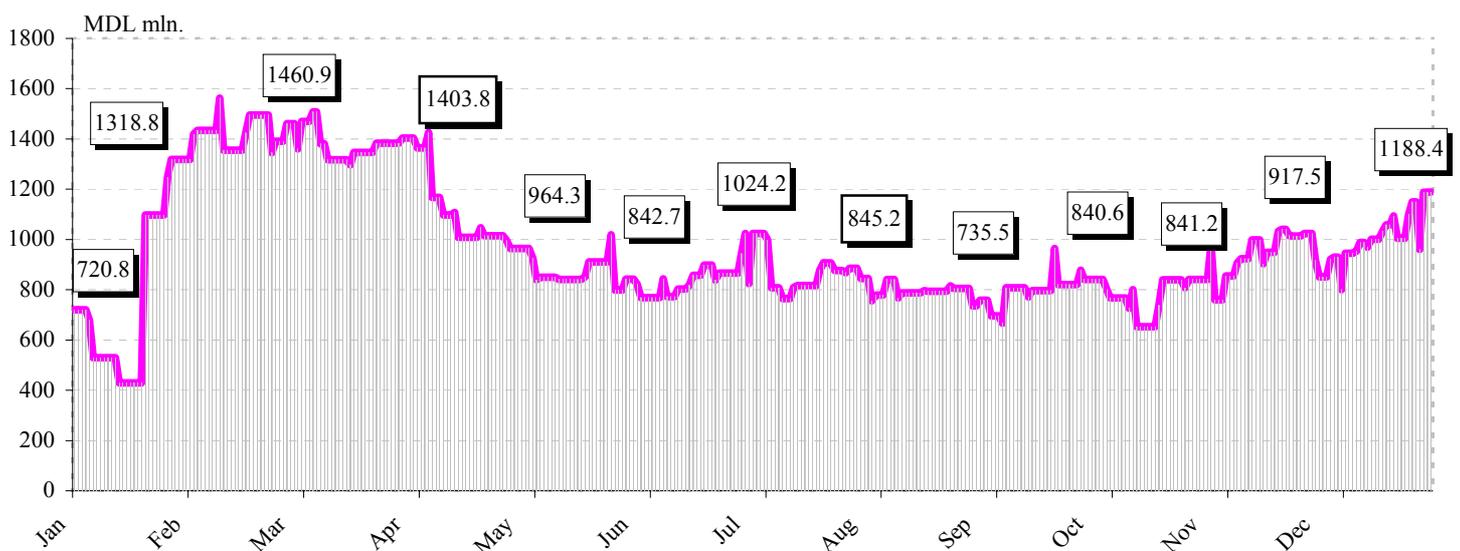
The Certificates of the National Bank of Moldova and the deposits attraction from banks constituted, during the reported year, the main instruments of liquidity sterilizations within the banking system.

In 2006 the sterilization operations of the National Bank of Moldova totalled 9819.1 million lei, exceeding the sterilization level of 2005 by 13.6% (chart no.31).

*The annual average weighted interest rate on sterilization operations* equalled to 9.62% per year, versus 3.36% per year in 2005.

The heavy sterilizations over the reported year of the excess liquidity intensified at the end of 2006. The gradual increase of the maximum rate announced by the National Bank of Moldova and the integral amount acceptance of the banks' demands, allowed for the maintenance of the daily balance of market operations of the National Bank of Moldova at the level of 970.8 million lei – by 24.0 million lei over the level of 2005 (chart no. 32).

Chart no. 32. Daily balance of NBM sterilization operations in 2006

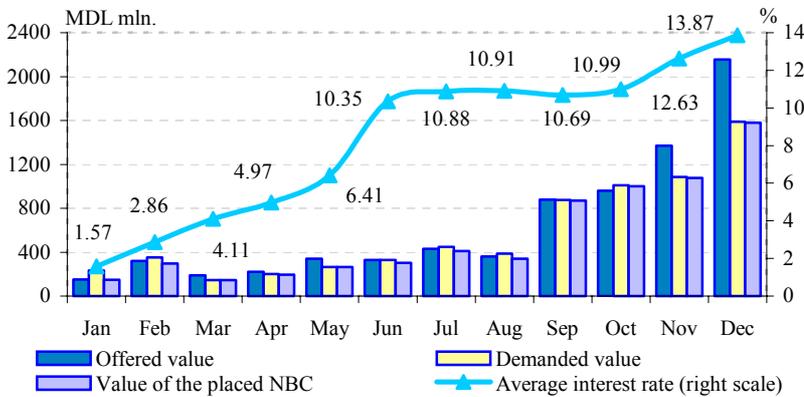


The total cost borne by the National Bank of Moldova for the excess liquidity sterilization augmented in 2006 to 71.1 million lei.

NBC-selling Operations

In 2006 the National Bank of Moldova conducted 67 auctions of NBM Certificates placement.

Chart no. 33. Dynamics of NBC auctions indicators in 2006



The offered value of NBC, with the maturity of 28 days, accounted for 7705.0 million lei. The participants' demand equalled to 6917.1 million lei. Out of the announced offer, 86.6% were placed and the absolute value of the placed NBC constituted 6673.0 million lei at the nominal value and 6629.5 million lei at selling price.

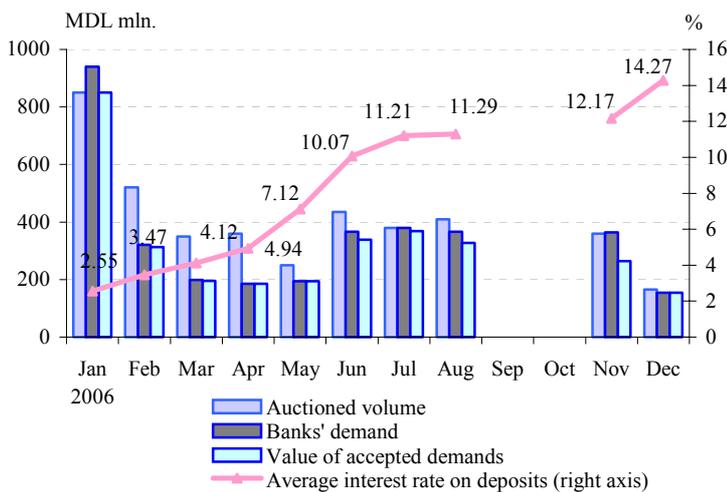
*The average interest rate on NBC issued in 2006 scored 10.78% per year.*

Deposit operations

In 2006 the volume of excess liquidity absorbed by the National Bank of Moldova through deposit auctions and through direct negotiations constituted 3189.6 million lei, by 28.8% less as compared to the value sterilized through deposits in 2005.

During those 42 deposit auctions carried out in 2006, the National Bank of Moldova offered an amount of 3290.0 million lei. The integral amount of banks' demands accounted for 2578.5 million lei, or 78.4% of the auctioned volume, while the value of accepted demands equalled to 2399.6 million lei, which represents 72.9% of the offered amount (chart no. 34).

Chart no. 34. Dynamics of deposit auctions indicators



In 2006 the average weighted rate on deposits placed with the National Bank of Moldova advanced from 2.55% per year in January to 14.27% per year in December. The annual average weighted rate increased by 3.64 percentage points as compared to the rate on deposits of the previous year and accounted for 7.21% per year.

The average maturity on placements in 2006 totalled 62 days, higher than that of 50 days recorded in 2005.

The average maturity on placements in 2006 totalled 62 days, higher than that of 50 days recorded in 2005.

### Required reserves

During the year of 2006 the required reserves ratio was kept unchanged and accounted for 10.0% of the level of means attracted by banks both in Moldovan lei and in foreign currency.

The maintenance of required reserves at the same level was made possible due to the stability of the situation within the banking system and due to the system's excess liquidity management by using market-like sterilization instruments.

In 2006 required reserves in national currency went up gradually as a result of the growth of the attracted means, increasing to 936.1 million lei at the end of December, reaching, thus, a level higher by 17.7% as compared to that as of December 31, 2005.

Unlike required reserves in MDL, reserves in foreign currency (US Dollars and Euro) displayed in 2006 a more emphasized positive dynamics, owing to the significant increase of the means attracted in the respective currencies. The amount of required reserves, as of December 31, 2006, constituted and maintained by banks equalled to USD 30.1 million and EUR 23.9 million, advancing as compared to December 31, 2005, by 27.0 and 73.2%, respectively.

The National Bank of Moldova paid to the banks the amount of 15.4 million lei for required reserves constituted in 2006, by 2.8 million lei, or by approx. 22.0% more as compared to 2005.

### Standing Facilities

In 2006 the banks used deposit facilities and lending facilities extended by the National Bank of Moldova.

### Overnight deposits

The banks' use of overnight deposits mechanism conferred to the National Bank of Moldova during the reported year an enhanced flexibility for the achievement of its monetary policy. In order to manage the short-term excess liquidity of banks, the National Bank of Moldova announced periodically in November and December 2006 the acceptance of overnight deposits from banks.

The volume of overnight placement by banks at the National Bank of Moldova accounted in 2006 for 983.0 million lei.

### Credit Standing Facilities

In 2006, starting with April 21, the National Bank of Moldova abrogated the Regulation on overnight credits extension by NBM, approved by the Decision of the NBM Council of administration no. 423 of December 28, 2000 and enforced the Regulation on credit standing facilities extended to banks by the National Bank of

Moldova, approved by the Decision of the NBM Council of administration no. 70 of March 30, 2006. On the basis of the new regulation, banks facing a temporary liquidity lack can benefit from intraday credits and overnight credits.

The constant character of excess liquidity observed within the banking system during the analyzed period determined the banks to slightly resort to overnight credits. During the year of 2006 only two banks resorted to overnight credits and benefited in May and October from overnight credits in the total amount of 10.5 million lei, at the interest rates of, respectively, 15.0 and 17.0% per year.

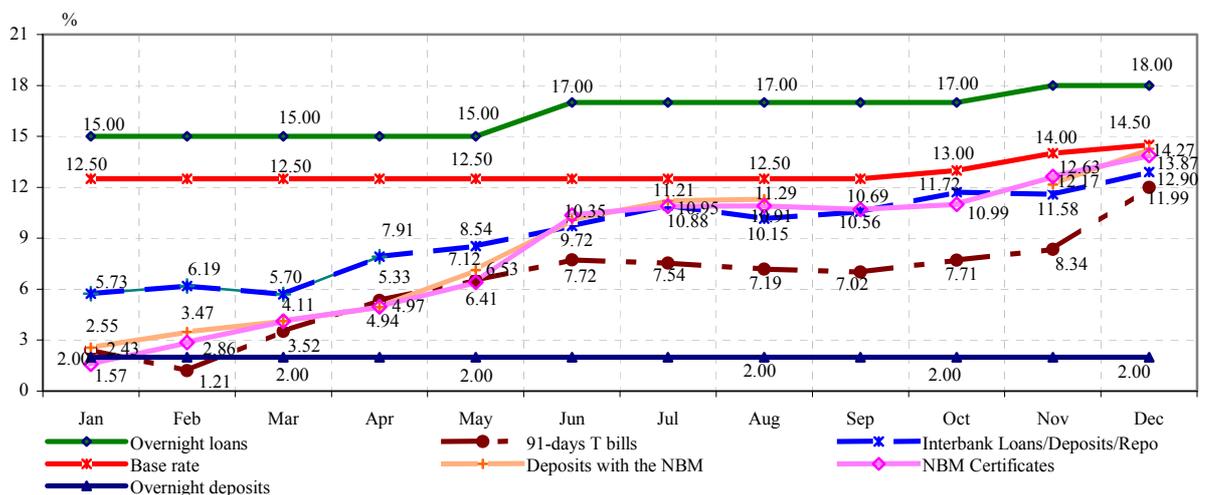
### **Interest Rate Policy**

With a view to lessen the inflationist pressures by conducting a more aggressive monetary policy, the National Bank of Moldova was urged, during the reported year, to apply increased interest rates on monetary policy instruments.

Thus, the base rate of the National Bank of Moldova was augmented from 12.5% in December 2005 to 14.5% in December 2006.

Concomitantly, the National Bank of Moldova increased gradually the rates on its sterilization instruments in order to influence the rates level in the money market and the amounts of free liquidities of the banking system.

*Chart no. 35. Dynamics of the interest rates corridor in 2006*



### **Lending activity**

#### **Monitoring of Credits Extended Previously by the National Bank of Moldova to the Banking System**

In 2006 the National Bank of Moldova continued the monitoring of credits extended to commercial banks in the period of 1992 – 2002 for lending the housing construction co-operatives based on the decision

of the Parliament and the Government of the Republic of Moldova. The balance of credits extended to banks diminished by 21.3%, and amounted as at the end of the year to 40.7 million lei.

The value of credits paid over the reported year totalled 11.0 million lei, including payments carried out in advance accounted for 10.2 million lei, or 92.7% of the amount of credits paid in 2006.

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

The state domestic debt management in 2006 was performed by the National Bank of Moldova based on the Law on the State Budget for 2006 no.291-XVI of November 16, 2005, the Law on the State Debt and State Guarantees no.943-XIII of July 18, 1996 and the Law on the National Bank of Moldova no.548-XIII of July 21, 1995.

The state debt contracted from the National Bank of Moldova as of December 31, 2006 equalled to 2492.2 million lei and was made up of the debt on credits previously contracted from the National Bank of Moldova in an amount of 2092.2 million lei and of the debt represented by state securities within the portfolio of the National Bank of Moldova – 400.0 million lei (at purchase price).

The state debt contracted previously from the National Bank of Moldova lessened at the end of 2006 by 118.8 million lei, or by 4.5% as compared to as at the end of 2005 (table no. 23), as a result of the reimbursement by the Ministry of Finance of loans pursuant to the Law on the state budget for 2006.

*Table no. 23. Dynamics of state debt contracted from the National Bank of Moldova (MDL, million)*

Destination	Balance as of 31.12.2005	Loans paid in 2006	Balance as of 31.12.2006	Weight, %
<b><i>1. Loans previously contracted from NBM:</i></b>	<b>2211.0</b>	<b>118.8</b>	<b>2092.2</b>	
- for external debt servicing	1629.7	118.8	1510.9	60.6
- for state budget deficit financing	261.5	–	261.5	10.5
- for SS timely repurchase	319.8	–	319.8	12.8
<b><i>2. SS in the NBM portfolio</i></b>	<b>400.0</b>	<b>–</b>	<b>400.0</b>	<b>16.1</b>
<b>Total state debt to NBM</b>	<b>2611.0</b>	<b>118.8</b>	<b>2492.2</b>	<b>100.0</b>

### ***Loans Re-conclusion***

The state loans were re-concluded by the National Bank under the conditions of negotiable state securities pledging at market interest, with terms of up to 91 days, at the market interest rate, which evolved from 3.56% per year in January to 13.69% per year in December.

As of December 31, 2006 the average weighted rate on loans portfolio equalled to 9.26% per year, as compared to 4.29% per year as of December 31, 2005.

### SS Portfolio of the National Bank of Moldova

SS re-issuances from the NBM own portfolio performed over the year of 2006 displayed the maturities of 91 and 98 days. The interest rates on issued securities evolved from 2.75% in January to 13.69% per year in December.

The average weighted interest rate on state securities held within the portfolio as of December 31, 2006 reached the level of 8.96% per year, by 4.40 percentage points more as compared to the level posted at the end of December 2005.

### Money Market

#### Primary Market of State Securities

Acting as the state's fiscal agent in performing selling, recording and redemption of state securities, the National Bank of Moldova held, during the analyzed period, 169 issuances of state securities.

Chart no. 36. Offer, demand and sales of SS (MDL, million)

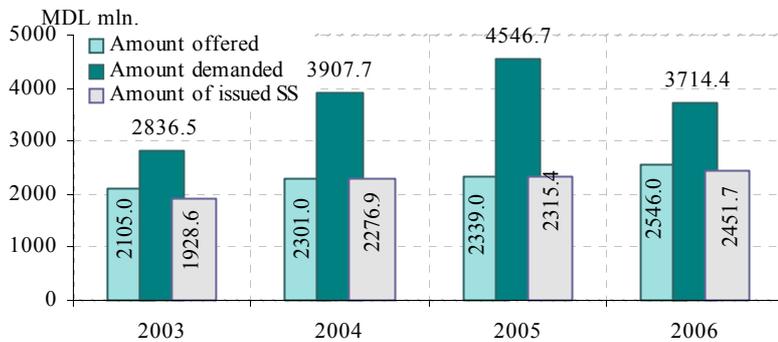
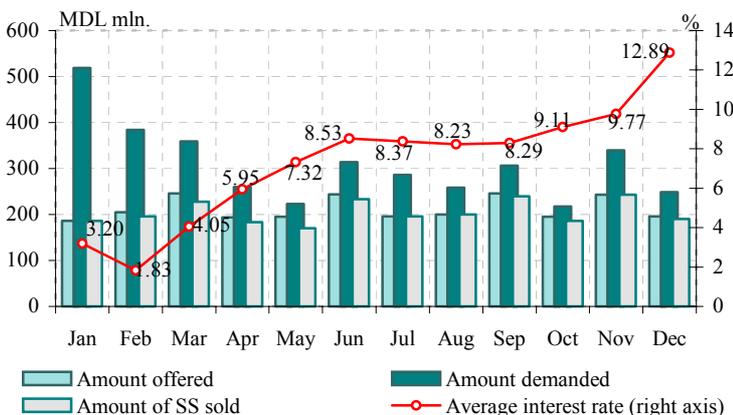


Chart no. 37. Monthly dynamics of SS offer, demand and sales volume in the primary market auctions in 2006



The Ministry of Finance offered in the primary market state securities in an amount of 2546.0 million lei – by 207.0 million lei more as compared to 2005 (chart no. 36).

The demand for state securities in the primary market in 2006 ran into 3714.4 million lei, by 1168.4 million lei more as compared to the offer of the Ministry of Finance.

The value of state securities issued into circulation equalled to 2451.7 million lei, and accounted for 96.3% of the total offered amount (chart no. 37).

Banks' acquisitions for their own portfolios posted higher values as against as in 2005, both in absolute and weight terms, totalling 2274.1 million lei, or 92.8% as compared to 90.7% in 2005. The weight of acquisitions on the account of investors stepped down respectively and accounted for 7.2% of

the total volume, versus 9.3% in 2005.

State securities with the maturity of up to 1 year were issued for three terms: Treasury bills (T-bills) of 91, 182 and 364 days, the weight of which in the total issued value constituted 97.3%.

Like in the previous years, most of the state securities were issued for a term of 91 days, which represents 52.9% of the total value of issues launched by the Ministry of Finance (chart no. 38).

Chart no. 38. Composition by maturity of State Securities issues

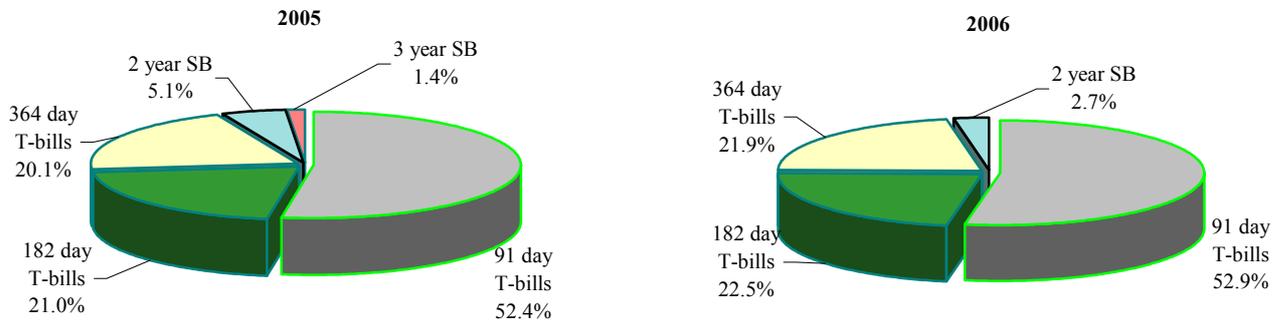


Table no. 24. Average weighted yields on traded State Securities (%)

	91-day T-bills	182-day T-bills	364-day T-bills	2-year SB	3-year SB
2005	2.98	3.77	5.36	5.90	6.62
2006	6.46	7.56	9.90	11.93	-

Chart no. 39. Dynamics of nominal interest rates in breakdown by maturity on SS with terms under 1 year adjudged in 2006

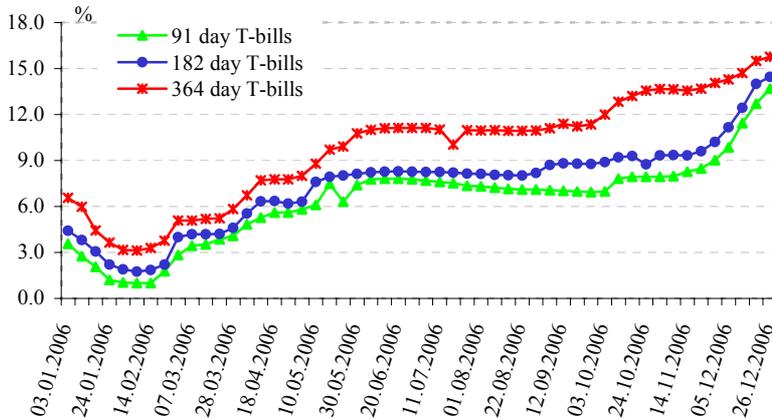


Chart no. 40. State Securities issued in circulation (placed through primary market auctions) at the end of the period of 2000-2006



At the same time, the Ministry of Finance reduced the volume and the frequency of state bonds issues, and their weight diminished from 6.5% in the previous year to 2.7% in 2006, dropping out the 3-year state bonds issuances. There were launched 13 2-year state bonds issues with the floating rates. Following these modifications of the Ministry of Finance within the state securities issues, the average annual maturity of state securities issued in 2006 reduced from 210 days in 2005 to 186 days in the reported period.

The annual nominal average weighted yield on state securities with the maturity of up to 1 year, adjudged in 2006, recorded a two-fold increase as compared to the previous year and accounted for 7.34% per year.

The analysis of the average interest rate evolution within the maturity structure revealed a continuous rates growth over the reported year (chart no. 39).

The volume of state securities in circulation, placed through primary market auctions, increased as of December 31, 2005 by 158.0 million lei,

or by 13.1%, and reached, as of December 31, 2006, the level of 1365.7 million lei at nominal value (chart no. 40).

**Interbank Money Market**

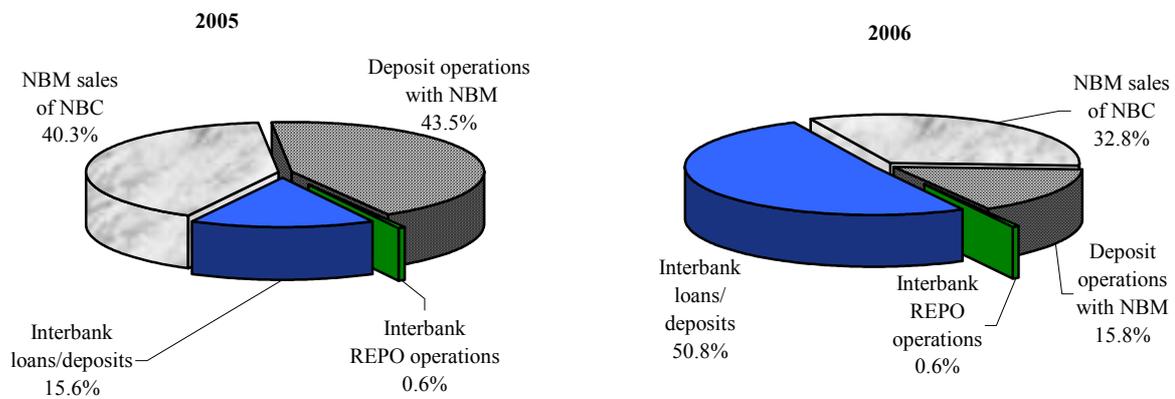
During the reported period the turnover of the interbank money market (including the National Bank of Moldova) reached the value of 20184.1 million lei, increasing by approx. 2 times as compared to the previous year.

The main quantitative performances were registered in the interbank segment, and the value of transactions in the aggregate equalled over the year to 10365.0 million lei, by approx. 6 times more as compared to the level recorded in 2005.

In the same period, the interbank market operations, with the National Bank of Moldova as the counterparty, totalled 9819.1 million lei, increasing by 1177.5 million lei as against as in 2005.

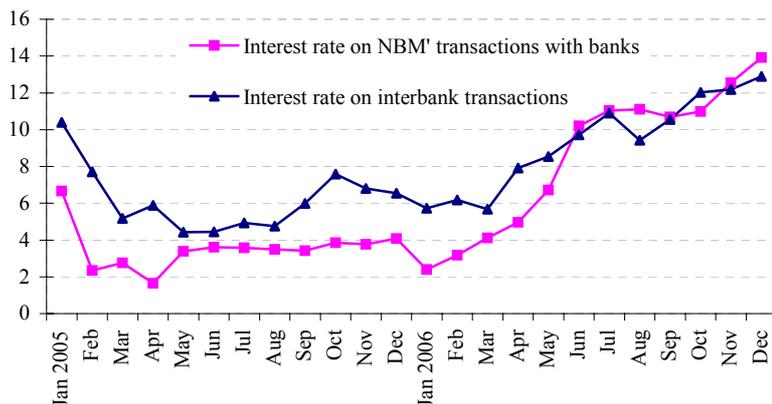
During the reported year, the ratio of annual volume of transactions within both the segments of the interbank market (interbank operations and the operations of the National Bank of Moldova with banks) equalled and constituted 51.4 and 48.6%, accordingly. In 2005 this proportion posted 16.2 and 83.8%, respectively (chart no. 41).

Chart no. 41. Interbank market operations



In 2006 the interbank credits/deposits displayed the main amount within the turnover of transactions in the interbank segment and totalled 10263.3 million lei (99.0% of total), followed by interbank REPO operations, which accounted for 101.7 million lei (1.0%).

Chart no. 42. Interbank interest rate (%)



The average interbank rates grew and posted 12.90% per year at the end of the year, by 6.36 percentage points higher as compared to that of

December 2005. The annual average interest rate on interbank transactions increased, as compare to the previous year, by 3.66 percentage points, and amounted to 9.97% per year.

In 2006 the average weighted term on interbank transactions constituted 3 days, going down by 6 days versus 2005. The decrease of the average term can be explained by the increase of the weight of overnight transactions in the annual total turnover from 69.0% in the previous year to 90.0% in 2006.

### *Reference rates in the interbank market*

The interbank reference rates in 2006 acted in compliance with the situation in the money market. At the end of 2006 the interbank reference rates recorded the values as follows: CHIBOR overnight – 12.56% per year versus 6.35% at the end of 2005, CHIBOR 1 month – 13.66% versus 8.56% and CHIBOR 3 months – 14.31% versus 9.57%.

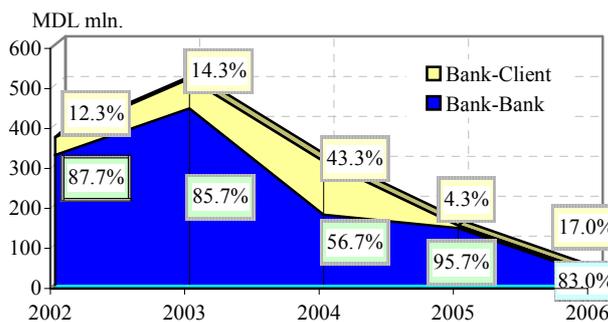
### *Secondary Market of State Securities*

In 2006 the secondary market of state securities denoted a reduction in its activity within the context of excess liquidity persistency in the money market.

The value of state securities buying-selling transactions concluded in the secondary market decreased as compared to the previous year and totalled 30.6 million lei.

Like in the previous years, commercial banks held the highest weight in the value of buying-selling transactions conducted in the SS secondary market – 83.0%, operations between banks and their clients – 17.0% (chart no. 43).

Chart no. 43. Structure of selling/buying transactions with SS



In the course of the year, the nominal average weighted yield on state securities with the terms of up to 1 year traded in the secondary market posted an ascendant trend (except for July and September), starting at the minimal level of 2.22% (January) to the maximal

level of 11.59% (December).

The Certificates of the National Bank of Moldova (NBC) were traded in the secondary market with the nominal average weighted yield of 10.09%, with the average weighted term till maturity of 18 days and in an amount of 17.2 million lei, which exceeded by 2.2 times the value recorded in 2005.

### *REPO transactions with state securities*

The volume of interbank REPO operations went up during the reported year by approx. 1.5 times as compared to the previous year and accounted for 101.7 million lei.

The annual average weighted interest rate on transactions concluded through REPO agreements in the interbank market increased by almost 3.6 percentage points as compared to the previous year, and recorded the level of 8.3% per year.

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

During 2006, eleven primary market dealers operated in the state securities market, who contributed to the performance of state securities placement auctions in the primary market and to ensuring their liquidity in the secondary market.

The volume of bids submitted by primary dealers to the auctions of placement of state securities amounted, in 2006, to 3475.0 million lei. Per total in 2006, the primary dealers purchased securities in an amount of 2318.5 million lei, which constitutes 91.1% of the value offered by the Ministry of Finance (in 2005 this indicator equalled to 93.9%).

Out of total value of adjudged state securities, 88.7%, or 2175.1 million lei, were purchased by primary dealers on their name and on own account, while securities purchased on behalf of and on the account of clients amounted to 5.8%, or 143.4 million lei.

During the reported period the volume of transactions with state securities concluded by primary dealers in the secondary market totalled 30.6 million lei. Within the structure of SS traded in the secondary market, the participants' preferences focused on SS with the terms ranging between 28 days and 91 days.

According to the provisions of the Agreements on fulfilling the function of primary dealer in the dematerialized SS market concluded between NBM and the banks-primary dealers, the primary dealers ensured, over the reported period, daily SS quotations via the "Interbank messages" system.

### *Market of Deposit Certificates*

In 2006, following the trend of promoting certain new bank products, bank deposit certificates were issued into circulation, offering to individuals and to economic agents the possibility to diversify their placements in more flexible and more attractive instruments as compared to the classical term deposits.

The total value of bank deposit certificates issued during the reported period totalled 41.2 million lei, while the average interest rate evolved from 13.25% in May 2006 (the month of certificates placement) to 15.18% by the end of the year. The maturities of these securities fluctuated between 3 and 12 months.

### ***State Securities Recording in the Book-Entry System of the National Bank of Moldova (BES)***

The Book-Entry System of the National Bank of Moldova, with a high level integration interaction with the automated interbank payments system and the accounting information system of the National Bank of Moldova, ensures the storing and the settlement of operations with the state securities issued by the Ministry of Finance and the National Bank of Moldova.

The National Bank of Moldova, in its capacity of manager of the book-entry system of dematerialized state securities, manages and monitors the system's functioning, authorizes the participation in the system, manages the participants' state securities accounts, establishes and modifies the system's rules, follows the rules observance by participants.

The Book-Entry System of the National Bank of Moldova has the following functionalities:

- registration of total amounts by each issue of state security in circulation in the issuer's account;
- management of state securities accounts, highlighting the holdings on the name and own account of participants and the accumulated holdings of the clients thereof;
- registration of operations conducted in the state securities primary and secondary markets (initial placement, sale and purchase, non-payment transfers, pledge management, etc.);
- management of payments related to the state securities issuances (redemption at maturity, interest/coupons payment, etc.);
- reconciliation of participants' holdings with the holdings highlighted in the system.

Over the reported year, the National Bank of Moldova undertook to improve the Book-Entry System of the National Bank of Moldova in compliance with the principles and the recommendations of the Committee on Payment and Settlement System.

Concomitantly with the implementation in April 2006 of the Automated Interbank Payments System (AIPS), a modern mechanism of the management of risks pertaining to state securities operations was put into function – the real time “delivery against payment” principle for the final settlement of state securities transactions in the course of the operational day.

In compliance with this mechanism the final transfer (irrevocable and absolute) of state securities shall take place only in case the final transfer (irrevocable and absolute) of money means from the buyer to the seller takes place, and the settlement of state securities operations is performed in real time regime, restricting the risk of certain events related to the failure of financial obligations execution.

Over the reported year, 5519 operations in an amount of 39231.3 million lei (by 3389.0 million lei more as compared to the previous year) were registered in BES of the National Bank of Moldova at nominal value, out of which:

- Primary market operations (new issuances) – 19491.2 million lei;
- Redemption by the Ministry of Finance of state securities at maturity – 12749.9 million lei;
- Repurchase by the National Bank of Moldova of Certificates of the National Bank of Moldova at maturity – 5868.0 million lei;
- Selling-buying operations – 47.8 million lei;
- Interbank REPO operations (stage I and II) – 204.9 million lei;
- Pledge operations – 869.5 million lei.

State securities registered in the Book-Entry System of the National Bank of Moldova as of December 31, 2006 accounted for 4861.9 million lei at nominal value, and the breakdown by issuers is shown below:

I. Ministry of Finance – SS in the total amount of 3915.2 million lei, including:

- 1365.7 million lei, or 34.9% represent SS issued through primary market auctions;
- 2140.5 million lei, or 54.7% represent SS issued and delivered to the National Bank of Moldova to guarantee loans to the State;
- 409.0 million lei, or 10.4% represent SS issued through conversion of loans previously extended to the state.

II. National Bank of Moldova – Certificates of the National Bank of Moldova in the total amount of 946.7 million lei issued through primary market auctions.

*Total amount of SS registered in BES at nominal value by holders (chart no. 44):*

*Banks*

- as of 31.12.2006 - 1237.1 million lei
- as of 31.12.2005 - 1115.8 million lei

*Other investors (including Deposit Guarantee Fund)*

- as of 31.12.2006 - 128.6 million lei

- as of 31.12.2005 - 91.9 million lei

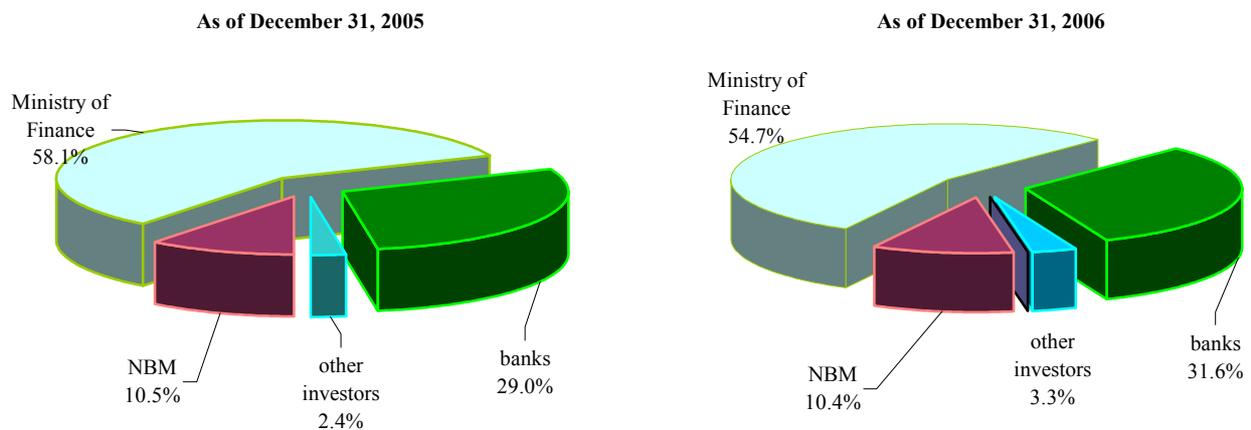
*Ministry of Finance SS pledged with NBM as guarantee for extended loans)*

- as of 31.12.2006 - 2140.5 million lei
- as of 31.12.2005 - 2234.7 million lei

*National Bank of Moldova*

- as of 31.12.2006 - 409.0 million lei
- as of 31.12.2005 - 404.5 million lei

*Chart no. 44. Structure of state securities in circulation by portfolios*



**Certificates of the National Bank of Moldova** in an amount of 946.3 million lei were recorded in the banks' portfolios, while 0.4 million lei – in the portfolios of other investors.

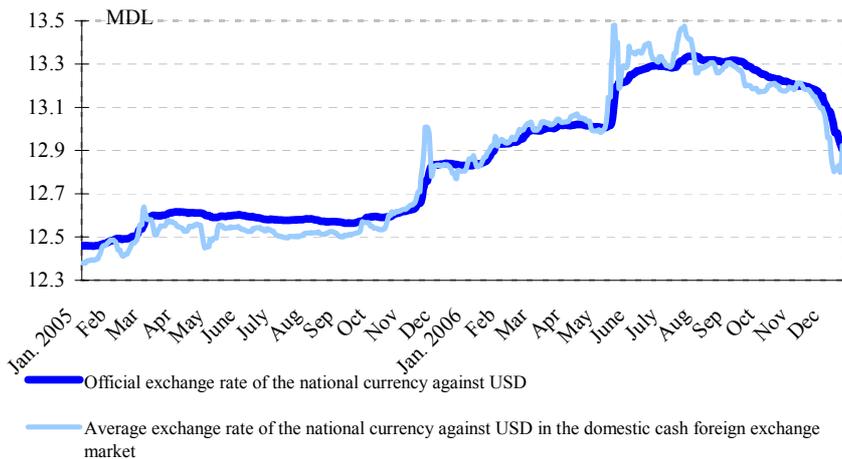
The analysis of SS structure recorded in BES by holders as of December 31, 2005 and December 31, 2006 revealed the growth of the share held by banks and the decrease of the share held by the Ministry of Finance, as a result of the loans reimbursement in the amount stipulated by the Law on the state budget.

## Trends in the Foreign Exchange Market

### *Exchange Rate Trends in 2006*

The official nominal exchange rate of the national currency against USD depreciated by 0.6% (from MDL 12.8320 per USD 1 as of December 31, 2005 to MDL 12.9050 per USD 1 as of December 31, 2006) and against EUR – by 11.7% (from MDL 15.1950 as of December 31, 2005 to MDL 16.9740 per EUR 1 as of December 31, 2006).

**Chart no. 45. Dynamics of the official nominal exchange rate and the average exchange rate of the national currency against USD in the domestic foreign exchange market**



The dynamics of the average exchange rate of the national currency against USD in the cash domestic foreign exchange market during the analyzed period had the same trend as the official exchange rate of the national currency against USD (chart no. 45).

The average official exchange rate of the national currency against USD accounted in 2006 for MDL 13.1319 per USD 1, as compared to MDL 12.6003 per USD 1 in 2005. The average official exchange rate of the national currency against EUR amounted in 2006 to MDL 16.4918 per EUR 1, as compared to MDL 15.6978 per EUR 1 in 2005.

The exchange rate dynamics of the national currency against USD in the domestic foreign exchange market was mainly influenced by the factors, as follows:

***1) Worsening of the balance of goods and services deficit as a result of prices increase on energy resources and of the decrease of receipts from exports of goods and services.***

During the reported period, the depreciation of the national currency against USD occurred on the background of the growth of deficit of goods and services balance, caused by the following external factors: double increase of prices for energy resources imported from the Russian Federation, suspending the exports for certain products to the Russian Federation along with the difficulty faced by local goods to penetrate into other markets, as well as the significant increase of prices for energy resources in the international market (chart no. 46).

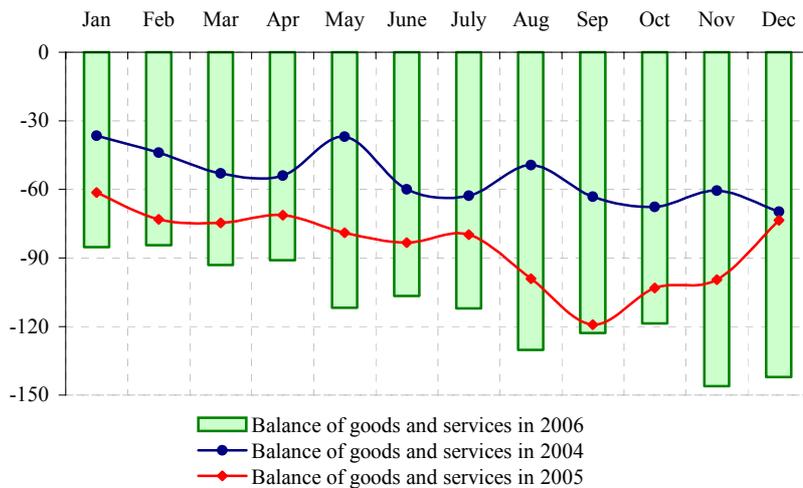
***2) Reduction of the growth rate of the net supply of foreign currency by individuals.***

The dynamics of the official nominal exchange rate of the national

currency against USD was influenced by the reduction of the growth rate of the net supply of foreign currency by individuals, from 36.1% in 2005 as compared to the year of 2004 down to the level of 14.8% in 2006 as compared to the year of 2005 (chart no. 47).

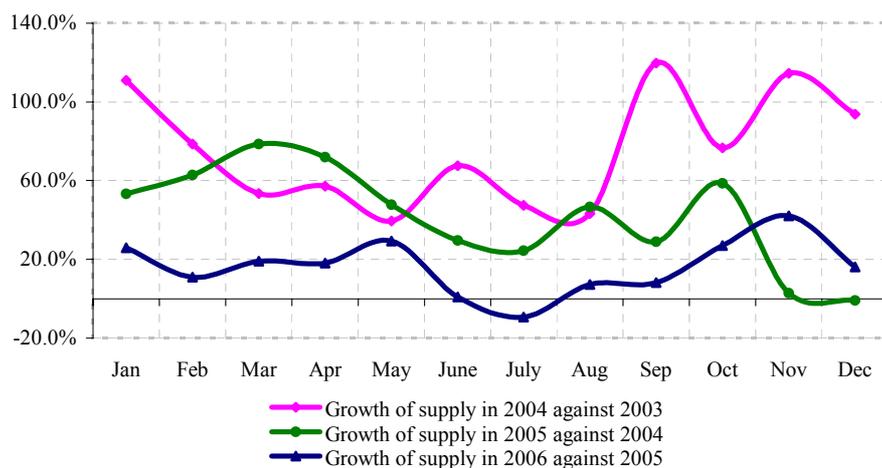
In 2006 the net supply of foreign currency by individuals equalled to USD 1193.6 million in absolute value, or 38.8% of foreign currency flows as compared to USD 1039.3 million, or 38.2% in 2005.

Chart no. 46. Dynamics of the balance of goods and services\*



It is to be noted that, on the background of the increase of the balance

Chart no. 47. Growth rate dynamics of net foreign currency supply from individuals



of goods and services deficit and of the slowing down of growth rate of net foreign currency supply from individuals, balance of goods and services\* deficit for 2006 was not covered by net foreign currency supply from individuals by USD 150.3 million. In 2005 the net foreign exchange supply from individuals exceeded by USD 22.3 million the balance of goods and services deficit.

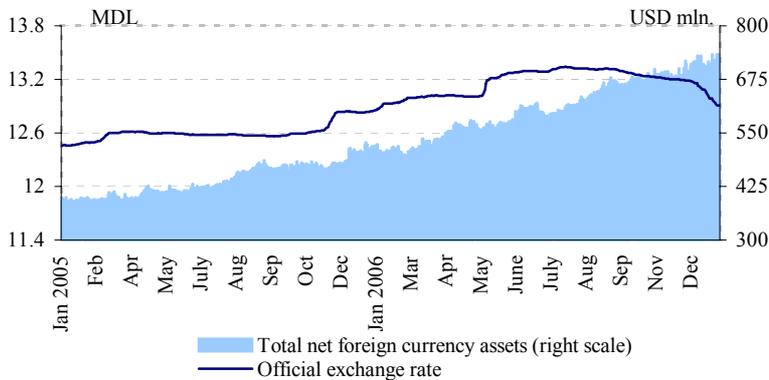
### 3) Increase of net balance sheet foreign currency assets of banks, as well as deposits.

The depreciation trend of the official nominal exchange rate of the national currency against USD in 2006 can be explained by the increase of the net balance sheet foreign currency assets of banks and of the deposits in foreign currency by banks' clients, that contributed to the reduction of the total currency supply in the domestic foreign exchange market. Net balance sheet foreign currency assets of banks went up at the end of 2006 by 45.1% as compared to the end of the previous year, while deposits in foreign currency – by 53.3% (chart no. 48).

\* Reflected within banking statistics (banks) according to international transactions methodology  
Source: Banking statistics: Reports of Balance of Payments Division

During the analyzed year, net balance sheet foreign currency assets of

Chart no. 48. Dynamics of the official nominal exchange rate of the national currency against USD and of net balance sheet foreign currency assets of banks



banks scored an increase by USD 227.9 million (from USD 505.2 million at the end of December 2005 to USD 733.1 million at the end of December 2006), as against the growth of USD 105.5 million in 2005.

**Foreign exchange inflow** advanced in 2006 by USD 355.8 million, or by 13.1% as compared to the previous year (table no. 25). This growth was caused by the increase of the net foreign currency supply from

individuals by USD 154.3 million (by 14.8%) of direct and portfolio investments – by USD 82.9 million (by 59.9%), of external loans – by USD 60.5 million (by 38.7%) and of receipts from exports of goods and services – by USD 52.0 million (by 3.9%).

Table no. 25. Structure of foreign currency inflow and outflow\* (equivalent in USD mln.)

	2004		2005		2006		2005 against 2004		2006 against 2005	
	USD mln.	Weight %	USD mln.	Weight %	USD mln.	Weight %	USD mln.	%	USD mln.	%
<b>Foreign currency total inflow</b>	<b>2148.5</b>	<b>100.0</b>	<b>2721.3</b>	<b>100.0</b>	<b>3077.1</b>	<b>100.0</b>	<b>572.8</b>	<b>26.7</b>	<b>355.8</b>	<b>13.1</b>
Exports of goods and services	1154.2	53.7	1343.0	49.4	1395.0	45.3	188.8	16.4	52.0	3.9
Net foreign currency supply from individuals	763.9	35.6	1039.3	38.2	1193.6	38.8	275.4	36.1	154.3	14.8
Loans	137.4	6.4	156.4	5.7	216.9	7.1	19.0	13.8	60.5	38.7
Grants and technical assistance	47.8	2.2	44.2	1.6	50.3	1.6	-3.6	-7.5	6.1	13.8
Direct and portfolio investments into the country	45.2	2.1	138.4	5.1	221.3	7.2	93.2	by 3.1 times	82.9	59.9
<b>Foreign currency total outflow</b>	<b>1935.3</b>	<b>100.0</b>	<b>2553.6</b>	<b>100.0</b>	<b>3044.2</b>	<b>100.0</b>	<b>618.3</b>	<b>31.9</b>	<b>490.6</b>	<b>19.2</b>
Imports of goods and services	1812.1	93.6	2359.9	92.4	2738.9	90.0	547.8	30.2	379.0	16.1
Debt servicing	110.3	5.7	147.2	5.8	159.7	5.2	36.9	33.5	12.5	8.5
Direct and portfolio investments abroad	9.7	0.5	41.0	1.6	91.2	3.0	31.3	by 4.2 times	50.2	by 2.2 times
Payments of incomes from direct and portfolio investments	3.2	0.2	5.5	0.2	54.4	1.8	2.3	71.9	48.9	by 9.9 times
<b>Foreign currency net inflow</b>	<b>213.2</b>		<b>167.7</b>		<b>32.9</b>					

\* Reflected within banking statistics (banks) according to international transactions methodology

Source: Banking statistics: Reports of Balance of Payments Division

**The foreign exchange outflow** increased in 2006 by USD 490.6 million (by 19.2%) as compared to 2005. This growth was due to the increase of the payments for imports of goods and services by USD 379.0 million (by 16.1%), of payments for external debts servicing – by USD 12.5 million (by 8.5%), of payments for direct and portfolio investments abroad – by USD 50.2 million (by 2.2 times) and of payments of incomes form direct and portfolio investments – by USD 48.9 million (by 9.9 times).

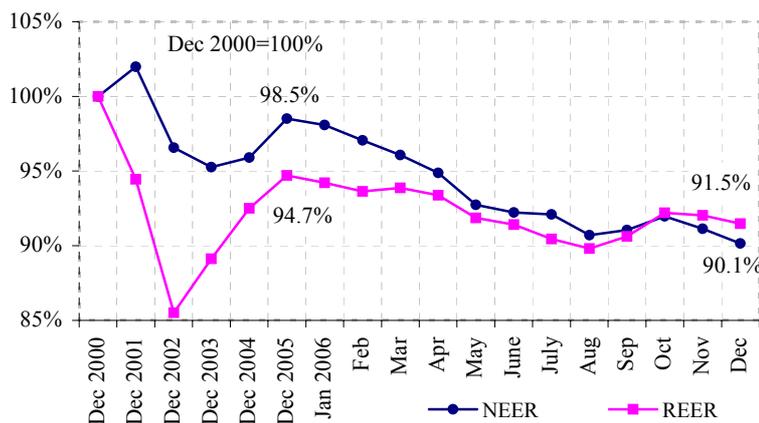
Within the structure of foreign currency inflows in 2006, the weight of US Dollar stepped up from 59.4% in January 2006 to 60.8% in

December 2006 and the weight of foreign currency outflow lessened from 74.9% in January 2006 to 68.3% in December 2006.

The weight of EUR within the structure of foreign currency inflow in 2006 diminished (from 35.9% in January 2006 to 32.2% in December 2006) and enlarged within the structure of foreign currency outflow (from 21.2% in January 2006 to 26.6% in December 2006).

In 2006 the *nominal effective exchange rate of the national currency (NEER)*, computed against December 2000 based on the weight of main trade partners within external trade transactions depreciated by 8.4 percentage points, from 98.5% in December 2005 to 90.1% in December 2006 (chart no. 49).

Chart no. 49. Dynamics of nominal and real effective exchange rates of the national currency based on trade partners



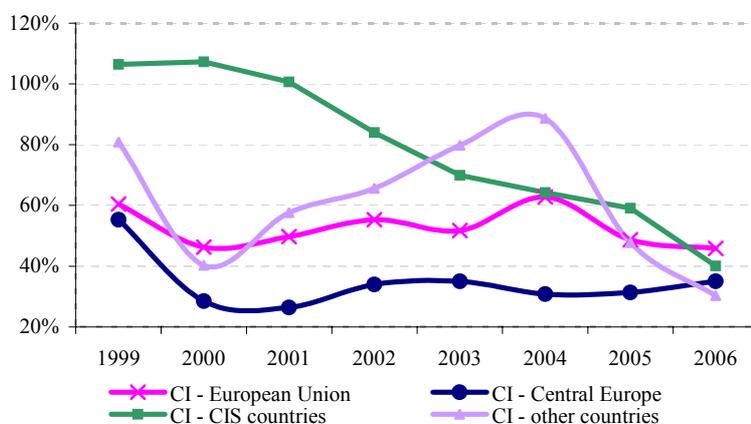
The *real effective exchange rate of the national currency (REER)* which is an indicator reflecting the exchange rate change in real terms against currencies of main trade partners (computed against December 2000, taking into consideration the inflation rates in

countries – trade partners and the monthly official exchange rate change) constituted 91.5% in December 2006, which fact denoted the competitiveness of the national currency. The real effective exchange rate of the national currency over 2006 depreciated by 3.2 percentage points.

*The competitiveness indicator\** of the Republic of Moldova with CIS

countries showed a descendant trend, from 59.1% in 2005 to 40.1% in 2006 (chart no. 50). The competitiveness indicator computed against European Union countries dropped from 48.7% in 2005 to 45.9% in 2006, which fact was generated by higher increase of imports from the European Union (by 13.7%) and by lower increases (by 7.1%) of exports to this region. Central and Eastern-European countries recorded a low competitiveness level, accounting during the reported year for 35.0%,

Chart no. 50. Competitiveness Index (CI) for domestic goods



\*computed as the ratio of exports of goods and services of the Republic of Moldova to the countries of the respective region to imports of goods and services from the countries of the same region

due to the fact that imports considerably surpassed exports to this region.

### *Foreign Exchange Market of the Republic of Moldova*

The total turnover of foreign exchange traded against MDL equalled to the equivalent of USD 6853.6\* million, increasing by 9.6% as compared to 2005 (table no. 26). Within the structure of total turnover, foreign currency acquisitions in the domestic foreign exchange market against MDL constituted USD 3449.2 million, while sales – USD 3404.4 million.

Table no. 26. **Total turnover of transactions in the domestic foreign exchange market (foreign currency purchases/sales against MDL) (equivalent in USD million)**

	Non-cash foreign exchange market *						Cash domestic foreign exchange market **			Domestic foreign exchange market
	NBM	Resident banks	Non-resident banks	Legal entities	Others	Total	Foreign exchange bureaux of banks	Foreign exchange offices	Total	
2005	213.2	405.7	526.3	3159.6	213.7	4518.5	1397.6	335.4	1733.0	6251.5
2006	167.9	592.0	99.9	3630.0	292.7	4782.5	1690.2	380.9	2071.1	6853.6
<i>Weight, %</i>										
2005	3.4	6.5	8.4	50.5	3.5	72.3	22.3	5.4	27.7	100.0
2006	2.4	8.6	1.5	53.0	4.3	69.8	24.7	5.5	30.2	100.0
<i>Growth rate against the previous year, %</i>										
2006	-21.2	45.9	-81.0	14.9	36.9	5.8	20.9	13.6	19.5	9.6

\* Source: Reports on foreign currency purchase/sale transactions conducted by banks in the forex market and balances in foreign exchange accounts of banks' clients, as well as NBM data

\*\* Source: Reports of foreign currency purchase /sale values registered by exchange offices and exchange bureaux by hotels, as well as NBM data

The turnover in the non-cash forex market soared by 5.8% versus 2005, and the turnover in the cash forex market – by 19.5%. The share of non-cash forex market operations in the domestic forex market diminished by 2.5 percentage points (from 72.3% in 2005 to 69.8% in 2006), while the weight of cash forex market increased by the same value (from 27.7% in 2005 to 30.2% in 2006). The significant share of cash forex markets was mainly due to remittances from abroad of citizens of the Republic of Moldova, which are especially converted in cash in the national currency and aimed for the consumption needs. Unlike in the previous year, within the structure of total turnover of transactions concluded by the foreign exchange market participants in 2006, the weight of operations performed by legal entities enlarged by 2.5 percentage points, by exchange bureaux of banks – by 2.4 percentage points, by resident banks – by 2.1 percentage points, by non-bank exchange offices – by 0.1 percentage point. At the same time, the weight of transactions concluded by non-resident banks and by the National Bank of Moldova, diminished by 6.9 and by 1.0 percentage points, respectively.

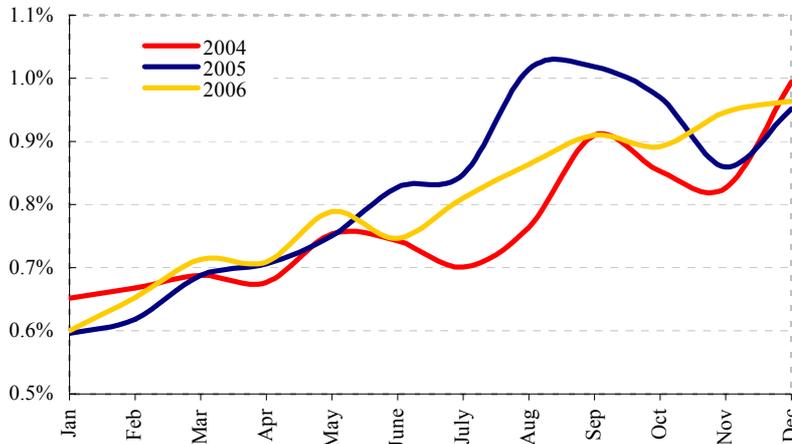
The weight of the transactions turnover carried out in 2006 by exchange bureaux of banks constituted 24.7% of total turnover of transactions in the domestic foreign exchange market and exceeded by

\* This amount shall not include purchases /sales against MDL conducted by NBM with the Ministry of Finance, other ministries

4.5 times the weight of transactions turnover performed by non-bank exchange offices.

The increase of the volume of forex transactions during the reported period was determined by the amplification of the operations in foreign currency related to imports / exports of goods and services conducted by economic agents of the Republic of Moldova through resident banks, by the enlarged volume of remittances from abroad, as well as by foreign credit drawing and servicing.

Chart no. 51. Domestic foreign exchange market liquidity



domestic product augmented in 2006 by USD 2.3 million (from USD 24.6 million to USD 26.9 million) and by USD 367.7 million (from USD 2988.2 million to USD 3355.9 million), accordingly (chart no. 51). During 2006 the maximum values of liquidity in foreign currency were registered over Quarter IV, especially, in December 2006 – 0.97%.

Table no. 27. Forex market liquidity by countries (%)

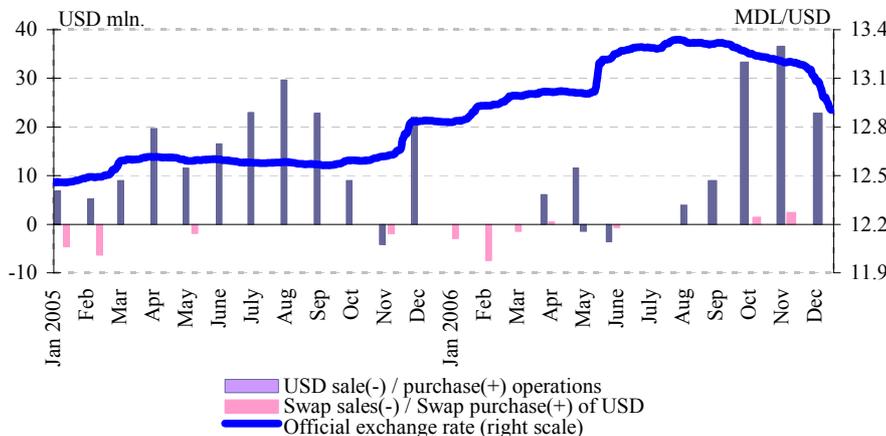
	2005	2006
Russian Federation	2.82	2.60
<b>Moldova</b>	<b>0.82</b>	<b>0.80</b>
Ukraine	0.68	0.76
Belarus	0.50	0.48

Compared to neighbouring countries and main trade partners of the Republic of Moldova, the

foreign exchange market liquidity of the Republic of Moldova is lower than in the Russian Federation (2.60%) and higher than in Ukraine (0.76%) and in the Republic of Belarus (0.48%) (table no. 27).

With a view to mitigate the excess fluctuations of the official nominal exchange rate of the national currency against USD, *the National Bank of Moldova performed interventions in the domestic*

Chart no. 52. The evolution of the official exchange rate of MDL /USD and the NBM interventions

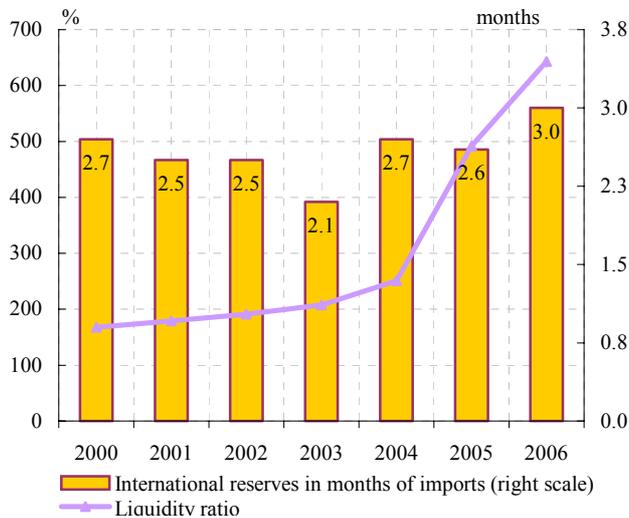


\* Ratio between daily average turnover of transactions against MDL and GDP (%).

*foreign exchange market by using the following instruments: USD buying/selling operations in the net amount of USD 118.5 million and*

*swap reversible instruments (of purchase/sale) in an amount of USD 17.8 million (chart no. 52).*

**Chart no. 53. The dynamic of liquidity rate and international foreign exchange reserves in months of imports**



Payments under external public debt servicing (including servicing of IMF credits) amounted in 2006 to USD 92.9 million. **State foreign exchange reserves** increased over the year by USD 177.9 million, or by 29.8% (from USD 597.4 million to USD 775.3 million), a volume sufficient to cover goods and services imports for the duration of approx. three months\*. Foreign exchange reserves liquidity ratio\*\* reached in 2006 the level of 642.8%, increasing by 151.0 percentage points as compared to the previous year (chart no. 53).

**Table no. 28. Structure of forex turnover**

Period	Non-cash forex market		Cash forex market		Total forex market		In total turnover
	purchases	sales	purchases	sales	purchases	sales	
<b>2005</b>	<i>Weight, %</i>						
USD	80.5	78.7	49.0	60.4	66.6	76.5	71.5
EUR	13.2	17.0	49.5	35.1	29.2	19.2	24.3
RUB	6.1	3.9	0.9	2.2	3.8	3.7	3.7
Other	0.2	0.4	0.6	2.3	0.4	0.6	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>2006</b>	<i>Weight, %</i>						
USD	74.7	73.5	47.6	53.3	61.8	70.8	66.3
EUR	20.7	22.5	50.3	41.4	34.8	25.0	29.9
RUB	4.4	3.6	1.3	2.5	2.9	3.5	3.2
Other	0.2	0.4	0.8	2.8	0.5	0.7	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

In 2006 the average annual share of transactions in foreign currency within total turnover was as follows: USD – 66.3%, EUR – 29.9%, RUB – 3.2% and other currencies – 0.6% (table no. 28).

US Dollar continued to prevail in forex market transactions of the Republic of Moldova. However, during the reported year, US Dollar decreased, as compared to 2005, its share in the domestic

foreign exchange market by 5.2 percentage points, while the share of EUR went up by 5.6 percentage points.

**Table no. 29. Main sources of foreign currency acquisitions by banks of the Republic of Moldova in the domestic foreign exchange market<sup>†</sup> (equivalent in USD mln.)**

Period	Foreign currency acquisitions in the domestic foreign exchange market against MDL from:							Total
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	Other	
2005	19.2	202.4	261.9	1127.7	4.3	1244.7	113.9	2974.1
2006	22.9	294.5	71.2	1227.8	0.0	1477.3	165.0	3258.7
	<i>Weight, %</i>							
2005	0.7	6.8	8.8	37.9	0.1	41.9	3.8	100.0
2006	0.7	9.0	2.2	37.7	0.0	45.3	5.1	100.0
	<i>Growth rate against the previous year, %</i>							
2006	19.3	45.5	-72.8	8.9	-100.0	18.7	44.9	9.6

<sup>†</sup>Source: Reports on foreign exchange purchase /sale by banks in the foreign exchange market and balances in foreign exchange accounts of banks, as well as NBM data.

\* According to data on goods and services imports for 2006

\*\* State's foreign exchange reserves at the beginning of 2006 to total payments on direct and guaranteed external debt servicing (including debt to IMF), according to payment schedule (except arrears at the beginning of the year).

Against 2005, *foreign exchange purchases* by banks of the Republic of Moldova in the domestic foreign exchange market enhanced by

Table no. 30. Main directions of foreign currency sales by banks in the domestic foreign exchange market\* (equivalent in USD mln.)

Period	Foreign currency sales in the domestic foreign exchange market against MDL							Total
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	Other	
2005	194.0	203.2	264.4	2031.8	1.0	209.3	38.3	2942.0
2006	145.0	297.5	28.7	2402.2	0.0	283.9	56.7	3214.0
<i>Weight, %</i>								
2005	6.6	6.9	9.0	69.1	0.0	7.1	1.3	100.0
2006	4.5	9.3	0.9	74.7	0.0	8.8	1.8	100.0
<i>Growth rate against the previous year, %</i>								
2006	-25.3	46.4	-89.1	18.2	-100.0	35.6	48.0	9.2

\* Source: Reports on foreign exchange purchase/sale by banks in the foreign exchange market and balances in foreign exchange accounts of banks' clients, as well as NBM data.

Table no. 31. Net balance of foreign currency purchase/sale transactions against MDL (equivalent in USD mln.)

Period	Net balance							Total
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	other	
2005	-174.8	-0.8	-2.5	-904.1	3.3	1035.4	75.6	32.1
2006	-122.1	-3.0	42.5	-1174.4	0.0	1193.4	108.3	44.7

Chart no. 54. Dynamics of net balance sheet assets in foreign currency of banks

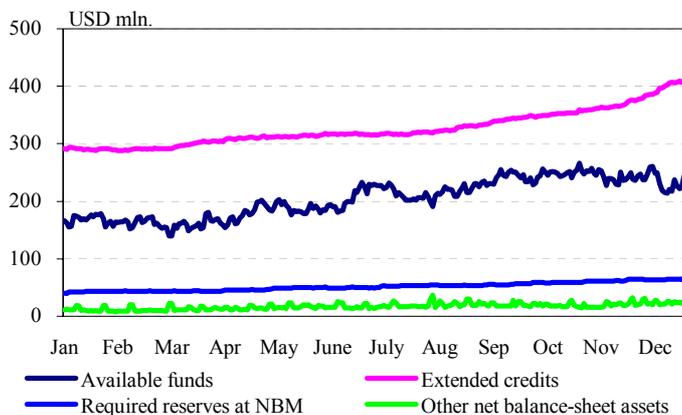


Table no. 32. Net balance sheet assets in foreign currency by banks (equivalent in USD mln.)

	Balance as of 31.12.2005	Weight in total %	Balance as of 31.12.2006	Weight in total %	Change against 31.12.2005 %
Loans	294.5	58.3	407.2	55.5	38.3
Foreign currency available funds	159.1	31.5	244.4	33.4	53.6
Required reserves	40.1	7.9	61.6	8.4	53.6
Other assets in foreign currency	11.5	2.3	19.9	2.7	73.0
<b>Total net balance sheet assets in foreign currency</b>	<b>505.2</b>	<b>100.0</b>	<b>733.1</b>	<b>100.0</b>	<b>45.1</b>

USD 284.6 million, or by 9.6% (table no. 29).

*Foreign exchange sales* by banks in the domestic foreign exchange market over 2006 advanced by USD 272.0 million, or by 9.2% (table no. 30).

The excess of foreign exchange in the domestic foreign exchange market in an amount of USD 1344.2 million, mainly deriving from individuals (USD 1193.4 million, or by 88.8%), acquired by banks in 2006 was mainly sold to legal entities – USD 1174.4 million and to the National

Bank of Moldova – USD 122.1 million. Net balance of foreign currency purchases/sales against MDL in 2006 constituted USD 44.7 million (table no.31).

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

As of December 31, 2006 *net balance sheet assets in foreign currency of banks* (extended credits, available funds, required reserves and other assets in foreign currency) enlarged by USD 227.9 million (from USD 505.2 million to USD 733.1 million) as compared to December 31, 2005, which represented an increase by 45.1% (table no. 32, chart no. 54).

Out of total balance sheet assets in foreign currency, the balance of *credits in foreign currency*, held the highest weight and accounted for 55.5% as of December 31, 2006, by 2.8 percentage points less as compared to as of December 31,

2005. The balance of credits in foreign currency extended as of December 31, 2006 enlarged by USD 112.7 million (from USD 294.5

Table no. 33. Loans in foreign currency within the banking system (equivalent in USD mln.)

	Balance as of 31.12.2005	Weight in total %	Balance as of 31.12.2006	Weight in total %	Change against 31.12.2005 %
USD	198.5	67.4	247.8	60.9	24.8
EUR	96.0	32.6	159.4	39.1	66.0
<b>Total on all currencies</b>	<b>294.5</b>	<b>100.0</b>	<b>407.2</b>	<b>100.0</b>	<b>38.3</b>

million to USD 407.2 million), or by 38.3% as compared to the end of 2005 (table no. 33).

According to the foreign exchange structure of the balance of credits in foreign currency at the end of 2006, USD accounted for 60.9%, EUR –

39.1%. The weight of the balance of credits in EUR in the total balance of credits in foreign currency raised by 6.5 percentage points (from 32.6% to 39.1%) as compared to December 31, 2005.

*Net balance sheet liabilities in foreign currency* recorded during the

Table no. 34. Net balance sheet liabilities in foreign currency (equivalent in USD mln.)

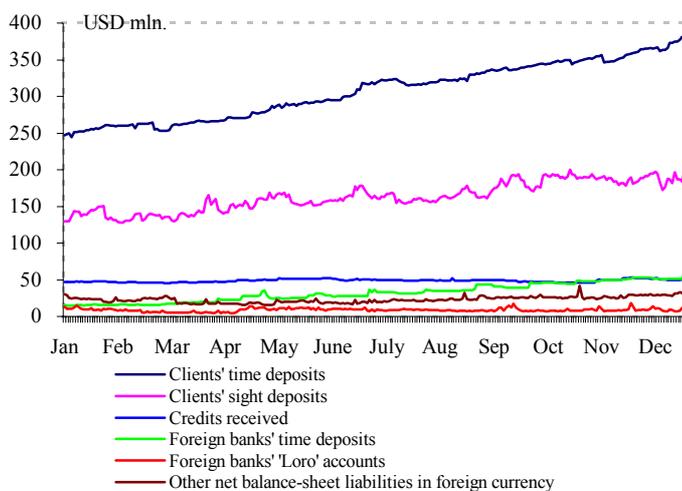
	Balance as of 31.12.2005	Weight in total %	Balance as of 31.12.2006	Weight in total %	Change against 31.12.2005 %
Clients' term deposits	246.8	51.5	382.0	52.5	54.8
Clients' sight deposits	131.3	27.4	197.5	27.1	50.4
Term deposits of foreign banks	15.5	3.2	59.6	8.2	de 3.8 ori
Loans received	47.3	9.9	50.0	6.9	5.7
"Loro" accounts of foreign banks	10.8	2.2	10.4	1.4	-3.7
Other liabilities in foreign currency	27.9	5.8	28.5	3.9	2.2
<b>Total net balance sheet liabilities in foreign currency</b>	<b>479.6</b>	<b>100.0</b>	<b>728.0</b>	<b>100.0</b>	<b>51.8</b>

reported period an increase of USD 248.4 million (from USD 479.6 million as of December 31, 2005 to USD 728.0 million as of December 31, 2006), or by 51.8% (table no. 34, chart no. 55).

The weight of *term deposits in foreign currency* of clients amounted as at the end of 2006 to 52.5% of total net balance sheet liabilities in foreign

currency. Their balance increased by USD 135.2 million as compared to the end of 2005 (from USD 246.8 million to USD 382.0 million), or by 54.8%.

Chart no. 55. Net balance sheet liabilities in foreign



At the end of the reported period, the balance of *sight deposits in foreign currency* of clients constituted 27.1% of total net balance sheet liabilities in foreign currency. In 2006 the balance of these deposits went up in absolute values by USD 66.2 million (from USD 131.3 million as of December 31, 2005 to USD 197.5 million as of December 31, 2006), or by 50.4%.

The weight of the balance of *credits received in foreign currency* in total net balance sheet liabilities in foreign currency by banks added up as of December 31, 2006 to 6.9%, as compared to 9.9% as of December 31,

2005. At the same time, at the end of 2006, the balance of credits received in foreign currency in absolute values stepped up by USD 2.7 million (from USD 47.3 million as of December 31, 2005 to USD 50.0 million as of December 31, 2006), or by 5.7%.

The balance of *term deposits in foreign currency of foreign banks* increased as of December 31, 2006 by USD 44.1 million (from USD 15.5 million to USD 59.6 million), or by 3.8 times as compared to the end of 2005. Their weight in total net balance sheet liabilities in foreign currency accounted for 8.2% as at the end of 2006, enlarging by 5.0 percentage points as against as of December 31, 2005.

The balance of *Loro accounts of foreign banks* downsized during the reported period by USD 0.4 million (from USD 10.8 million as of December 31, 2005 to USD 10.4 million as of December 31, 2006), or by 3.7%, their weight in total net balance sheet liabilities in foreign currency accounted for 1.4% at the end of 2006.

**Table no. 35. Total deposits in foreign currency of banks' clients**  
(equivalent in USD mln.)

	Balance as of 31.12.2005	Weight in total %	Balance as of 31.12.2006	Weight in total %	Change against 31.12.2005 %
EUR	155.1	41.0	297.0	51.3	91.5
USD	219.0	57.9	276.1	47.6	26.1
RUB	2.3	0.6	4.3	0.7	87.0
Other currencies	1.7	0.5	2.1	0.4	23.5
<b>Total on all currencies</b>	<b>378.1</b>	<b>100.0</b>	<b>579.5</b>	<b>100.0</b>	<b>53.3</b>

*The major balance sheet liabilities in foreign currency of banks* (term deposits and sight deposits of clients) advanced as of December 31, 2006 by USD 201.4 million (from USD 378.1 million to USD 579.5 million), or by 53.3% as compared to the end of 2005 (table no. 35).

The analysed breakdown of deposits by currencies denoted the prevalence of EUR as depositing currency of banks' clients. The weight of the balance of deposits in EUR in total deposits in foreign currency of clients accounted for 51.3% at the end of the reported period, increasing by 10.3 percentage points in comparison with December 31, 2005. The balance of deposits in EUR by clients went up by the equivalent of USD 141.9 million, or by 91.5% as compared to December 31, 2005 and scored USD 297.0 million at the end of the reported year.

The weight of the balance of deposits of clients in USD dropped at the end of 2006 as compared to the end of 2005 by 10.3 percentage points (from 57.9% to 47.6%). The balance of deposits in USD amounted as at the end of the reported period to USD 276.1 million, and registered an increase by USD 57.1 million, or by 26.1% as compared to the end of 2005.

The open (long) foreign exchange position\* of banks by all currencies reduced at the end of 2006 as against as of the end of 2005 by 40.4% (from USD 16.1 million to USD 9.6 million).

As of December 31, 2006 the open long foreign exchange position in USD by banks decreased as compared to the end of 2005 by 56.0% (from USD 8.4 million to USD 3.7 million), in EUR – by 20.8% (from USD 2.4 million to USD 1.9 million).

### ***Foreign Exchange Regulation in 2006***

In 2006 the National Bank of Moldova continued its activity of amending the legal framework within the context of gradual liberalization of foreign exchange regulations. While modifying the specified legal framework, there were also taken into account the modifications operated to the legislation in force of the Republic of Moldova, as well as the actions of bringing the legislation in the foreign exchange field in line with the EU legislation standards and of gradual liberalization of certain operations related to the transfer of capital from the Republic of Moldova.

- New regulations related to the import into and the export from the Republic of Moldova by individuals of banknotes, coins and cheques in national currency and of banknotes, coins and traveller's cheques in foreign currency were established by the Law no.61-XVI of March 23, 2006 "On modification and completion of the Law no.1569-XV of December 20, 2002 on the procedure of import into and export from the territory of the Republic of Moldova of goods by individuals", the draft of which was worked out by the Customs Service of the Republic of Moldova in collaboration with the National Bank of Moldova. The concerned regulations refer, inter alia, to the limits set up for the import into /the export from the Republic of Moldova of cash and cheques by individuals, to the case in which the export of cash and cheques is made based on the customs documents confirming currency import into the Republic of Moldova and /or on currency export permissions, issued in accordance with the normative acts of the National Bank of Moldova, – to the compulsoriness of declaring the mentioned values upon their import into /export from the Republic of Moldova in cases provided for by law, etc.

- Within the context of bringing the legislation in the foreign exchange field in line with the EU legislation standards, in 2006 the National Bank of Moldova:

- elaborated the draft Law on foreign exchange regulation. While elaborating this draft Law, the EU legislation was taken into account,

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\* The amount of balance sheet assets in a certain foreign currency, as well as of the off-balance sheet liabilities on transactions pertaining to the respective currency purchase exceeds the amount of balance sheet liabilities in the respective currency, as well as of the off-balance sheet liabilities on transactions related to the respective currency sale.

as well as the legislation in the foreign exchange field of foreign states, including of certain member states of the European Union was consulted;

– operated modifications to its normative acts regulating the operations related to the export of capital, by which the definitions of certain notions were harmonized with the provisions of the nominated Directive.

• Within the context of gradual liberalization of certain operations related to the transfer of capital from the Republic of Moldova, during 2006 a series of normative acts in the field of foreign exchange regulation were approved, based on which starting with 01.09.2006 a new stage of liberalization of payments/transfers related to the export of capital from the Republic of Moldova took place. As a result, besides others, the payments/transfers related to the export of capital from the Republic of Moldova in the form of direct and real estate investments, of loans/credits related to international trade were totally liberalized.

• In the reporting year, modifications of the regimes of residents' accounts in foreign currency and of nonresidents' accounts in national currency and in foreign currency were made. These modifications are focused on the following main aspects:

a) establishment of a single regime for resident individuals' accounts in foreign currency, regardless of the source of provenience (internal or external) of funds held by such individuals;

b) delimitation of the regulations related to nonresident individuals' and legal entities' accounts in Moldovan lei and in foreign currency;

c) modification of certain regulations related to depositing on /withdrawal from residents' and non-residents' accounts in foreign currency of cash/traveller's cheques in foreign currency.

• In 2006 within the context of modification of the regimes of residents' and non-residents' accounts, the following amendments were operated:

– the rules of making by residents and non-residents of payments and transfers related to the field of foreign exchange regulation;

– certain regulations in the foreign exchange field concerning the performance of operations with cards.

• Taking into account the modification of rules of making payments/transfers, by legal entities, namely in the part that refers to the submission of confirming documents, the regulations related to the procedure of submission to the authorized bank of confirming

documents in case of performing by legal entities of certain foreign exchange operations were modified.

- Taking into consideration the fact that some modifications were operated to the rules of performing of certain foreign exchange operations by individuals, in the reporting period the Instruction on transfer/export from the Republic of Moldova of funds by certain categories of individuals was adopted, which replaced the Instruction on the procedure of transfer/export from the Republic of Moldova of funds by certain categories of individuals.

- In the reporting period, the Instruction on external commitments was adopted, which replaced the Instruction on registration and authorization by the National Bank of Moldova of private external commitments. The elaboration of the new Instruction was conditioned, besides others, by the substitution of the procedure of external commitments' registration with a more simplified procedure of notification thereof to the National Bank of Moldova by residents, as well as by the simplification of the procedure of reporting of operations performed within the external commitments that are notified/authorized.

The new Instruction regulates the types of external commitments to be notified/authorized, the procedure of notifying the National Bank of Moldova by residents on external commitments, the procedure of issuance by the National Bank of Moldova of authorizations concerning external commitments, the procedure of making payments/transfers related to external commitments, the procedure of reporting to the National Bank of Moldova of operations performed according to the notified/authorized external commitments, other peculiarities related to external commitments.

- In the normative acts of the National Bank of Moldova, which regulate the operations related to the export of capital from the Republic of Moldova in the form of investments, within external commitments, as well as the opening of accounts abroad, the provisions related to the procedure of examination of the respective written requests for authorization and the procedure of authorization thereof were revised and standardized taking into consideration the peculiarity of each capital operation. Besides others, the operated modifications resulted in the optimization of the list of documents to be submitted to the National Bank of Moldova and the reduction from 30 to 15 working days of the period of the respective written requests' examination. Also, certain provisions related to the reporting of the mentioned authorized operations were simplified.

- Taking into account some modifications and completions operated to the Chart of Accounts for banks and other financial

institutions of the Republic of Moldova, establishment of a single regime for resident individuals' accounts in foreign currency, as well as for the purpose of improving the system of statistical data collection, in 2006 certain regulations on the reporting to the National Bank of Moldova by banks of operations related to the foreign exchange field were modified.

- Taking into account the recent evolution, which took place on the foreign exchange market of the Republic of Moldova and on the external foreign exchange market as well, in the reporting period the Agreement on interbank market of foreign exchange operations in the Republic of Moldova was approved in a new wording.

Also, in 2006 the National Bank of Moldova adopted other regulations in the foreign exchange field.

### **International Cooperation**

#### ***International Monetary Fund (IMF)***

The Republic of Moldova became a member of the International Monetary Fund (IMF) on August 12, 1992. At the end of 2006 the subscription - quota of the Republic of Moldova with IMF constituted SDR 123.2 million (approx. USD 185.2 million).

The financial support extended to the Republic of Moldova over 1993 to 2006 totalled USD 456.1 million (SDR 313.5 million): total reimbursements amounted to USD 303.2 million (SDR 219.7 million), and interest and commissions – to USD 85.9 million (SDR 61.4 million).

Moldova's debt to IMF as at the end of 2006 totalled USD 141.0 million, or SDR 93.8 million. Total payments related to IMF debt servicing in 2006 amounted to USD 26.7 million (equivalent of SDR 18.1 million), of which principal payments amounted to USD 24.1 million (SDR 16.4 million) and interest payments – to USD 2.5 million (SDR 1.7 million).

Within the context of the collaboration with IMF, on May 5, 2006, the Article IV consultation with the Republic of Moldova was concluded, therefore, the Executive Board of the International Monetary Fund approved a new 3-year Arrangement with the Republic of Moldova, under the Poverty Reduction and Growth Facility (PRGF), in an amount equivalent to SDR 80.08 million (about USD 118.2 million)\*.

The program of the authorities of the Republic of Moldova sustained through PRGF has the purpose to support the economic growth and the poverty reduction by maintaining the macroeconomic stability, to improve the performance of the financial sector, etc.

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\* Poverty Reduction and Growth Facility (PRGF) represents a preferential lending mechanism extended by IMF to low-income states. Credits within PRGF are extended at an average interest rate of 0.5%, for a term of 10 years, with a grace period of 5.5 years.

The strict achievement of measures foreseen within the program sustained through PRGF shall stimulate the assistance from outside for the Republic of Moldova, contributing thus to a sustainable economic growth and to poverty reduction.

Within the IMF mission of October 2006, the IMF experts evaluated the performance of macroeconomic policies implementation and of structural reforms agreed upon in the Memorandum of Economic and Financial Policies (MEFP) for 2006. The IMF mission positively appreciated the amendments operated to the Law on the National Bank of Moldova with regard to modify the fundamental objective of the National Bank of Moldova from “achievement and maintenance of the national currency stability” to “ensuring and maintaining the prices stability”.

The modification of the fundamental objective of the National Bank of Moldova determined the adjustment by the National Bank of Moldova of its monetary and foreign exchange policy, as well as of its instruments to new requirements.

Table no. 36. Financial arrangements with IMF

Type of facility	Approved amount (SDR, million)	Disbursed amount (SDR, million)	Weight of disbursements in total approved amount (%)	Stock as of 31.12.2006 (SDR, million)	Stock as of 31.12.2006 (USD, million)
Extended Fund Facility (EFF)	135.0	87.5	64.8	25.4	38.2
Poverty Reduction and Growth Facility (PRGF)	221.8	71.1	32.1	68.4	102.8

Moldova under the Poverty Reduction and Growth Facility arrangement, concluded on December 15, 2006 the IMF Executive Board approved an augmentation of the three-year PRGF arrangement to a total amount of SDR 110.88 million. As a result of the first review, the amount of SDR 31.97 million (approx. USD 48.0 million) was disbursed.

Within the IMF missions conducted in the Republic of Moldova during 2006, the National Bank of Moldova benefited from technical assistance in the following fields: recapitalization of the National Bank of Moldova and financial relations strengthening between the Ministry of Finance and the National Bank of Moldova; improvement of monetary policy operations, creation of preconditions for an inflation targeting framework and the analysis of the financial sector stability; development of the foreign exchange system (assistance provided with a view to finalize the draft Law on foreign exchange regulation).

Within the context of arrangements agreed upon with the International Monetary Fund (FMI) and within the IMF policy of Safeguards Assessment of central banks, during the reported year the National Bank of Moldova underwent the Safeguards Assessment evaluation, by the IMF Financial Department. In the period of September 4–8,

2006 the IMF mission conducted an analysis as a result of which the report on Safeguards Assessment of the National Bank of Moldova was worked out and approved by the IMF on October 13, 2006. The report includes an evaluation of the internal and external audit mechanism, the legal structure and the independence of the National Bank of Moldova, financial reporting and the existent internal control system, in order to make sure that the fructification of resources granted by the IMF is under proper monitoring. The assessment report of 2006 ascertained a substantial progress in the safeguards framework of the National Bank of Moldova from the previous evaluation in 2002.

On May 2, 2006 the Republic of Moldova became the 63<sup>rd</sup> state subscribed to the IMF Special Data Dissemination Standard (SDDS).

The IMF saluted the subscription of Moldova to SDDS, appreciating this fact as a major step for the local official statistics and data users. At the same time, this fact represents a commitment of the Republic of Moldova of ensuring transparency, as well as a successful undertaking the implementation of internationally accepted statistics practices.

### ***World Bank Group (WB)***

For the purpose of on-going support of the achievement of the Economic Growth and Poverty Reduction Strategy Paper of Moldova (EGPRSP), as well as of the Action Plan Republic of Moldova – EU, the World Bank approved in 2006 the Poverty Reduction Support Credit (PRSC) for Moldova in an amount of USD 10.0 million. This credit is aimed to support the Government's actions to accelerate the economic growth and improve its social programs and public administration efficiency.

During 2006 within various projects' framework, the World Bank approved, as well, other credits, for the Republic of Moldova, such as:

- the credit in an amount of USD 10.0 million, within the Quality education in rural areas of Moldova project;
- the credit in an amount of USD 15.0 million, within the Rural Investments and Services Project (RISP II);
- the credit in an amount of USD 10.6 million, within the Avian Influenza Control and Human Pandemic Preparedness and Response Project;
- the credit for poverty reduction support (PRSC) in an amount of USD 10.0 million.

### ***International Bank for Reconstruction and Development (IBRD)***

As of December 31, 2006 the stock of loans extended by IBRD to the Republic of Moldova accounted for USD 151.1 million. IBRD-

financed projects were granted for the development of the general education system, of the private sector, for structural adjustments' implementation, for drought aftermath liquidation, as well as for the support of the power system development, etc.

### ***International Development Association (IDA)***

The stock of credits contracted from IDA amounted as of December 31, 2006 to USD 242.3 million, total drawings equalled in 2006 to USD 22.4 million.

### ***European Bank for Reconstruction and Development (EBRD)***

According to EBRD Strategy for Moldova approved at the EBRD Board of Directors meeting on July 26, 2005 for a 2-year period, EBRD shall grant support to the financial sector through credit lines, microfinancing products, as well as credit lines and co-financing with local banks for private entities.

In 2006 EBRD intensified its cooperation with the banks of the Republic of Moldova by signing the contracts of credit lines extension.

Thus, BC "Mobiasbancă" S.A. and EBRD signed on 23.11.2006 the agreement on granting to the Moldovan bank a credit line in an amount of USD 6.0 million for supporting the small and medium-sized enterprises from Moldova. Credits extended on the account of the credit line shall be granted to private enterprises in an amount of up to USD 500.0 thousand (or the equivalent in EUR) for a term of up to 5 years. Within this loan, EBRD will contribute with USD 3.0 million, while the rest of the amount will be provided by the Netherlands Development Finance Company.

Simultaneously, within the Trade Facility Program, EBRD has doubled the limit of the lending program for BC "Mobiasbancă" S.A. up to USD 9.0 million.

On 24.11.2006, EBRD signed a lending agreement with BC "Banca Socială" S.A. in an amount of EUR 3.0 million for supporting the small and medium-sized enterprises. EBRD has also increased the lending limit of BC "Banca Socială" S.A. from USD 1.0 million to USD 4.0 million within the trade financing program – exports, imports and internal programs, within countries with EBRD presence. Out of funds proceeded from the credit line small and medium-sized enterprises will be able to benefit from loans in an amount of up to USD 100.0 thousand.

### ***European Union (EU)***

The legal framework of collaboration relations between the Republic of Moldova and the European Union represents the Partnership and Cooperation Agreement (PCA) signed on November 28, 1994 (in force on July 1, 1998).

The fundamental document related to PCA implementation is the Action Plan Republic of Moldova–European Union (RM-EU). In 2006 the National Bank of Moldova implemented all measures provided by the Action Plan RM-EU, especially the measures related to the objective of “Economic growth strengthening and sustainability ensuring for medium term”, as well as to the “Functional market economy”, etc.

In 2006 the Republic of Moldova benefited from a grant in an amount of EUR 1.2 million within the Food Security Programme of the European Commission.

Over the year of 2006 payments on the reimbursement of credits extended by the European Community accounted for the total amount of USD 3.8 million (EUR 3.0 million), while interest payments amounted to USD 0.1 million (EUR 0.08 million).

### ***Council of Europe Development Bank***

The Parliament of the Republic of Moldova ratified through Law no.77-XVI of February 12, 2005 the Loan Framework Agreement between the Council of Europe Development Bank and the Republic of Moldova, signed on January 5, 2005 with regard to contracting a loan in an amount of USD 6.0 million aimed at financing the “Transfusion Security within the Republic of Moldova Project”.

In 2006, within the mentioned loan, there were carried out drawings in the total amount of EUR 2.0 million (USD 2.49 million).

### ***Cooperation with Other International Organizations***

During the reported year, the National Bank of Moldova continued its activity, within the technical assistance project “Moldova – Monetary Policy Instruments Development: Implementation”, provided to the National Bank of Moldova by FIRST Initiative, together with the projects’ consultants, with a view to developing the secondary market of bank deposit certificates and bills of exchange.

### ***Bank Supervisors’ Group of Central and Eastern Europe***

The National Bank of Moldova became part of the Bank Supervisors’ Group of Central and Eastern Europe (BSCEE) in June 1996 by signing the Agreement on the rules of BSCEE Group organization and management (with further modifications and completions).

The membership of BSCEE Group allows the National Bank of Moldova to participate in the exchange of experience between the group members, in the process of on-going professional training of the personnel, in the elaboration of new standards, as well as to benefit from methodologic assistance in the field of banks’ prudential regulation.

The mentioned facts facilitate the increment of the local banking sector competitiveness, its capacity to attract new investments, including foreign investments, which result in the increase of banks' possibility to satisfy the requirements and the needs of different branches of the national economy.

### ***Cooperation with Central Banks of Other States***

In 2006 the National Bank of Moldova collaborated actively with central banks of other states.

Within the context of regional development and cooperation, a team of specialists from the National Bank of Belarus (NBB) visited the National Bank of Moldova during the period of November 28 – December 1, 2006 within the framework of experience sharing with the purpose of getting familiar with the experience of the National Bank of Moldova in organizing and implementing the internal control system (ICS), in the field of risk management and of the internal audit methodology.

A Memorandum on the collaboration between the National Bank of Moldova on banking supervision and the Agency of the Republic of Kazakhstan on financial market and financial institutions regulation and supervision was signed in 2006 as a result of the established relations.

In 2006 the employees of the National Bank of Moldova participated at seminars and training courses organized by the following central banks: Deutsche Bundesbank, Banque de France, Swiss National Bank, De Nederlandsche Bank, Czech National Bank, etc.

### **Banking Supervision and Regulation\***

As of December 31, 2006 there were 15 joint stock commercial banks authorized by the National Bank of Moldova, including three subsidiaries of foreign banks. The total number of banking institutions (branches and representative offices) constituted 966, of which 227 branches and 739 representative offices. During 2006, there were opened 15 branches, 46 new representative offices and were closed 23 representative offices.

In 2006 BC "BUSINESSBANK" S.A. was withdrawn the authorization for financial activities based on Art.10, para. 1, item a) „authorization withdrawal is requested by the bank” of Law on financial institutions (Official Monitor of the Republic of Moldova no. 102-105/372 of 07.07.2006).

The total number of employees within the banking system accounted as of December 31, 2006 for 9020 or by 544 persons more as compared to the end of 2005. Each employee of the banking system accounted for the amount of 2.5 million lei, which is 19.0% more as compared to the end of 2005.

#### ***New Prudential Regulations***

During the year of 2006 the National Bank of Moldova continued to undertake efforts for the sustainable development of the local banking system by bettering the banking supervision mechanism.

Following the coming into effect of the new provisions of the Law on financial institutions (November 18, 2005), there were modifications and completions operated on a series of normative acts related to banks' authorization, requirements to banks' administrators, holding the significant interest within the bank's capital, transactions with persons affiliated to the banks.

In order to ensure the transparency of the structure of bank's owners and to know the persons that exercise a considerable influence on the bank's management and activity, as well as to determine the character of relationships between debtors and banks' owners, the minimum data list was established on the bank's debtors and direct or indirect owners (beneficiaries) of share within the bank's capital, which is to be obtained and updated by banks. The banks shall, as well, have in place clear procedures with regard to knowing the affiliated persons of the bank, including being aware of all criteria of the affiliation of the council members to the bank.

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\* According to credit and deposit account balances in the balance sheet worked out following the Instruction on Elaboration and Submission by commercial banks of Financial Statements, approved by the Decision of the Council of Administration of the National Bank of Moldova no. 36 of 08.08.1997 (Official Monitor of the Republic of Moldova no.64-65 of 02.10.1997)

There were stipulated two ways of submitting the request of holding the significant interest within the bank's capital: through the issuing bank's council or by submitting the written request directly to the National Bank of Moldova. The requirement of submitting the information on the persons affiliated to the applicant to hold a significant interest within the bank's capital was expanded, and distinct procedures were established for submitting the set of documents pertaining to the holding by foreign banks of significant interest within the capital of local banks. There was specified the need of examining the premises for ensuring the positive impact on the development and the performance of the bank's activity following the issuance of the authorization on holding the respective significant interest.

Financial statements submitted by banks to the National Bank of Moldova were improved. Thus, the banks were requested to present the information on banks' shareholders that hold interests equal to 1.0% or higher in the bank's capital, the amount of all equity interests within the capital of banks which direct or indirect owners (beneficiaries) are residents of off-shore countries or regions. In order to have a certain knowledge with reference to the relations of banks with the affiliated persons and of the risk associated with these relation, the banks were requested to submit data reflecting the nature and the value of incomes and expenditures pertaining to the bank's transactions with persons affiliated thereto, as well as data on the commitments thereof to these persons.

For a consolidated supervision of the risks undertaken by banks, as a result of investments in the capital of economic units and of the evaluation of these risks' impacts on the banks' activity, the banks shall submit financial statements of the economic units where they hold an interest of 25.0% or more of the capital thereof, as well as the information related to the "large" exposures of the economic agents concerned. The National Bank of Moldova shall, as well, be compulsorily notified by banks on any investment performed in the capital of economic units.

Taking into consideration the specific features of microcredits, the National Bank of Moldova updated its regulations on the evaluation and the formation of credit loss provisions issued to small and medium-sized enterprises in an amount of up to 75.0 thousand lei, with no pledge or any other form of insurance required and the reimbursement of which shall be based on the debtor's commitment and on the bank's internal insuring procedures.

With a view to determine the specific procedure of organizing the internal control systems related to the management of the country risk

and of the transfer risk, the Recommendations on the management of the country risk and of the transfer risk by the banks of the Republic of Moldova were elaborated, the purpose of which is to provide the minimum principles to serve as guidelines for banks in working out own internal control systems pertaining to the management of said risks.

With the purpose of improving the customer identification policies, there were specified additional requirements related to the identification of beneficiary owners of the banks' clients.

In order to better the disclosure by banks of the information on their activity, the banks were obliged to make public the information on the total amount of the bank's exposure to affiliates; the bank's accounting policy accompanying the financial statement, as well as the main strategic directions of the bank's activity; the conditions of extending credits to individuals; the name of the existent specialized committees; the information on the council's members, on the executive body and the chief-accountant.

### *Assets of Banks*

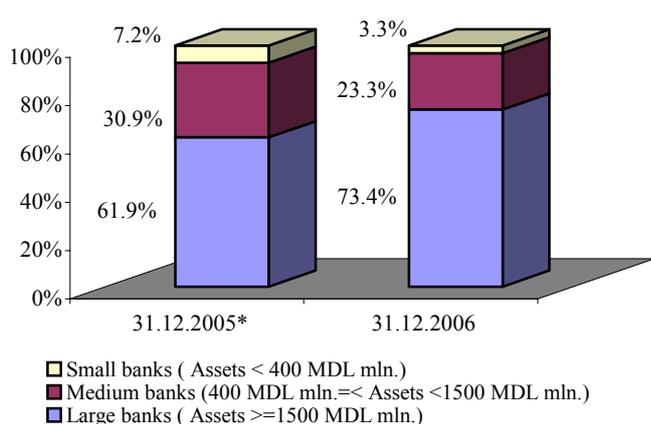
In 2006 the banking system scored a positive dynamics, manifested through quantity and quality enhancement. Total assets increased by 4837.5 million lei (27.0%) and accounted as of 31.12.2006 for 22776.7 million lei. Their weight in GDP went up from 47.6% to 51.7% (chart no.58). This growth was due to the increase of banks' liabilities by 3858.3 million lei (25.7%) and of the share capital by 979.2 million lei (33.1%).

liabilities by 3858.3 million lei (25.7%) and of the share capital by 979.2 million lei (33.1%).

The assets of large banks (6 banks) recorded an increase of 5616.5 million lei (50.6%), while the assets of small and medium banks diminished by 538.6 million lei (41.4%) and by 240.4 million lei (4.3%), respectively. Concomitantly, the weight of large banks' assets in total assets advanced by 11.5 percentage points, while the assets of small and medium banks reduced by 3.9 and 7.6 percentage points, accordingly (chart no. 56).

Within the assets' structure, all components recorded increases, except the money means owed by banks and the National Bank of Moldova, which reduced by 83.4 million lei (1.8%). Cash money means recorded an increase by 209.5 million lei (22.3%), securities – by 871.0 million lei

**Chart no. 56. Banking sector assets by groups of banks in the period of 31.12.2005\* - 31.12.2006 (%)**

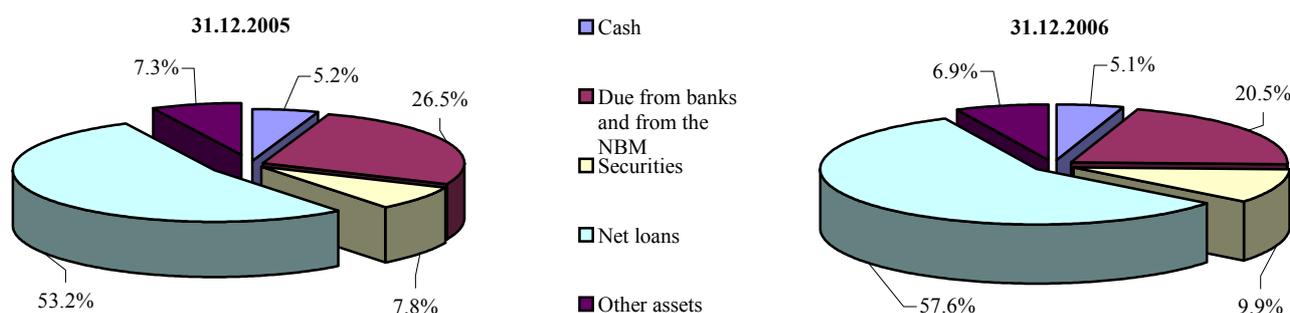


\*Data as of 31.12.2005 in the text are adjusted according to the external audit results and are reflected taking into account the opinion of the accounting policy authority

(62.5%), other assets – by 265.5 million lei (20.4%). The credit portfolio, net\* registered the highest growth – by 3574.9 million lei (37.4%).

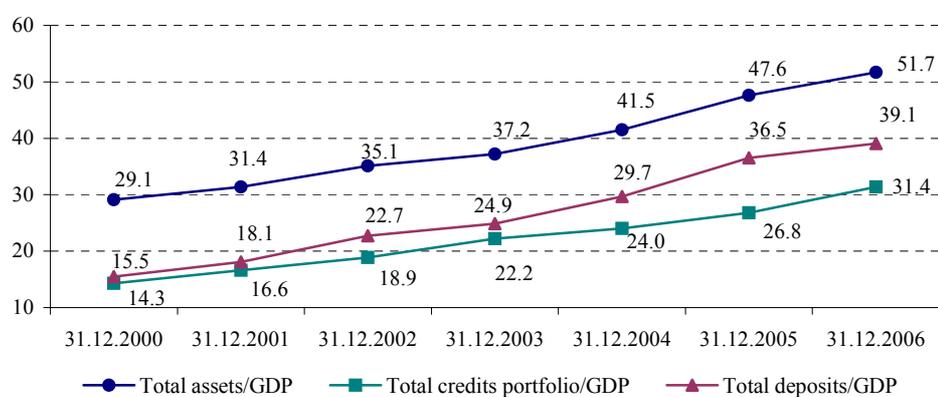
The maximum weight in total assets was held by the credit portfolio, net – 57.6%, increasing by 4.4 percentage points as compared to the end of 2005. Means owed by banks and the National Bank of Moldova held the weight of 20.5%, securities – 9.9%, cash money means – 5.1% and other assets – 6.9% of total assets (chart no. 57).

Chart no. 57. Structure of assets of the banking sector of the Republic of Moldova in the period of 31.12.2005 - 31.12.2006 (%)



The weight of extended credits in GDP went up from 26.8% as of December 31, 2005 to 31.4% as of December 31, 2006 (chart no. 58).

Chart no. 58. Dynamics of assets, credits and deposits as percent of GDP (%)



The growth of this weight at the end of 2006 proved that the banking system continues to gradually enlarge its influence on the real sector development of the country's economy.

Within the context of the distribution of risks and of the destination of investment operations, credits extended to industry

and trade held the highest weight in total credit portfolio – 48.9%, followed by credits extended to agriculture and food industry – 18.7%, credits extended for real estate, constructions and development – 10.6% and consumer credits – 9.2%. Credits extended to banks scored the lowest weight in total credits – 0.7%, credits to the Government – 1.3%, credits to power and fuel industry – 2.2% and credits extended for road construction and transportation – 3.4%. During 2006 credits

\* According to credit accounts balances in the balance sheet worked out following the Instruction on Elaboration and Submission by commercial banks of Financial Statements, approved by the Decision of the Council of Administration of the National Bank of Moldova no. 36 of 08.08.1997 (Official Monitor of the Republic of Moldova no.64-65 of 02.10.1997)

to industry/trade recorded the highest growth – by 1915.0 million lei

**Table no. 37. Dynamics of credit portfolio structure within the banking system according to the destination of investment operations**

	La 31.12.2005		La 31.12.2006	
	MDL mln.	(%)	MDL mln.	(%)
Credits to agriculture and food industry	2415.3	24.0	2580.9	18.7
Credits for real estate, constructions and development	691.5	6.9	1466.7	10.6
Consumer credits	785.9	7.8	1271.9	9.2
Credits to power and fuel industry	291.3	2.9	300.8	2.2
Credits to banks	45.4	0.4	99.0	0.7
Credits to the Government	133.2	1.3	189.0	1.3
Credits to industry /trade	4845.3	48.1	6760.3	48.9
Credits for road construction and transportation	294.5	2.9	467.1	3.4
Other credits	575.2	5.7	694.8	5.0
Total	10077.6	100.0	13830.5	100.0

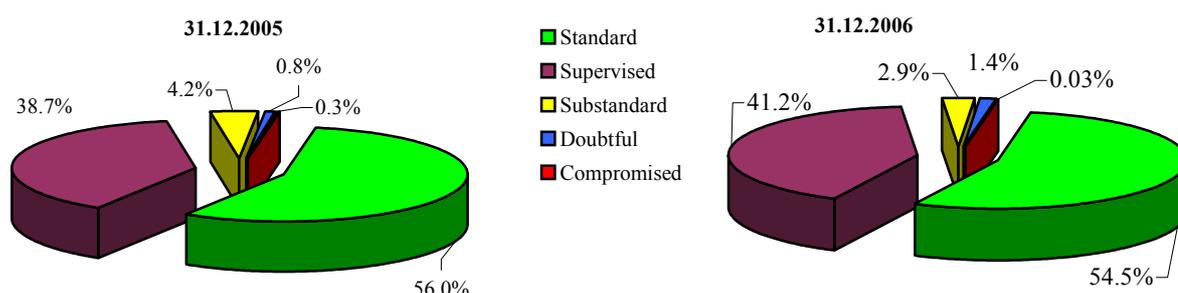
(39.5%), credits extended for real estate, constructions and development – by 775.2 million lei (112.1%) and consumer credits – by 486.0 million lei (61.8%).

The balance of credits extended for business

enlargement in an amount of up to 700.0 thousand lei advanced by 265.0 million lei (24.4%), and equalled to 1350.4 million lei, the balance of consumer credits extended in an amount of up to 700.0 thousand lei went up by 518.2 million lei (80.3%), and accounted for 1163.4 million lei. The weight of the balance of credits extended for business enlargement as of December 31, 2006 in total credits constituted 9.8%, decreasing by 1.0 percentage points as compared to the end of 2005, while the weight of the balance of consumer credits in total credits went up by 2.0 percentage points and accounted for 8.4%. In the course of 2006, there were extended 11412 credits for business enlargement in an amount of 1809.6 million lei and 113359 consumer credits in an amount of 1539.8 million lei.

During the analyzed period, the credit portfolio quality enhanced due to the reduction by 1.0 percentage point of the weight of unfavourable loans (sub-standard, doubtful and compromised) as compared to December 31, 2005 (chart no.59) in total credits, which accounted for 4.3% as of December 31, 2006 and to the reduction by 0.2 percentage points of credit loss provisions in total credits, which amounted as of December 31, 2006 to 5.1%.

**Chart no. 59. Structure of credit portfolio and financial leasing of the banking sector of the Republic of Moldova according to the level of investment operations risk as of 31.12.2005 and 31.12.2006 (%)**



The total amount of banks' exposure to affiliates equalled as of December 31, 2006 to 1043.5 million lei, and held an insignificant weight in total credits – 7.6% and 27.5% from Tier I Capital (*maximal limit – 100.0% from Tier I Capital*).

Credits extended to banks' employees represented 54.0 million lei, or 0.4% of total credit portfolio and 1.4% of banks' total regulatory capital (*the maximal limit should not exceed 10.0% of the total regulatory capital*).

The total value of large exposures constituted 3887.6 million lei, which equalled to 28.1% of total credit portfolio and 102.3% of the banks' total regulatory capital (*the maximal limit should not exceed 500.0% of the total regulatory capital*). The sum of those ten net debts on credits represented 34.1% of net credits within the system (*the maximal limit should not exceed 50.0% of the total value of net credits*).

Banks' investments in long-term material assets as of the end of 2006 as percent of total regulatory capital accounted for 25.1% (*maximal limit – 50.0%*). Investments in long-term material assets and equity interest in the capital of economic entities to total regulatory capital amounted to 27.8% (*maximal limit – 100.0%*).

The weight of net assets in foreign currency in total assets constituted 41.5%. The weight of net liabilities in foreign currency in total assets accounted for 41.3%. The insignificant difference to the weight of assets in foreign currency, which posted 0.2 percentage point, revealed that the foreign exchange risk was minimal and did not have a considerable impact on the financial stability of the banking system. The weight of assets and the weight of liabilities in foreign currency advanced, as compared to December 31, 2005, by 5.4 and 7.0 percentage points, accordingly. Within the structure of net assets in foreign currency, credits in foreign currency held the highest weight – 55.4%.

Off-balance sheet commitments (credit conditional accounts) equalled to 6861.2 million lei, or 30.1% of total assets. As compared to the end of 2005, off-balance sheet commitments expanded by 2851.7 million lei, or by 71.1%. Within the structure of off-balance sheet commitments, current operations held the highest weight – 3204.1 million lei (46.7%), and term operations – 1770.2 million lei (25.8%).

### ***Capital of Banks***

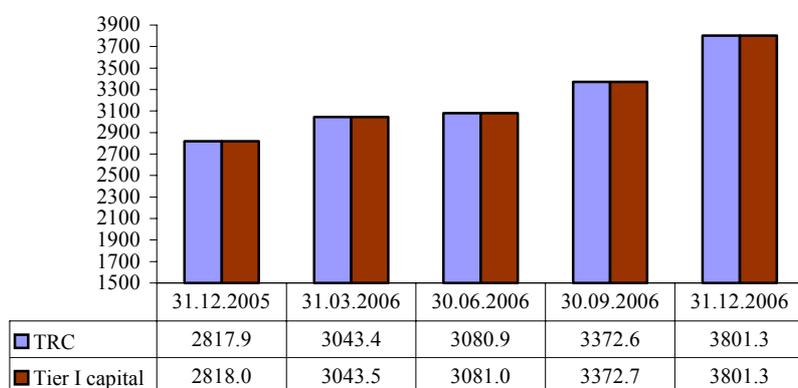
Tier I Capital represents the part of total regulatory capital for which the minimum required amount for performing financial activities is established as in accordance with Article 26 of the Law on Financial Institutions.

Tier I Capital advanced by 983.3 million lei (34.9%), and recorded as of December 31, 2006 the value of 3801.3 million lei, which fact expressed the system's continuous consolidation on the background of a sustainable stability. It is to be mentioned that by the end of 2006, in all banks the size of Tier I Capital complied with the category of license held by the bank.

The total regulatory capital (TRC) includes Tier I Capital and Tier II Capital except equity interest in other banks holding the license of the National Bank of Moldova.

Total regulatory capital advanced in 2006 by 983.4 million lei (34.9%).

Chart no. 60. Dynamics of banking capital in 2005 - 2006 (MDL mln.)



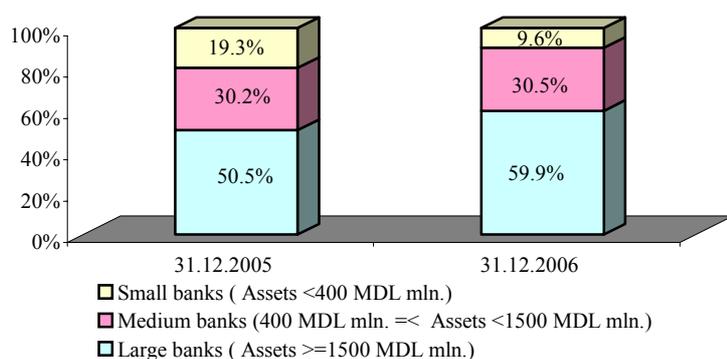
Dynamics of Tier I Capital and of the total regulatory capital during the analyzed period is represented in chart no. 60.

The main source of increasing Tier I Capital and TRC served the net income earned by banks in an amount of 691.7 million lei and the closure of share issuance on the account of additional contributions in an amount of 399.4 million lei.

The average risk weighted capital adequacy (ratio of total regulatory capital to risk-weighted assets) within the banking system reached as of December 31, 2006 a high level and accounted for 27.8% (the minimum level in the Republic of Moldova is 12.0%, while the level as set up for banking supervision by the Basel Committee indicates even a more reduced adequacy – 8.0%). This indicator reflects the banks' lending potential and, at the same time, demonstrates a high level of the system's stability and, therefore, of deponents' interests

protection.

Chart no. 61. Total regulatory capital distribution by groups of banks from 31.12.2005 to 31.12.2006 (%)



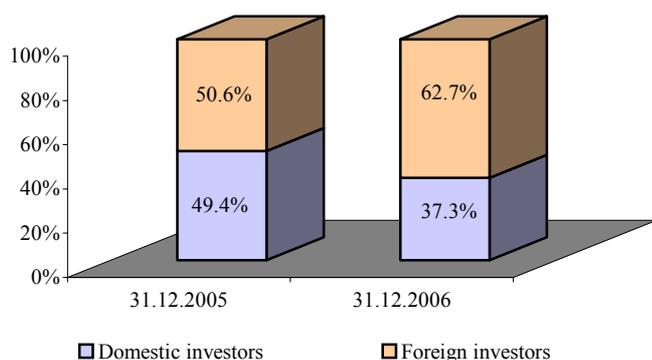
In 2006 the total regulatory capital of large banks scored an increase by 853.8 million lei (60.0%) and of medium banks by 307.2 million lei (36.1%). Simultaneously, the total regulatory capital of small banks diminished by 177.6 million lei (32.7%).

The share of total regulatory capital of large and medium banks in total

regulatory capital of the banking system totalled 59.9% and 30.5%, respectively, increasing as compared to December 31, 2005 by 9.4 and 0.3 percentage points, accordingly, while the share of total regulatory capital of small banks dipped by 9.7 percentage points (chart no. 61).

During the analyzed period, foreign investors were attracted to the banking sector, which is confirmed by the significant share of foreign

Chart no. 62. Structure of banking capital by investments source in the period of 31.12.2005 - 31.12.2006 (%)



investments in the banks' capital. Its value accounted as of December 31, 2006 for 62.7%, by 12.1 percentage points higher as compared to the end of 2005 (chart no. 62).

Foreign investors participation in capital formation in the banks of the Republic of Moldova include as follows: banks from Italy, Russian Federation, Romania, Slovenia, as well as the European Bank for Reconstruction and Development and corporate investors from the Russian federation, USA, Greece, etc.

Within the foreign investments structure, Italy accounted for 40.7%, Russia – 14.5%, Romania – 10.5%.

Out of total number of banks, 3 banks have a capital formed of foreign investments, 2 banks – a capital formed of local investments and 10 banks – a capital formed of foreign and local investments.

### *Liabilities of Banks*

Liabilities of banks equalled as of December 31, 2006 to 18843.0 million lei and soared as compared to the end of 2005 by 3858.3 million lei, or by 25.7%. The increase of liabilities occurred mainly on the account of deposits\* growth by 3512.3 million lei, or by 25.6%, which revealed the credibility in the banking system.

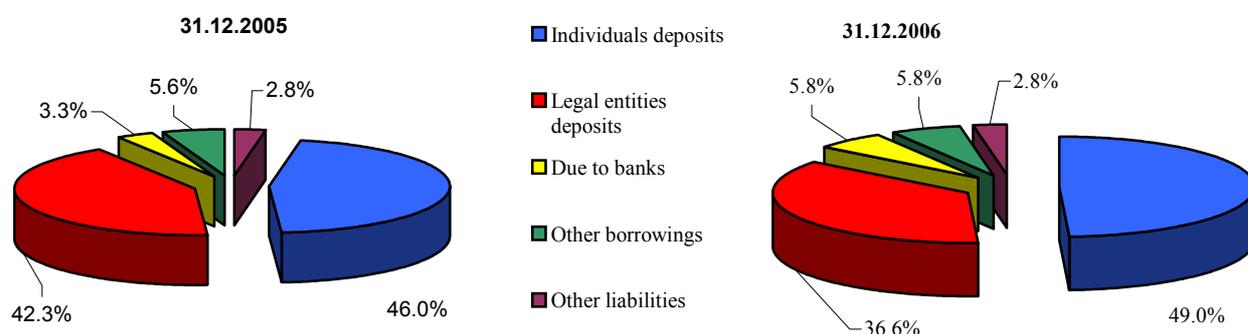
In 2006 all liability components registered rising trends. Thus, deposits by individuals grew by 2348.7 million lei (34.1%), money means owed to banks – by 600.5 million lei (120.7%), deposits by businesses – by 563.1 million lei (8.9%), other loans – by 241.4 million lei (28.7%), other liabilities – by 104.6 million lei (25.3%).

Within banks' liabilities, deposits held the highest weight as of December 31, 2006 the highest weight – 91.5%, at the same level as compared to the end of 2005. Their weight to GDP stepped up from 36.5% to 39.1% (chart no.58). In total liabilities deposits by

\* According to deposit accounts balances in the balance sheet worked out following the Instruction on Elaboration and Submission by commercial banks of Financial Statements, approved by the Decision of the Council of Administration of the National Bank of Moldova no. 36 of 08.08.1997 (Official Monitor of the Republic of Moldova no.64-65 of 02.10.1997)

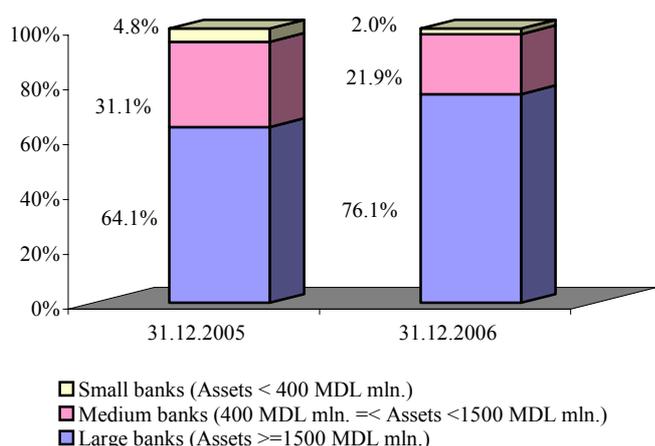
individuals held 49.0%, deposits by businesses – 36.6% and deposits by banks – 5.8%. Other loans and other liabilities constituted 5.8% and 2.8%, respectively (chart no. 63).

Chart no. 63. Banking liabilities composition from 31.12.2005 to 31.12.2006 (%)



Liabilities of large banks climbed by 4745.8 million lei (49.4%). At the same time, liabilities of medium and small banks fell by 537.9 million lei (11.6%) and by 349.5 million lei (48.0%), respectively.

Chart no. 64. Distribution of banking liabilities by groups of banks from 31.12.2005 to 31.12.2006 (%)



The weight of large banks' liabilities in total liabilities of the banking system accounted as of December 31, 2006, for 76.1%, increasing as compared to the end of 2005 by 12.0 percentage points, while the weight of medium and small banks' liabilities reduced by 9.2 and 2.8 percentage points, respectively down to the level of 21.9% and 2.0% in total liabilities within the banking system (chart no. 64).

### Liquidity of Banks

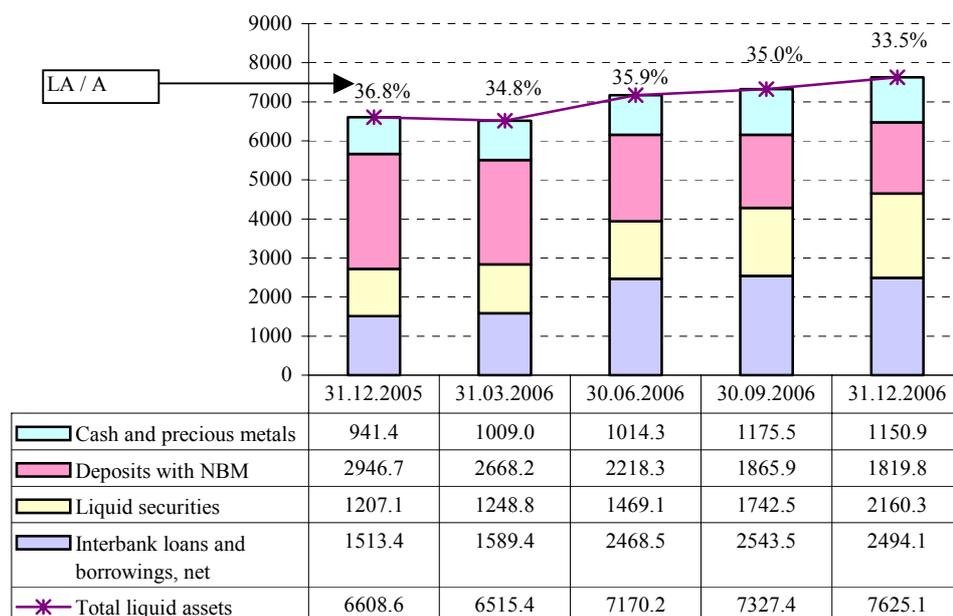
In 2006 the liquidity indicators within the banking system reflected the banks' capacity to honour both current commitments and long-term commitments.

Thus, long-term liquidity (*assets with reimbursement term over 2 years / financial resources with potential withdrawing term exceeding 2 years ≤ 1*), liquidity principle I, accounted for 0.6 as of December 31, 2006. The level of this indicator denoted the availability of funds for long-term investments.

Current liquidity (*liquid assets expressed in cash, deposits with the National Bank of Moldova, state securities, net interbank credits with the term of up to 1 month / total assets × 100% ≥ 20%*), liquidity principle II, recorded at the end of 2006 the level of 33.5%.

Liquid assets equalled to 7625.1 million lei and increased in 2006 by

Chart no. 65. Dynamics of liquid assets (MDL mln.) and liquid assets weight in total assets (%) in the period of 2005 - 2006



1016.5 million lei, or by 15.4%. This dynamics was due to the increase of cash by 209.5 million lei (22.3%), of liquid state securities – by 953.2 million lei (79.0%), of net interbank credits and loans with reimbursement term of up to 1 month – by 980.7 million lei (64.8%) (chart no. 65). Concomitantly, deposits with the National Bank of Moldova reduced by 1126.9 million lei (38.2%). The continuous evolution of liquid assets would contribute to the

liquidity indicators observance by banks.

Net interbank credits and loans with the reimbursement term of up to 1 month held as of December 31, 2006 the maximal weight in liquid assets – 32.7%. Liquid securities scored the weight of 28.3%, deposits with the National Bank of Moldova – 23.9% and cash – 15.1%.

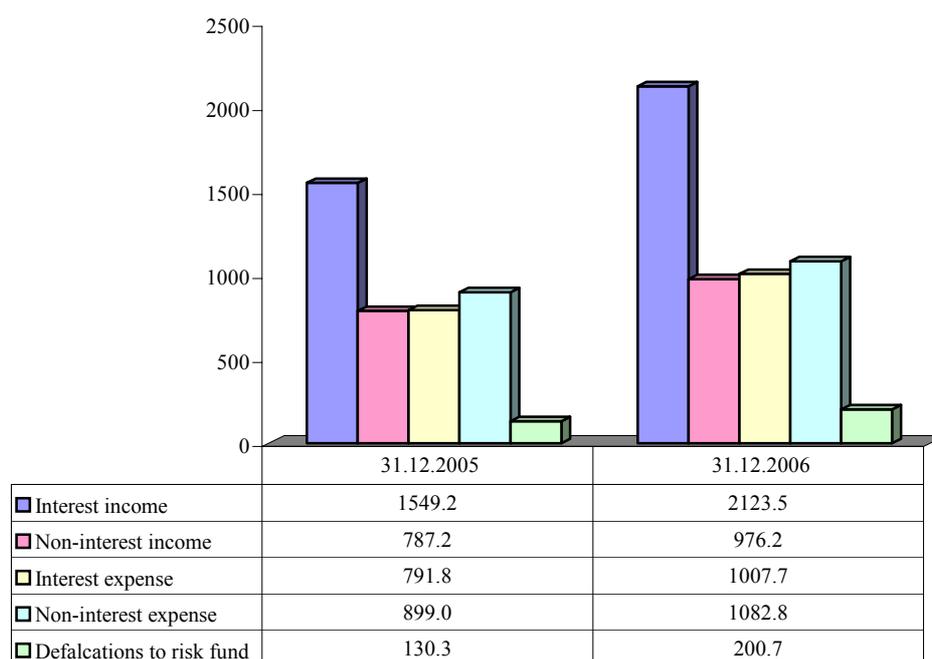
### Income and Expense of Banks

Net income of banks of the Republic of Moldova accounted in 2006 for 691.7 million lei, and increased, as compared to the previous year, by 266.8 million lei, or by 62.8%.

The dynamics of banks' incomes and expenses during the analyzed period is shown in chart no. 66.

Thus, an increase of interest-related income by 574.3 million lei, or by 37.1% and of non-interest income by 189.0 million lei, or by 24.0% was recorded in 2006 as

Chart no. 66. Dynamics of banking income and expense in 2005-2006 (MDL mln.)



compared to 2006. Interest-related expenses and non-interest expenses enlarged by 215.9 million lei (27.3%) and by 183.8 million lei (20.4%), respectively, while payments for credit loss provisions (risk fund) went up by 70.4 million lei (54.0%).

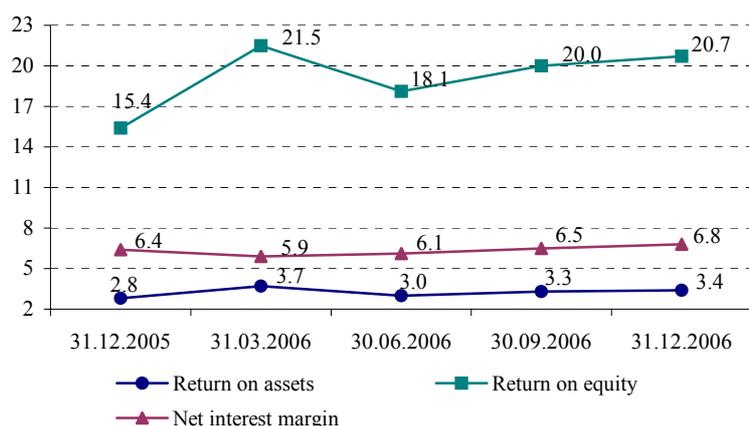
Banks' revenues in 2006 were stable and originated mainly from basic banks' activity (investment in interest-bearing assets). Accordingly, interest-related incomes constituted 2123.5 million lei or 68.5% of total banks' revenues. Within the structure of interest-related incomes, the highest share was held by the interest-related incomes and credit commissions – 1868.9 million lei (60.3% of total revenues).

Non-interest incomes accounted for 976.2 million lei or 31.5% of total revenues. In total of non-interest incomes, commission-related incomes held the highest share and accounted for 570.4 million lei (18.4% of total revenues), as well as the incomes related to foreign currency transactions – 305.7 million lei (9.9% of total revenues).

Total expenditures equalled to 2291.2 million lei, of which 1007.7 million lei or 44.0% represented interest expenses, 1082.8 million lei, or 47.2% – non-interest expenses and 200.7 million lei, or 8.8% – credit loss provisions (risk fund).

Profitability indicators kept on recording high rates. *Return on assets of the banking system*, characterized by the ratio of net income to average assets for 2006 accounted for 3.4%. *Return on equity* within the banking system, representing the ratio of net income to average equity capital totalled 20.7% (chart no. 67).

Chart no. 67. Dynamics of net interest margin, return on assets and equity in 2005-2006 (%)



Compared to the end of 2005, these indicators' value enlarged by 0.6 percentage points and 5.3 percentage points, respectively, mainly on the account of the decrease of non-interest expenses indicator related to average assets down to 5.4%, or by 0.5 percentage points.

Net interest margin representing the ratio of net interest income to average interest-bearing assets constituted 6.8%, increasing by 0.4 percentage points as compared to the previous year.

## **Payments System**

As in accordance with the provisions of the Law on the National Bank of Moldova, the National Bank supervises the payments system in the Republic of Moldova and facilitates the efficient functioning of the interbank payments system.

### ***Interbank Payments System***

In 2006 the interbank payments system of Moldova underwent major structural changes, a new generation automated interbank payments system (AIPS) was implemented and put into service on April 21, 2006.

AIPS is composed of the real-time gross settlement system (RTGS) and of the designated-time net settlement system (DNS).

The RTGS system is designed for processing and settlement of urgent and large-value payments, and the DNS system is designed for processing of low-value payments.

As of the end of 2006, the participants to AIPS were the National Bank of Moldova, 15 authorised banks and the Settlement Centre of Tiraspol.

AIPS was designed to observe the international practices and standards and to correspond with the safety and efficiency objectives established by the National Bank of Moldova.

With the purpose of financial risks management, AIPS provides the participants with a series of facilities, and namely: liquidity provision over the day (the intraday credit) as necessary, the mechanism of queue administration, facilities of real time monitoring of operations conducted within the system, other relevant facilities.

In 2006, the evolution of the quantity and value parameters related to the payment documents processed within the interbank payments system registered a positive dynamics, the number of payments, as compared to 2005, increased by 16.5%, while the value of performed payments raised by 34.3%.

During the period of AIPS functioning, the weight of payments processed within the RTGS and DNS systems accounted, from the numerical point of view, for 4.9% and 95.1%, accordingly, and, from the value point of view, for 84.2% and 15.8%.

### ***Payments system with cards***

During the reported year, the activity indicators within the payments system with cards recorded a positive dynamics.

The number of cards in circulation as at the end of 2006 amounted to 579.1 thousand units issued by authorized banks, which is by 33.9% more as compared to the situation as at the end of 2005.

The holders of banking cards issued by authorized banks conducted over the year of 2006 on the territory of the Republic of Moldova 8.4 million transactions (cash withdrawals and cashless payments) in an amount of 5584.4 million lei, which represents a growth by 27.3% of the number and by 48.1% of the value of transactions as compared to 2005. Cash withdrawals prevailed for both the number and the value of the respective operations (97.5% and 98.4%, accordingly).

During the reported period, the holders of banking cards issued abroad conducted on the territory of the Republic of Moldova 645.5 thousand transactions, increasing by 83.5% as compared to the previous period. Cash withdrawals prevailed within the total operations (58.6% of the number thereof and 77.6% of the value thereof).

### **Activity of the Council of Administration**

In 2006, there were convened 72 meetings of the Council of administration of the National Bank of Moldova, where 370 decisions were examined and adopted related to the activity of the National Bank of Moldova and of the financial and banking system as a whole, improving, thus, the regulation framework, and approving and modifying policies within the fields as follows:

- monetary and foreign exchange activity;
- banking regulation and supervision;
- accounting procedures;
- balance of payments, etc.

The Decisions of the Council of administration of the National Bank of Moldova referring to general application were consigned for publication in the Official Monitor of the Republic of Moldova.

### **Commemorative and Jubilee Coins**

In order to fulfil the Decision of the Government of the Republic of Moldova and of the National Bank of Moldova no. 1286 dated December 9, 2005 “On Commemorative and Jubilee Coins’ issuance” and based on Article 60 of the Law on the National Bank of Moldova no. 548-XIII dated July 21, 1995, NBM issued and put into circulation four commemorative and jubilee coins dedicated to famous personalities and cultural and historic events, as well as to complement the series “Red Book of the Republic of Moldova”, as follows:

*on 01.06.2006*

15 years from the foundation of the  
National Bank of Moldova Ag 100 lei

*on 21.08.2006*

15 years from the Proclamation of the  
Republic of Moldova Independence Ag 100 lei

*on 01.06.2006*

200 years of birth of  
Alexandru Donici, the writer Ag 50 lei

### **“Red Book of the Republic of Moldova” Series**

*on 01.06.2006*

Bustard (Otis Tarda) Ag 10 lei

The issued commemorative and jubilee coins have numismatic features and represent, at the same time, legal tender accepted in the national economy at their nominal value.

### **NBM Personnel and Professional Training**

As of December 31, 2007 the NBM staff was completed at the level of 97.8% (441 employees out of 451 according to the staffing schedule). There are 9 persons with doctorates in economics and technical sciences employed at the National Bank of Moldova.

In 2006, 94 employees of the Bank were promoted, out of which 38 employees (40.4%) aged under 30.

Over the analyzed year, 74 employees of the National Bank of Moldova participated at training courses. The participation of over 33.0% of the subdivisions' employees in need of training according to the market economy study programs contributed to the improvement and the modernisation of the activity of the National Bank of Moldova.

During the reported period, the National Bank of Moldova conducted 16 contests for vacancies, as a result of which out of 22 candidates, 17 specialists were selected.



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## INDEPENDENT AUDITORS' REPORT

### To the National Bank of Moldova

1. We have audited the accompanying financial statements of the National Bank of Moldova ("the Bank"), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' responsibility*

3. 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

6. In our opinion, the financial statements present fairly, in all material respects, the financial position of the National Bank of Moldova as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standard.

15 March 2007

Alex Emmanouilides  
Partner

**NATIONAL BANK OF MOLDOVA**  
**BALANCE SHEET**  
**as at 31 December 2006**

**Translated from the original in Moldavian**

	<u>Notes</u>	<u>2006</u> MDL '000	<u>2005</u> MDL '000
<b>ASSETS</b>			
Cash and short-term placements with banks	5	5.983.251	5.055.450
Due from International Financial Institutions	6	2.394.300	2.259.667
Due from the Moldovan Government	7	2.113.822	2.222.951
Securities issued by the Moldovan Government	8	402.574	402.910
Securities due from the Moldovan Government to be issued	9	-	125.963
Loans granted to banks and individuals	10	46.032	56.349
Investment securities	11	4.019.326	2.610.643
Tangible assets	13	31.045	48.150
Intangible assets	13	16.730	3.526
Other assets	12	3.730	4.198
<b>TOTAL ASSETS</b>		<b><u>15.010.810</u></b>	<b><u>12.789.807</u></b>
<b>LIABILITIES, CAPITAL AND RESERVES</b>			
<b>Liabilities</b>			
National currency issued into circulation	14	5.817.191	5.148.887
Due to the Moldovan Government	15	871.627	348.236
Due to banks	16	1.824.397	2.958.563
Certificates issued by the National Bank of Moldova	17	943.347	141.554
Due to International Financial Institutions	6	4.218.728	3.489.795
Other liabilities	18	335.543	180.659
<b>Total liabilities</b>		<b><u>14.010.833</u></b>	<b><u>12.267.694</u></b>
<b>Capital and reserves</b>			
Authorized capital	19	288.923	200.000
General Reserve Fund	19	577.845	319.175
<b>Total statutory capital</b>		<b><u>866.768</u></b>	<b><u>519.175</u></b>
Reserve of unrealized foreign exchange gains	19	133.099	-
Other reserves		110	2.938
<b>Total capital and reserves</b>		<b><u>999.977</u></b>	<b><u>522.113</u></b>
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<b><u>15.010.810</u></b>	<b><u>12.789.807</u></b>

The accompanying notes are an integral part of these financial statements.

The financial statements were authorized for issue on 15 March 2007:

Mr. Leonid Talmaci  
*Governor*

Mrs. Aliona Stratan  
*Director of the Budget, Finance and Accounting Department*  
*Chief Accountant*

**NATIONAL BANK OF MOLDOVA**  
**INCOME STATEMENT**  
**as at 31 December 2006**

**Translated from the original in Moldavian**

	<b>Notes</b>	<b>2006</b>	<b>2005</b>
		<b>MDL '000</b>	<b>MDL '000</b>
Interest income from deposits and availabilities	21	213.025	150.310
Interest income from securities	21	159.339	74.075
Interest income from loans	21	126.523	84.201
		<u>498.887</u>	<u>308.586</u>
Interest expenses arising from loans received	22	(32.559)	(32.734)
Interest expenses arising from availabilities	22	(46.380)	(39.443)
Interest expenses arising from transactions with securities and Repo agreements	22	(40.235)	(10.881)
		<u>(119.174)</u>	<u>(83.058)</u>
<b>Net Interest Income</b>		<u><b>379.713</b></u>	<u><b>225.528</b></u>
Gains/(losses) from foreign exchange transactions and foreign exchange rates differences	23	266.429	(170.028)
Losses from the revaluation of securities	24	(2.380)	(8.191)
Other income	25	10.076	7.472
Operating expenses	26	(108.042)	(76.114)
Release from loan loss provision		10	33.274
<b>Operating Gains/(Losses)</b>		<u><b>166.093</b></u>	<u><b>(213.587)</b></u>
<b>Net profit for the year</b>	<b>20</b>	<u><b>545.806</b></u>	<u><b>11.941</b></u>
Release of unrealized losses on exchange rate differences in accordance with the Law on the National Bank of Moldova		-	198.163
Allocation of unrealized gains on exchange rate differences in accordance with the Law on the National Bank of Moldova		(133.099)	-
Release of realized gains from fixed assets indexation		647	647
<b>Net profit for the year available for distribution</b>	<b>20</b>	<u><u><b>413.354</b></u></u>	<u><u><b>210.751</b></u></u>

The accompanying notes are an integral part of these financial statements.

The financial statements were authorized for issue on 15 March 2007:

Mr. Leonid Talmaci  
*Governor*

Mrs. Aliona Stratan  
*Director of the Budget, Finance and Accounting Department*  
*Chief Accountant*

**NATIONAL BANK OF MOLDOVA  
STATEMENT OF CASH FLOWS  
for the year ended 31 December 2006**

**Translated from the original in Moldavian**

	Notes	<u>2006</u> MDL '000	<u>2005</u> MDL '000
<b>Cash flows from operating activities</b>			
Interest receipts		477.641	303.564
Interest payments		(116.130)	(90.330)
Gains from foreign exchange transactions		137.874	28.890
Other receipts		10.066	6.961
Staff and suppliers costs paid		(95.174)	(65.578)
		<u>414.277</u>	<u>183.507</u>
<b><i>(Increase)/decrease in operating assets:</i></b>			
(Increase)/decrease in net amounts due to/from International Financial Institutions		(134.596)	125.236
Increase in securities		(1.404.072)	(1.220.810)
Decrease in amounts due from Moldovan Government		118.800	127.000
(Increase)/decrease in securities due from the Moldovan Government to be issued		125.963	(125.963)
Decrease in loans granted to banks and individuals		10.327	11.700
		<u>(1.283.578)</u>	<u>(1.082.837)</u>
<b><i>Increase/(decrease) in operating liabilities:</i></b>			
Increase in the national currency issued into circulation		668.304	1.054.561
Increase in due to Moldovan Government		523.391	289.510
Increase/(decrease) in due to banks		(1.135.096)	515.426
Increase in certificates issued by the National Bank of Moldova		799.086	141.276
Increase/(decrease) in due to International Financial Institutions		729.527	(474.925)
Increase in other liabilities		2.188	6.760
		<u>1.587.400</u>	<u>1.532.608</u>
<b>Net cash from operating activities</b>		<u>718.099</u>	<u>633.278</u>
<b>Cash flows from investing activities</b>			
Tangible and intangible assets additions		(8.777)	(18.550)
<b>Net cash flow from investing activities</b>		<u>(8.777)</u>	<u>(18.550)</u>
<b>Cash flows from financing activities</b>			
Moldovan Government contribution to statutory capital		250.000	-
Profit payments to the State		(162.775)	(191.901)
<b>Net cash from financing activities</b>		<u>87.225</u>	<u>(191.901)</u>
Unrealised Revaluation Differences		130.918	(71.758) <sup>1</sup>
<b>Increase in cash and cash equivalents</b>		<u>927.465</u>	<u>351.069</u>
Cash and Cash equivalents at 1 January		5.458.360	5.107.291
<b>Cash and Cash equivalents at 31 December</b>		<u>6.385.825</u>	<u>5.458.360</u>
		<u>2006</u>	<u>2005</u>
<b>Analysis of Cash and Cash equivalents</b>			
Cash on hand in foreign currency	5	1.354	1.423
Nostro accounts in foreign currency	5	63.824	36.423

<sup>1</sup> In 2005 financial statements unrealised losses on exchange rate differences were included in the category "Gains from foreign exchange transactions".

**NATIONAL BANK OF MOLDOVA  
STATEMENT OF CASH FLOWS  
for the year ended 31 December 2006**

**Translated from the original in Moldavian**

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Term deposits in foreign currency	<b>5</b>	5.918.073	5.017.604
Securities issued by the Moldovan Government	<b>8</b>	402.574	402.910
<b>Cash and Cash equivalents, gross</b>		<u><b>6.385.825</b></u>	<u><b>5.458.360</b></u>

**NATIONAL BANK OF MOLDOVA**  
**NOTES TO FINANCIAL STATEMENTS**  
**for the year ended 31 December 2006**  
*(all amounts are expressed in thousand Moldovan Lei "MDL '000")*

Translated from the original in Moldavian

	<b>Authorized capital</b>	<b>General reserve fund</b>	<b>Reserve of unrealized gains</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Total Capital and Reserves</b>
	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>	<b>MDL '000</b>
<b>Balance as at 1 January 2005</b>	200.000	277.024	72.200	3.143	-	552.367
Net profit for the year 2005	-	-	-	-	210.104	210.104
Transfer from indexation reserve of fixed assets	-	-	-	(647)	647	-
Decrease in reserve of unrealized gains	-	-	(72.200)	-	-	(72.200)
Differences from revaluation of securities issued by the Moldovan Government	-	-	-	442	-	442
Transfer to general reserve fund	-	42.151	-	-	(42.151)	-
Profit distributed to State Budget	-	-	-	-	(168.600)	(168.600)
<b>Balance as at 31 December 2005</b>	<b>200.000</b>	<b>319.175</b>	<b>-</b>	<b>2.938</b>	<b>-</b>	<b>522.113</b>
<b>Balance as at 1 January 2006</b>	200.000	319.175	-	2.938	-	522.113
Net profit for the year 2006	-	-	-	-	545.806	545.806
Transfer from indexation reserve of fixed assets	-	-	-	(647)	647	-
Allocation of unrealised gains on exchange rate differences	-	-	133.099	-	(133.099)	-
Increase in authorized capital	88.923	-	-	-	(32.531)	56.392
Transfer to general reserve fund	-	258.670	-	-	(65.062)	193.608
Profit distributed to State Budget	-	-	-	-	(315.761)	(315.761)
Difference from revaluation of securities issued by the Moldovan Government	-	-	-	(2.181)	-	(2.181)
<b>Balance as at 31 December 2006</b>	<b>288.923</b>	<b>577.845</b>	<b>133.099</b>	<b>110</b>	<b>-</b>	<b>999.977</b>

## 1. General information

The National Bank of Moldova (the Bank or NBM) was established in 1991. The activity of the Bank is regulated by the Law on the National Bank of Moldova, approved by the Parliament of RM in 1995 and subsequent modifications thereafter. In accordance with the Law, the National Bank of Moldova is an autonomous public legal entity that is responsible to the Parliament of the Republic of Moldova. The Bank in consultation with the economical and financial bodies of the Government formulates and implements the monetary and foreign exchange policy. The activities of the Bank are as follows:

- to formulate and to promote the state monetary and foreign exchange policy;
- to act as banker and fiscal agent of the State;
- to conduct economic and monetary analysis and submit proposals to the Government on the basis of such analysis, and publish the results of such analysis;
- to license, supervise and regulate the activity of financial institutions;
- to provide credit facilities to banks;
- to supervise the system of payments of the Republic and to facilitate efficient functioning of inter-bank system of payments.
- to act as the sole issuer of domestic currency in the Republic;
- to establish the exchange rate regime of the national currency in consultation with the Government;
- to hold and manage foreign exchange reserves of the State;
- to undertake, in the name of the Republic, responsibilities and perform transactions resulting from the participation of the Republic of Moldova in the activity of international public institutions in the banking, credit and monetary spheres pursuant to conditions of international agreements;
- to settle the balance of payments of the State; and
- to perform foreign exchange regulation in the territory of the Republic of Moldova.

As at 31 December 2006 the number of positions available at the Bank, including vacancies, was 451 (31 December 2005: 460), out of which the number of employees was 441 persons (445 persons as of 31 December 2005).

The inflation rate for the year 2006 was 14.1 per cent (2005: 10.0 per cent).

The registered office of the Bank is located at Renasterii Avenue 7, Chisinau, Republic of Moldova.

## 2. Basis of preparation

Financial statements of the NBM are prepared in conformity with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretation Committee interpretations approved by the International Accounting Standards Committee (IASC) that remain in effect.

The financial statements are presented in Moldovan lei (“MDL”), the currency of the country in which the Bank operates. The Bank maintains its books and records in accordance with the International Financial Reporting Standards and the Law on the National Bank and prepares its financial statements in accordance with them. The financial statements have been prepared on a historic cost basis, except for financial assets held at fair value through profit and loss and financial assets available for sale that have been measured at fair value.

## 3. Significant accounting policies

### a. Changes in accounting policies

The Bank has adopted IFRS 7 Financial Instruments: Disclosures, which requires disclosures that enable users to evaluate the significance of the Bank’s financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

The Bank has also early adopted the requirements of paragraphs 124A–124C of IAS 1 “Presentation of financial statements”. This amendment requires the Bank to make new disclosures to enable users of the financial statements to evaluate the Bank’s objectives, policies and processes for managing the Bank’s capital. These new disclosures are shown in the Note 19.

### b. Revaluation of foreign exchange stocks and transactions

Foreign currency transactions are recorded at the exchange rate on the date of the transaction and are revalued daily using official foreign exchange rate. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. The exchange rates of the reference currencies for the year 2006 were as follows:

	2006		2005	
	USD/MDL	EUR/MDL	USD/MDL	EUR/MDL
Average for the period	13.1319	16.4918	12.6003	15.6978
Year end	12.9050	16.9740	12.8320	15.1950

Exchange rate differences arising on the settlement of the transactions at exchange rates different from those of stocks in foreign currency, and unrealized foreign exchange differences on existing monetary assets and liabilities in foreign currency, are recognized in the income statement.

### **3. Significant accounting policies (continued)**

#### **c. Comparative figures**

The financial statements presentation for some items has changed in 2006. Accordingly, the comparatives have been amended to reflect the changes in presentation. The following notes were amended /modified:

(i) "Due from the Moldovan Government" balance (previously presented in note 7) was divided in „Loans granted to the Moldovan Government" (note 7) and „Securities issued by Moldovan Government" (note 8)

(ii) From „Due to the Moldovan Government" balance (previously presented in note 15) the data regarding the current accounts of other state organizations were reclassified to "Other liabilities" (note 18).

(iii) From „Due to banks" (previously presented in note 16) the balance on „Loro" account of the NBM Branch Office in Tiraspol was reclassified to "Other liabilities" (note 18).

Further to amendments to art. 19 and 20 of the Law on NBM, compared to the year 2005, the disclosure of the capital in the Balance Sheet and the Statement of Changes in Capital and Reserves has been modified.

The modified mode of distribution of the annual profit is presented in note 20.

#### **d. Significant accounting judgments and estimates**

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions in determining the amounts and balances reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from those estimates. The most significant use of judgments and estimates are as follows:

##### *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input of these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The judgments include considerations of liquidity and model inputs.

##### *Impairment losses on loans and receivables*

The Bank reviews its loans and advances at each reporting date or when it is considered necessary in order to assess whether an allowance for impairment should be recorded in the income statement.

### **3. Significant accounting policies (continued)**

#### **e. Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand in foreign currency, current accounts and short-term placements at other banks, treasury bills and other short – term highly liquid investments, with less than 3 months maturity from the date of acquisition.

In the Balance Sheet cash and short-term placements with banks are presented on net basis (cash on hand in local currency is offset with the National currency issued into circulation).

#### **f. Due from International Financial Institutions**

The amounts recorded in the balance sheet as “Due from International Financial Institutions” represents mainly the quota of the Republic of Moldova in the International Monetary Fund (“IMF”). This amount is established in Special Drawing Rights (“XDR”) but it is presented in MDL.

#### **g. Financial assets**

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit and loss account, loans originated by the Bank; held-to-maturity investments; and available-for-sale financial assets.

##### *Financial assets at fair value through profit and loss account*

Financial assets at fair value through profit and loss account are securities, which were either acquired for generating a profit from short term fluctuations in price, or are securities included in a portfolio in which a pattern of short term profit taking exists. After initial recognition at fair value, these securities are remeasured at fair value based on quoted bid prices. Interest income on securities is included in interest income.

This category of financial assets includes securities issued by non-residents with coupon or discount and purchased from the foreign markets, which are presented in the balance sheet under category “Investment securities”.

##### *Available for sale financial assets*

All the financial assets, which are not classified at fair value through profit and loss account or as held to maturity, are included in available for sale securities.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at settlement date. Available for sale assets are recognised initially at fair value (including transaction costs). Subsequent to initial recognition, they are remeasured at their fair value, which is based on quoted bid prices or amounts derived from cash flow models and ratios, which reflect the specific circumstances of the issuer.

### **3. Significant accounting policies (continued)**

#### **g. Financial assets (continued)**

Unrealised gains and losses related to this category of financial assets are recognised directly in equity in "Other reserves". When the securities available for sale are disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Interest calculated using the effective interest method is recognized in profit or loss.

The Bank includes in this category Securities issued by the Moldovan Government.

#### *Loans and receivables*

Loans and receivables represent financial instruments where money is provided directly to the borrower and are recognised when the cash is advanced to borrowers. They are initially recorded at cost, which is the fair value of the cash disbursed, and are subsequently measured at amortized cost.

Loans granted to banks and individuals are stated at amortized cost, less impaired amounts and any provisions for impairment.

The Bank includes in this category loans reconcluded with Government, loans granted to banks and employees.

#### *Held to maturity investments (HTM)*

HTM investments are non-derivative financial assets with fixed or determinable payments and have fixed maturities that the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment.

The Bank does not currently classify any items in this category.

#### **h. Provisions for impairment of the loans and other assets**

The loan loss provision is created in case if there are objective evidences that the Bank will not be able to collect all amounts due (principal and interest).

The amount of the impairment loss is the difference between the carrying value and estimated recoverable value, calculated as updated value of cash flows estimated for recovery including the amounts recoverable from collaterals, updated based on initial interest of the instrument.

The loan loss provision is decreased or increased in case if the provision calculated at the reporting date is respectively less or greater than previously established provision.

Provision for impairment of the loans is used to cover the non-performing loans. These loans are written off against provisions established previously.

Recoveries of loans written off in earlier periods are included in income.

### 3. Significant accounting policies (continued)

#### h. Provisions for impairment of the loans and other assets

In order to cover the potential risks and losses, both objective and subjective, a provision for doubtful debts is created. The provision represents expenses, which occur at the moment of its creation or increase, and, respectively, is reflected as an income at the moment of its cancellation or decrease.

The provisions for bad debts are not used to cover the losses resulted from the bad debts written off as unrecoverable debts. The write off of bad debts is recorded as expense, and the created provision is release to income.

#### i. Sale and repurchase agreements

Securities sold with a simultaneous commitment to repurchase at a specified future date (Repos) continue to be recognised in the balance sheet as securities and are measured in accordance with respective accounting policies. The liability for amounts received under these agreements is included in due to Moldovan Government. The difference between sale and repurchase price is treated as interest expense using the effective yield method.

The Bank has not entered in such transactions during the current reporting period.

#### j. Tangible assets

Tangible assets are stated at cost less accumulated depreciation.

In 1996 the Bank has performed indexation of the items of property and equipment that were acquired prior to 1 January 1996 by applying the set of indices elaborated by the Moldovan Government. The indices provided by the Ministry of Finance of the Republic of Moldova are applied to the net book value of assets in order to reflect changes in prices. The indices varied according to asset type and acquisition date.

Expenses for repairs and maintenance are charged to operating expenses as incurred. Subsequent expenditure on tangible assets is only recognised as an asset when the expenditures improve the condition of the asset beyond the originally assessed standard of performance.

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

	<b><u>rate per annum</u></b>
Buildings	5%
Wooden buildings	20%
Motor vehicles – heavy vehicles (0.8-6.0 t)	10%
Motor vehicles – cars (1.8-3.5 t), buses	20%
Special Equipment	20%
General and administration equipment	20%
Other fixed assets	30%

### **3. Significant accounting policies (continued)**

#### **k. Intangible assets**

Intangibles represent costs incurred for acquisition of computer software, amortised using the straight-line method over their estimated useful lives, by applying of an annual amortisation rate determined on the basis of estimated useful live of each asset.

Where the carrying amount of an intangible asset is greater than the estimated recoverable amount, it is written down to its recoverable amount.

The costs related to the development or maintenance of the software elements are recognized through the income statement at the moment they occur.

#### **l. National currency issued into circulation**

The national currency issued into circulation is carried at nominal value. For presentation purposes the cash on hand in national currency available in the circulation cash desk of the Bank is offset against national currency issued into circulation. The cost of production of banknotes and coins is recorded in the income statement when the expense is incurred.

#### **m. Due to banks**

Due to banks include LORO accounts and current accounts of the banks residents/non-residents, term deposits placed by banks and the interests on deposits.

Due to banks include, among others, the obligatory reserves required to be maintained on the accounts opened in the NBM, in compliance with its prudential requirement.

The mandatory reserves are determined by applying the set percentages to the average daily balances of deposit accounts and other similar liabilities of the commercial banks, specified for that reason by the Regulation on Obligatory Reserves Regime.

In the Balance Sheet availabilities of banks are presented at nominal value.

#### **n. Due to Moldovan Government**

Due to Moldovan Government include accounts of the State Budget, of the Social Insurance Budget, of the Obligatory Medical Insurance Fund and of the Financial Assistance provided to the Government.

In the Balance Sheet availabilities of the Government are presented at nominal value.

#### **o. Due to International Financial Institutions**

Due to International Financial Institutions are initially recognized at fair value, being equal to their issue proceeds. Subsequently Due to International Financial Institutions they are recognised at amortised cost. Any difference between net proceeds and the redemption value is recognised in the income statement over the period to maturity.

### **3. Significant accounting policies (continued)**

#### **p. Capital and reserves**

The Bank maintains the statutory capital on the level required to accomplish the objective established by the Law nr.548 – XIII of 21 July 1995 on the National Bank of Moldova.

The capital structure of the NBM according to the recent modifications in the art. 19 (1) of the Law nr.548 – XIII of 21 July 1995 on the National Bank of Moldova is the following:

- statutory capital:
  - authorized capital
  - general reserve fund
- reserve of unrealized gains
- other reserves.

The statutory capital is dynamic and it is created from the annual profit available for distribution and/or from the Government contributions until the capital reaches the value of 10 per cent of the total monetary liabilities of the NBM (except liabilities due to Government and International Monetary Fund) recorded in the accounting books of the NBM as at 31 December 2006.

The authorized capital shall be subscribed and shall be held exclusively by the state; the capital shall not be transferable or subject to encumbrance.

The general reserve fund is used exclusively to cover the net losses registered by the Bank at the financial year end.

As the allocation of unrealized profits may affect the achievement of the functional objectives of the NBM, the Bank retains unrealized profits, resulted from the foreign exchange rates fluctuation and from revaluation of the securities in foreign currency at their fair value in the reserves of the unrealized income, which, consequently, are used to cover the unrealized losses generated by respective sources.

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

#### **q. Income tax**

In compliance with the art. 24 par. (15) p. f) of the Law nr 1164-XIII dated 24 April 1997 on applying the titles I and II of the Tax Code and the subsequent amendments, the National Bank of Moldova is not subject to income tax on its activities.

#### **r. Interest income and expenses**

For all financial instruments measured at amortised cost interest income or expense is recorded in the income statement.

### **3. Significant accounting policies (continued)**

#### **s. Revaluation of foreign currency assets and liabilities**

Unrealized foreign exchange gains and/or losses are created as a result of the daily revaluations of the foreign currency stocks representing the difference between the official exchange rates of the national currency towards the foreign currencies which create the relevant foreign exchange stocks, the revaluation of the IMF related accounts during the financial year, as well as monthly revaluation of foreign securities at fair value which are held in the NBM portfolio.

By virtue of its activities as a central bank and for currency market intervention purposes, NBM maintains open currency positions at the reporting dates.

In line with best international practices, it is considered that distribution of unrealized foreign exchange gains at the end of the year is not prudent from a central bank prospective.

In accordance with the art.20 of the Law on the National Bank of Moldova at the end of the financial year, the net unrealized foreign exchange gains from reevaluation of the foreign currency stocks and of securities in foreign currency available in the NBM portfolio are transferred to the correspondent reserve accounts of unrealized gains. The amount of net unrealized losses, after recognition in the income statement is covered using the sources of corresponding reserve accounts of unrealized gains, until their balance equals to zero. When the relevant reserve accounts are insufficient, the net unrealized losses are covered by the annual net profit of the Bank or, when it is not sufficient, from the general reserve fund.

#### **t. Fiduciary activities**

The National Bank of Moldova acts in some cases as fiscal agent of the State. Assets and income arising from these activities are not included in these financial statements where the Bank acts in the fiduciary capacity such as nominee or agent.

#### **u. Contingencies**

Contingent liabilities are not recognised in the financial statements but they are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

#### **v. Provisions**

The Bank recognizes provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events and a reasonable estimate of the obligation can be made.

### **3. Significant accounting policies (continued)**

#### **w. Pension costs and employees' benefits**

During its normal activity, the Bank makes contributions to the social state insurance budget and to the mandatory medical insurance fund of the Republic of Moldova, including the contributions made on the name of its employees, according to the acting legislation. Social insurance contributions and medical insurance contributions of the NBM are recognized to expenses at the moment when salaries are accrued. The Bank does not operate any other retirement schemes and has no obligation to provide further benefits to current or former employees.

#### **x. 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 loans and receivables of the Bank are reported at amortized cost less an estimate for impairment.

The securities of non-residents are classified as "financial assets at fair value through profit or loss account", the gain or loss from their revaluation to market value is reported in the income statement. The State Treasury bills are classified as "available for sale" and are reported at fair value.

The estimated fair values of financial instruments have been determined by the Bank using available market information and appropriate valuation methodologies, such as discounted cash flows techniques.

Where discounted cash flows techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date with similar terms and conditions. However, professional judgment is required to interpret market data to determine the estimated fair value.

The fair value of the state securities held in the portfolio (for maturity which were not performed on the secondary market recently) is estimated by obtaining the new interest rates (on current market) at the reporting date per maturity of state securities retained in the NBM portfolio from the curve of the current interest rates. The curve is constructed for the appropriate day based on the recent results of the auctions for treasury bills on the primary market as well as on the secondary market for the last 5 working days.

#### **4. Financial risk management**

Through its normal operations, the National Bank of Moldova is exposed to a number of risks and the main risks are currency, operating, credit, interest rate, and liquidity risks. The structure of the 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 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 procedures, and is monitored by the management of the Bank, that analyzes issues related to the monetary, investment and foreign exchange policy of the National Bank of Moldova, and sets limits for volumes of transactions.

The operational risk involves the risk of both financial and non-financial losses resulted from human errors, breakdown or inadequate functioning of the internal control system. The Bank operational risk management is an integral part of daily operations and management. The operational risk management includes corporative policies, which provide for behavior standards applicable to involved persons and specific internal control systems, specific for each subdivision elaborated, taking into account the characteristics of their basic activity. Hence, for the monitoring and adequate management of the related risks the sub-divisions of the NBM elaborate their own internal control procedures.

The National Bank of Moldova manages this risk through its Internal Audit Department, which tests and expresses the opinion on the effective functioning of the internal controls system of the Bank. Segregation of duties among 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.

##### **4.1 Credit risk**

Credit risk is the risk that the Bank will incur a loss because its counterparties failed to discharge their contractual obligations.

The National Bank of Moldova is subject to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. The Bank's maximum exposure to credit risk, excluding the value of collateral, is generally reflected in the carrying value of financial assets.

The credit risk relating to operational credit in national currency is monitored and controlled.

The credit risk for REPO operations within open market operations of the NBM is controlled by selecting only as partners of the banks- Primary Dealers on the Securities market, the activity of which in quarterly monitored. Also, REPO operations require the following risk control elements:

## 4. Financial risk management (continued)

### 4.1 Credit risk (continued)

- settling the transaction insurance percentage (haircut) – when securities are acquired at a higher interest rate than established on the market at that specific moment, the National Bank protects against the eventual non repayment by the counterpart bank;
- requesting an additional pledge for maintaining the initial transaction insurance percentage, settled by the Bank, when the market price of the State securities purchased by the Bank as part of repo purchase transaction, has decreased significantly.

In order to decrease the credit risk exposure related to credits granted to commercial banks for loans to housing construction cooperatives, the Bank monitors on a permanent basis the quality of credit portfolio and debtors financial situation, and, periodically, evaluates the impairment provisions, and adjusts them to reflect best current estimates. The credits granted to banks are secured by the balances of current accounts placed by commercial banks in the Bank. The value of available collateral is determined on monthly basis based on the cash transfers to the Loro accounts, are continually monitored and are significantly greater than the initial value of accepted collateral.

In order to decrease the credit risk exposure related to credits granted to the Bank's personnel (current and former), the Bank accepts as a collateral either the properties acquired with the loans or the salaries in case the loan was granted for personal needs. The collateral value represents 130 per cent of the loan, covering principal and future interests.

The credit risk related to intraday/overnight/credits as well as to pawnshop facility is daily monitored using the limits of monetary policy set for each bank and are secured by the highly liquid collateral such as state securities and certificates issued by Bank.

The credit risk related to transactions, with the purpose of managing the foreign currency reserves is monitored via selecting the investment instruments with high liquidity and low level risk, setting investment limits and their daily control.

Furthermore, an essential element of credit risk management is the investment of the NBM with the purpose of foreign currency reserves management with reliable counterparties having high long-term credit rating, established by the international rating agencies (Standard & Poor's, Moody's and Fitch IBCA), and authorized by the NBM with whom to execute foreign currency transactions.

#### 4. Financial risk management (continued)

##### 4.1 Credit risk (continued)

The table below represents the Bank's assets based on long-term rating:

Assets	Long-term rating	31 December 2006	31 December 2005
Cash and short-term placements with banks	AAA	2.237.097	2.587.885
	AA+	430.710	31
	AA	2.107.366	1.384.896
	AA-	1.207.942	1.082.585
	A+	83	-
	A	5	5
	A-	48	46
	BB	-	2
Due from International Financial Organizations	AAA	2.394.300	2.259.667
Due from the Government	N/A	2.113.822	2.222.951
Securities issued by the Moldovan Government	N/A	402.574	402.910
Securities due from the Moldovan Government to be issued	N/A	-	125.963
Loans granted to banks and individuals	N/A	46.032	56.349
Investment securities	AAA	4.019.326	2.610.643
Tangible and intangible assets	N/A	47.775	51.676
Other assets	N/A	3.730	4.198
<b>Total Assets</b>		<b>15.010.810</b>	<b>12.789.807</b>

To quantify the credit risk related to investments in foreign currency, the value of credit risk associated to the investment portfolio is calculated based on default coefficients set by the Standard & Poor's agency per each rating category (from AAA to A-), the investments being classified in three categories (less or equal to one year, from one year to two, more than two years). As at 31 December 2006, the credit risk of the investment portfolio in foreign currency is valued at MDL 000' 240 (equivalent to USD 000' 18.6).

In order to evaluate the diversification of assets portfolio as well as to properly assess the credit risk subject to different geographical areas the classification of Bank's assets per investment country, except for cash on hand, which is classified by country of origin of issuer, is as follows:

Country	31 December 2006	31 December 2005
USA	2.947.115	2.362.170
International Financial Organizations	2.520.281	2.643.128
Germany	1.750.606	1.211.908
Great Britain	1.327.253	1.080.585
Belgium	1.314.056	390.989
France	952.994	1.279.078
The Netherlands	721.407	266.725
Sweden	431.779	690.429
Switzerland	430.715	51
Other Countries	670	697
Moldova	2.613.934	2.864.047
<b>Total Assets</b>	<b>15.010.810</b>	<b>12.789.807</b>

## **4. Financial risk management (continued)**

### **4.1 Credit risk (continued)**

The biggest share of the assets held with "International Financial Organizations" represents the quota of the Republic of Moldova held with the IMF. Simultaneously, the major share of the investments and availabilities, by a foreign country, belongs to the USA (19.63 per cent of the total assets), followed by Germany with 11.66 per cent, Great Britain with 8.84 per cent, and Belgium with 8.75 per cent, etc.

### **4.2 Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rate, foreign exchange rate and equity prices. The Bank classifies exposure to market risk both for the portfolio of securities in foreign currency and state securities.

The State securities are evaluated quarterly at their fair value determined based on recent auction interest rate on the primary market and all the relevant amendments to market environment that may affect the related gains.

The market risk for the portfolio of securities in foreign currency is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. For VaR calculation the Bank uses the historical volatility method.

The exposure to the market risk of the securities portfolio held in foreign currency is quantified by calculation of value-at-risk, which represents the maximum possible losses related to securities in foreign currency for a 12 months future period with a probability, usually, of 5 per cent, considering the historical volatilities for a similar period. As of 31 December 2006, the value of exposure to risk of securities portfolio in foreign currency is estimated at approximately USD 000' 19.220 or approximately MDL 000' 247.980.

### **4.3 Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of a financial instrument.

In case of the long term borrowings received from the IMF the Bank is exposed to interest rate risk as a result of the interest rate fluctuation.

The Bank is exposed to the internal market interest rate risk resulted from granting and extending the loans to the Government and the commercial banks at a fixed rate, holding the State Securities in its own portfolio in amounts and for terms different from those of the deposits placed with NBM, NBM Certificates issued and other borrowed funds.

#### **4. Financial risk management (continued)**

##### **4.3 Interest rate risk (continued)**

As the interest bearing assets or liabilities approach maturity or have their interest rate modified in different terms or different amounts, a permanent correlation with the current market levels of interest rate is pursued.

Consequently, due to the fact that the level of the abovementioned assets and liabilities is provided for by the objectives of the monetary policy, it is not always possible to obtain a positive margin.

To quantify the interest rate risk related to treasury bills held by NBM, based on professional judgment it is possible to presume that +/- 1p.p. fluctuations of interest rate compared to initial portfolio interest rate for securities held in portfolio implies an impact of approximately MDL 000' +/-350 on the Bank capital.

The fluctuation of interest rates on external market may affect the value of the investment portfolio in foreign currency as well as future cash flows. On external markets, the most vulnerable instruments to interest rate fluctuations are securities in foreign currency as the fluctuation of interest rates indirectly affects these assets price.

Consequently, due to fluctuations of interest rates on external markets negative divergences may occur between the interest rates of the investment portfolio in foreign currency and interest rates of the Bank's liabilities in foreign currency.

To determine the value of interest rate risk for short and long-term deposits in foreign currency, the possible losses are calculated considering a decrease of 0.5p.p. of the interest rate for these instruments for the next 12 months. According to the average balance of the short and long term deposits for the year 2006, the value of potential losses resulted from the decrease of interest rate with 0.5 p.p. is valued at approximately USD 000' 1.850 or approximately MDL 000' 23.860.

While managing the interest rates risk influenced by changes on the external markets, special attention is paid to the principal of diversification of investment portfolio by maturity and currency.

Average rates applicable to the major components of the balance sheet have been disclosed within the notes relating to these components. Analysis of assets and liabilities as at 31 December 2006 according to their contractual repricing or maturity date is as follows:

#### 4. Financial risk management (continued)

##### 4.3 Interest rate risk (continued)

31 December 2006	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Non- interest bearing	Total
<b>Assets</b>							
Cash and short-term placements with banks	5.782.972	177.124	-	-	-	23.155	5.983.251
Due from International Financial Institutions	2.417	-	-	-	-	2.391.883	2.394.300
Due from the Moldovan Government	2.092.242	-	-	-	-	21.580	2.113.822
Securities issued by the Moldovan Government	402.574	-	-	-	-	-	402.574
Loans granted to banks and individuals	1.714	1.712	3.417	6.768	32.421	-	46.032
Investment securities	412.035	854.846	1.215.661	1.488.760	-	48.024	4.019.326
Tangible and intangible assets	-	-	-	-	-	47.775	47.775
Other assets	-	-	-	-	-	3.730	3.730
<b>Total assets</b>	<b>8.693.954</b>	<b>1.033.682</b>	<b>1.219.078</b>	<b>1.495.528</b>	<b>32.421</b>	<b>2.536.147</b>	<b>15.010.810</b>
<b>Liabilities</b>							
National currency issued into circulation	-	-	-	-	-	5.817.191	5.817.191
Due to the Moldovan Government	-	-	-	-	-	871.627	871.627
Due to banks	1.195.556	-	-	-	-	628.841	1.824.397
Certificates issued by the National Bank of Moldova	940.362	-	-	-	-	2.985	943.347
Due to International Financial Institutions	510.961	-	35.848	107.544	1.164.707	2.399.668	4.218.728
Other liabilities	-	-	-	-	-	335.543	335.543
<b>Total liabilities</b>	<b>2.646.879</b>	<b>-</b>	<b>35.848</b>	<b>107.544</b>	<b>1.164.707</b>	<b>10.055.855</b>	<b>14.010.833</b>
<b>Interest rate gap</b>	<b>6.047.075</b>	<b>1.033.682</b>	<b>1.183.230</b>	<b>1.387.984</b>	<b>(1.132.286)</b>	<b>(7.519.708)</b>	<b>999.977</b>
<b>31 December 2005</b>							
Total assets	7.858.535	264.335	1.140.558	921.596	119.272	2.485.511	12.789.807
Total liabilities	1.437.112	16.945	16.944	67.778	406.668	10.322.247	12.267.694
<b>Interest rate gap</b>	<b>6.421.423</b>	<b>247.390</b>	<b>1.123.614</b>	<b>853.818</b>	<b>(287.396)</b>	<b>(7.836.736)</b>	<b>522.113</b>

The interest bearing assets and liabilities of the Bank, mainly comprise cash and cash equivalents, loans granted, securities, attracted deposits and certificates issued by the Bank, as well as loans granted by the International Financial Institutions. They bear fixed interest rates, except for the current account with the IMF and loan granted by the IMF (EFF), which bear floating interest rates set on a weekly basis by the IMF. The same is for the credits granted to the banks for crediting the construction cooperatives for which the interest rate is floating depending on the modifications of the long-term basic interest rate set by the Bank.

## **4. Financial risk management (continued)**

### **4.4 Liquidity risk**

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal circumstances different from normal ones. 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.

Liquidity is one of the basic criteria in defining the composition of assets in foreign currency. This reflects the potential need to liquefy the currency reserves for intervention purposes in case such needs arise.

Securities in foreign currency held in NBM portfolio are high liquidity instruments meaning that they could be sold at any moment before the maturity date.

The liquidity risk is constantly monitored by the NBM, limiting the maximum maturity term of the investment portfolio, which restricts the investment into long-term maturity instruments, consequently the remaining maturity of the NBM portfolio being diversified.

Securities issued by Government of the Republic of Moldova and held by the National Bank of Moldova have a contractual maturity not longer than 98 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 previously by the National Bank of Moldova to the Moldovan Government have been reconcluded during the year 2006 for a period not longer than 91 days. At maturity, interest accrued is paid to the National Bank of Moldova.

Analysis of assets and liabilities as at 31 December 2006 according to their contractual maturity date is as follows:

## 4. Financial risk management (continued)

### 4.4 Liquidity risk (continued)

	0-3	3-6	6-12	1-2	More than	Undefi ned	Total
31 December 2006	months	months	months	years	2 years	maturity	
<b>Assets</b>							
Cash short-term placements with banks	5.806.127	177.124	-	-	-	-	5.983.251
Due from International Financial Institutions	2.457	-	-	-	-	2.391.843	2.394.300
Due from the Moldovan Government	2.113.822	-	-	-	-	-	2.113.822
Securities issued by the Moldovan Government	402.574	-	-	-	-	-	402.574
Loans granted to banks and individuals	1.714	1.712	3.417	6.768	32.421	-	46.032
Investment securities	431.401	869.467	1.229.697	1.488.761	-	-	4.019.326
Tangible and intangible assets	-	-	-	-	-	47.775	47.775
Other assets	3.730	-	-	-	-	-	3.730
<b>Total assets</b>	<b>8.761.825</b>	<b>1.048.303</b>	<b>1.233.114</b>	<b>1.495.529</b>	<b>32.421</b>	<b>2.439.618</b>	<b>15.010.810</b>
<b>Liabilities</b>							
National currency issued into circulation	5.817.191	-	-	-	-	-	5.817.191
Due to the Moldovan Government	871.627	-	-	-	-	-	871.627
Due to banks	1.824.397	-	-	-	-	-	1.824.397
Certificates issued by the National Bank of Moldova	943.347	-	-	-	-	-	943.347
Due to International Financial Institutions	127.579	-	141.009	269.330	1.286.046	2.394.764	4.218.728
Other liabilities	335.543	-	-	-	-	-	335.543
<b>Total liabilities</b>	<b>9.919.684</b>	<b>-</b>	<b>141.009</b>	<b>269.330</b>	<b>1.286.046</b>	<b>2.394.764</b>	<b>14.010.833</b>
<b>Net liquidity gap</b>	<b>(1.157.859)</b>	<b>1.048.303</b>	<b>1.092.105</b>	<b>1.226.199</b>	<b>(1.253.625)</b>	<b>44.854</b>	<b>999.977</b>
<b>31 December 2005</b>							
Total assets	7.892.570	272.225	1.146.975	914.525	126.342	2.437.170	12.789.807
Total liabilities	8.899.526	34.139	133.482	266.465	674.131	2.259.951	12.267.694
<b>Net liquidity gap</b>	<b>(1.006.956)</b>	<b>238.086</b>	<b>1.013.493</b>	<b>648.060</b>	<b>(547.789)</b>	<b>177.219</b>	<b>522.113</b>

#### 4. Financial risk management (continued)

##### 4.5 Currency risk

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

As at 31 December 2006, NBM held the following foreign exchange positions:

31 December 2006	MDL	USD	EUR	GBP	XDR	Other	Total
<b>Assets</b>							
Cash and short-term placements with banks	-	3.418.425	1.294.892	1.269.769	-	165	5.983.251
Due from International Financial Institutions	2.391.843	-	-	-	2.457	-	2.394.300
Due from the Moldovan Government	2.113.822	-	-	-	-	-	2.113.822
Securities issued by the Moldovan Government	402.574	-	-	-	-	-	402.574
Loans granted to banks and individuals	46.032	-	-	-	-	-	46.032
Investment securities	-	1.995.509	1.347.069	676.748	-	-	4.019.326
Tangible and intangible assets	47.775	-	-	-	-	-	47.775
Other assets	3.691	37	2	-	-	-	3.730
<b>Total assets</b>	<b>5.005.737</b>	<b>5.413.971</b>	<b>2.641.963</b>	<b>1.946.517</b>	<b>2.457</b>	<b>165</b>	<b>15.010.810</b>
<b>Liabilities</b>							
National currency issued into circulation	5.817.191	-	-	-	-	-	5.817.191
Due to the Moldovan Government	657.302	138.953	75.372	-	-	-	871.627
Due to banks	1.029.359	388.535	406.503	-	-	-	1.824.397
Certificates issued by the National Bank of Moldova	943.347	-	-	-	-	-	943.347
Due to International Financial Institutions	2.395.173	-	-	-	1.823.555	-	4.218.728
Other liabilities	335.520	11	12	-	-	-	335.543
<b>Total liabilities</b>	<b>11.177.892</b>	<b>527.499</b>	<b>481.887</b>	<b>-</b>	<b>1.823.555</b>	<b>-</b>	<b>14.010.833</b>
<b>Net position</b>	<b>(6.172.155)</b>	<b>4.886.472</b>	<b>2.160.076</b>	<b>1.946.517</b>	<b>(1.821.098)</b>	<b>165</b>	<b>999.977</b>
<b>31 December 2005</b>							
Total assets	5.112.607	3.789.338	2.280.902	1.606.594	136	230	12.789.807
Total liabilities	10.427.519	393.708	216.707	-	1.229.760	-	12.267.694
<b>Net position</b>	<b>(5.314.912)</b>	<b>3.395.630</b>	<b>2.064.195</b>	<b>1.606.594</b>	<b>(1.229.624)</b>	<b>230</b>	<b>522.113</b>

Japanese yen, Romanian leu and Russian ruble represent other currencies, mainly.

## 5. Cash and short-term placements with banks

	<u>31 December 2006</u>	<u>31 December 2005</u>
Cash on hand in foreign currency	1.354	1.423
Nostro accounts	63.824	36.423
Term deposits in foreign currency	5.918.073	5.017.604
	<u><b>5.983.251</b></u>	<u><b>5.055.450</b></u>

Cash and short-term placements with banks are presented at their net value due to the fact that the cash on hand in local currency in the NBM circulation cash desk is offset with the national currency issued into circulation. The net value presentation is adequate since the NBM is the sole issuer of the national currency.

The term deposits in foreign currency hold the significant portion within this line (circa 98.91 per cent). As at 31 December 2006 the term deposits in foreign currency were placed at counterparties with high rating (according to rating agency Standard & Poor's) including counterparties with ratings „AAA” – 36.76 per cent, „AA+” – 7.30 per cent, „AA” – 35.60 per cent, „AA-” – 20.34 per cent of total deposits (as at 31 December 2005: „AAA” – 26.61 per cent, „AA” – 37.32 per cent, „AA-” – 36.07 per cent).

The average interest rate of the term deposits in foreign currency placed during the year 2006 is 4.36 per cent (2005: 3.19 per cent) and it is above the compound benchmark related to the investment portfolio calculated for the same period, which represents 4.18 per cent (2005: 3.08 per cent).

## 6. Due from/to International Financial Institutions

	<u>31 December 2006</u>	<u>31 December 2005</u>
<b>Assets</b>		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	2.391.843	2.259.531
Current account with IMF	2.457	136
	<u><b>2.394.300</b></u>	<u><b>2.259.667</b></u>
<b>Liabilities</b>		
Account No.1	2.391.746	2.259.439
Account No.2	98	92
<b>Total Availabilities of the IMF</b>	<u><b>2.391.844</b></u>	<u><b>2.259.531</b></u>
Other international organizations	2.920	420
Loans granted by IMF	1.823.964	1.229.844
	<u><b>4.218.728</b></u>	<u><b>3.489.795</b></u>

## 6. Due from/to International Financial Institutions (continued)

The Republic of Moldova joined the IMF on August 12, 1992. The National Bank of Moldova acts as the agent for the conduct of the financial transactions with the IMF and as a depository for maintaining of the IMF's accounts. Membership in the IMF is quota based. A member's quota is determined upon its admission to the membership and is increased periodically under General Quota Reviews. The quota forms the basis for the member's financial and organizational relationship with the IMF and determines, inter alia, a member's relative voting power, the maximum access to the IMF financing and the share of the member in any allocation of XDR.

The IMF Quota Account reflects initial and subsequent quota payments and is an asset of the member. Up to 25 per cent is payable by each member to the IMF in reserve assets specified by the IMF and the remainder is due in the member's own currency.

The local currency portion of the quota payment is deposited in the IMF No.1 Account, the IMF No. 2 Account and becomes the property of the IMF. The IMF No 1 account is used for the IMF's operational transactions (purchases, repurchases), whereas the IMF No 2 account is used for the payment of expenses incurred by the Fund in the member's currency.

The amounts included in the NBM balance sheet as Due to International Financial Institutions also include the loans received by the NBM from the IMF. The loans are denominated in Special Drawing Rights ("XDR"), but disclosed in the balance sheet at the Moldovan Lei equivalent at the year-end.

As at 31 December 2006 the Bank's outstanding balance of loans due to the IMF is as follows:

- Poverty Reduction and Growth Facility – XDR 000' 68.358 (as at 31 December 2005: XDR 000' 27.720)
- Extended Fund Facility – XDR 000' 25.417 (as at 31 December 2005: XDR 000' 39.062)

Poverty Reduction and Growth Facility (PRGF) represents loans granted to poor countries with the GDP of less than USD 895 per person. The IMF has granted within PRGF the loan of XDR'000 27.720 during the years 2000-2002 for a period of 10 years with a grace period of 5.5 years. The loan bears an interest rate of 0.5 per cent per annum.

During the year 2006 NBM has received loan installments of XDR 000' 11.440 on 11 May 2006 and of XDR 000' 31.970 on 22 December 2006 within PRGF loan.

Extended Fund Facility (EFF) represents the loan granted for economic growth support and is granted to economies suffering balance of payments deficits. The IMF has granted the loan of XDR'000 87.500 for a period of 10 years with a grace period of 4.5 years and a floating interest rate set on a weekly basis by the IMF.

## 6. Due from/to International Financial Institutions (continued)

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

As at 31 December 2006 for the balances with the International Financial Institutions, the assets increased by 5.96 per cent and liabilities by 20.89 per cent compared to 31 December 2005. The increase in assets resulted mainly from the depreciation of the national currency rate against the XDR and the increase in liabilities, including by receiving new loan installments from the International Monetary Fund during 2006 in terms of PRGF loan.

## 7. Due from the Moldovan Government

	<u>31 December 2006</u>	<u>31 December 2005</u>
Loans granted/reconcluded with the Moldovan Government	2.092.242	2.211.042
Interest accrued on loan granted/ reconcluded with the Moldovan Government	21.580	11.909
	<u><u>2.113.822</u></u>	<u><u>2.222.951</u></u>

The interest rate of the loans as at 31 December 2006 varied from 6.98 to 13.69 per cent per annum, comparing to 5.20– 3.56 per cent per annum as at 31 December 2005.

The loans to the Government are guaranteed by state securities at the market price issued by the Moldovan Government with the similar to loan due date that can be traded on the market.

The matured loans are reconcluded for a maximum period of 91 days, bearing the interest rate currently available on the primary market for the securities with the same due date.

## 8. Securities issued by the Moldovan Government

	<u>31 December 2006</u>	<u>31 December 2005</u>
Securities issued by the Moldovan Government	402.574	402.910
	<u><u>402.574</u></u>	<u><u>402.910</u></u>

As at 31 December 2006, the balance of state securities held in the Bank portfolio comprises state securities issued by the Moldovan Government and remitted to the Bank as a result of prior conversion into state securities of internal state debts purchased from the Bank during the previous years.

These securities are classified as available for sale and are recorded at their fair value.

## 8. Securities issued by the Moldovan Government (continued)

The average weighted interest rate for the state securities from the Bank's portfolio re-issued during 2006 is 6.17 per cent (in 2005: 3.03 per cent per annum; maximum interest rate – 13.69 per cent per annum, being registered in December 2006 (comparative to the maximum interest rate in 2005 – 6.11 per cent per annum, registered in January 2005; minimum interest rate – 1.01 per cent per annum registered in February 2006 (in 2005: 1.09 per cent per annum registered in May 2005).

As at 31 December 2006 the average market rate for the state securities registered was 13.3 per cent per annum compared to the average purchasing rate for the state securities - 8.96 per cent.

## 9. Securities due from the Moldovan Government to be issued

As at the end of the second quarter 2006 the value of securities due from Moldovan Government to be issued has reached the zero balance due to the fact that after the four months period after the end of the year the securities have to be increased or decreased depending on the reestablishment of equilibrium between the amount registered as securities and the amount registered in the revaluation reserve in accordance with the art. 54 of the Law on the National Bank of Moldova no. 548-XIII dated 21 July 1995. Subsequently the article 54 was excluded from the Law on the NBM.

## 10. Loans granted to banks and individuals

	<u>31 December 2006</u>	<u>31 December 2005</u>
Loans granted to banks	40.670	51.688
Loan granted to other individuals	5.362	4.671
<b>Subtotal</b>	<b>46.032</b>	<b>56.359</b>
Less: Impairment Provision	-	(10)
	<b>46.032</b>	<b>56.349</b>

Loans granted to banks and individuals include loans granted to commercial banks during the years 1993-2000 for loans to housing construction cooperatives and loans granted to the Bank' employees adjusted with loan loss provision.

The decrease in the balance of loans granted to banks and individuals by MDL' 000 10.317 or by 18.3 per cent resulted mainly due to partial reimbursement by banks of the loans granted by MDL' 000 by 10.327. During the reporting period the loan loss provision decreased MDL'000 10.

The movement in the provision for loan losses during the year is as follows:

	<u>2006</u>	<u>2005</u>
<b>As at 1 January</b>	<b>10</b>	<b>33.284</b>
Release of provisions during the year	(10)	(37.505)
Additions during the year	-	4.231
<b>As at 31 December</b>	<b>-</b>	<b>10</b>

## 11. Investment securities

	<u>31 December 2006</u>	<u>31 December 2005</u>
Investment securities with coupon issued by non-residents	4.019.326	2.460.108
Investment securities with discount issued by non-residents	-	150.535
	<b><u>4.019.326</u></b>	<b><u>2.610.643</u></b>

The securities issued by non-residents held by the National Bank of Moldova represent mainly securities issued by entities from the United States of America and European Union. As at 31 December 2006 all securities issued by non-residents held in the Bank's portfolio have the highest rating - „AAA” (as at 31 December 2005: “AAA”-100 per cent).

Those securities are low risk assets and are classified as financial assets at fair value through profit or loss account.

During 2006, the securities issued by non-residents increased by 53.96 per cent (In 2005: 88.76 per cent), as a result of increase of foreign exchange reserves and, respectively, increase of securities portfolio in foreign currency.

During the reported period, the total amount of securities sold or matured denominated in foreign currency represented the total nominal value of USD 000' 110.000, EUR 000' 40.000 and GBP 000' 7.500 (in 2005: USD 000' 50.000, EUR 000' 44.500 and GBP 000' 4.000). Consequently, there were purchased securities denominated in foreign currency in the total nominal value of USD 000' 164.000, EUR 000' 60.000, and GBP 000' 15.000 (in 2005: USD 000' 105.000, EUR 000' 66.000 and GBP 000' 15.000).

## 12. Other assets

	<u>31 December 2006</u>	<u>31 December 2005</u>
Prepayments	533	108
Other receivables	1.053	1.858
Inventories	1.634	2.023
Goods and materials administered	722	428
<b>Subtotal</b>	<b><u>3.942</u></b>	<b><u>4.417</u></b>
Less: Provisions for slow moving inventory and doubtful debts	(212)	(219)
	<b><u>3.730</u></b>	<b><u>4.198</u></b>

## 12. Other assets (continued)

The movement in the provisions for slow moving inventory and doubtful debts during the year is as follows:

	<u>2006</u>	<u>2005</u>
As at 1 January	219	696
Charge for the year	4	53
Release for the year	(11)	(530)
As at 31 December	<u>212</u>	<u>219</u>

## 13. Tangible and intangible assets

	<u>Buildings</u>	<u>Equipment</u>	<u>Assets in progress</u>	<u>Intangibles assets</u>	<u>Total</u>
<b>Cost</b>					
As at 1 January 2006	36.653	76.175	9.217	9.872	131.917
Additions	14	1.568	5.015	2.180	8.777
Reclassification	-	-	(14.217)	14.217	-
Disposals	(40)	(1.632)	-	-	(1.672)
As at 31 December 2006	<u>36.627</u>	<u>76.111</u>	<u>15</u>	<u>26.269</u>	<u>139.022</u>
<b>Accumulated depreciation</b>					
As at 1 January 2006	17.525	56.370	-	6.346	80.241
Charge for the year	993	8.476	-	3.193	12.662
Charge for disposals	(40)	(1.616)	-	-	(1.656)
As at 31 December 2006	<u>18.478</u>	<u>63.230</u>	<u>-</u>	<u>9.539</u>	<u>91.247</u>
<b>Carrying value</b>					
As at 1 January 2006	<u>19.128</u>	<u>19.805</u>	<u>9.217</u>	<u>3.526</u>	<u>51.676</u>
As at 31 December 2006	<u>18.149</u>	<u>12.881</u>	<u>15</u>	<u>16.730</u>	<u>47.775</u>

## 14. National currency issued into circulation

	<u>31 December 2006</u>	<u>31 December 2005</u>
National currency issued into circulation	5.874.968	5.224.952
Less: Cash on hand in national currency in circulation cash desk	(57.777)	(76.065)
	<u>5.817.191</u>	<u>5.148.887</u>

## 15. Due to the Moldovan Government

	<u>31 December 2006</u>	<u>31 December 2005</u>
Due to the Moldovan Government	871.627	348.236
	<u>871.627</u>	<u>348.236</u>

## 15. Due to the Moldovan Government (continued)

As at 31 December 2006 the due to the Moldovan Government balance increased by MDL 000' 523.391 and represents the share of 6.22 per cent in the total liabilities.

In prior year financial statements the "Due to the Moldovan Government" balance included also amounts due from the other state organizations. In current year financial statements these amounts are reclassified to "Other liabilities".

## 16. Due to banks

	<u>31 December 2006</u>	<u>31 December 2005</u>
Current accounts of commercial banks, including obligatory reserves	1.491.606	2.377.202
Deposits from local banks in national currency	332.791	581.361
	<u>1.824.397</u>	<u>2.958.563</u>

As at 31 December 2006 the availabilities of the banks represent 13.02 per cent of the total liabilities of the NBM, compared to 24.12 per cent at the end of the year 2005. This is determined by their decrease with MDL'000 1.134.166 (or by 38.34 per cent), especially, when the total liabilities increased by 14.21 per cent compared to 31 December 2005.

In prior year financial statements the balance on Loro account of the NBM Branch Office in Tiraspol was included in the amounts due to commercial banks, but reclassified as at 31 December 2005 to "Other liabilities".

## 17. Certificates issued by the National Bank of Moldova

	<u>31 December 2006</u>	<u>31 December 2005</u>
Certificates issued by NBM	943.347	141.554
	<u>943.347</u>	<u>141.554</u>

During the year 2006 NBM continued to issue the NBM certificates, which were sold to the commercial banks through auctions in order to absorb the excess of liquidity on the monetary market. The prevailed maturity of the certificates was 14 and 28 days. The minimum and maximum nominal monthly average interest rates were 1.57 per cent and 13.87 per cent per annum respectively (compared to the minimum and maximum monthly average rates during the year 2005: 1.43 per cent and 7.29 per cent per annum respectively).

## 18. Other liabilities

	<u>31 December 2006</u>	<u>31 December 2005</u>
Due to the State Budget	313.498	160.512
Due to other entities	15.782	15.319
Due to personnel	4.922	4.828
Other liabilities	1.341	-
	<u><b>335.543</b></u>	<u><b>180.659</b></u>

Due to the State Budget represents a part of the net profit of the Bank for reporting period to be transferred to the State Budget of the Republic of Moldova.

## 19. Capital and reserves

	<u>31 December 2006</u>	<u>31 December 2005</u>
Authorized capital	288.923	200.000
General reserve fund	577.845	319.175
<b>Total statutory capital:</b>	<u><b>866.768</b></u>	<u><b>519.175</b></u>
Reserve of unrealised gains on exchange rate differences	133.099	-
Gains/(losses) from revaluation of treasury bills	(1.739)	442
Gains from indexation of fixed assets	1.849	2.496
	<u><b>999.977</b></u>	<u><b>522.113</b></u>

During the year 2006 there were changes made to the Law on National Bank of Moldova nr. 548-XIII dated 21 July 1995, which resulted in the new capital structure described in note 3p. These changes became effective as of 22 December 2006.

In accordance with the revised Law the statutory capital of the Bank has reached the level of 10 per cent of the total monetary liabilities (on gross basis) registered as at 31 December 2006, except for Due to Government and International Monetary Fund, of MDL 000' 8.667.676. The additional capital of MDL'000 347.953 was partially introduced by the Government in cash form in amount of MDL'000 250.000 and partially allocated from the net profits for the year in amount of MDL'000 97.593. Both amounts were allocated to the authorized capital and general reserve fund in order to obtain the proportion in the statutory capital as at 31 December 2006 of 1/3 and 2/3 respectively.

In accordance with art.20 of the Law nr. 548-XIII dated 21 July 1995 on the National Bank of Moldova, the Bank has to distribute 50 per cent of the profit available for distribution for the increase in statutory capital in terms of the limits stipulated above.

During the year, the differences from revaluation of securities in foreign currency were recorded in a separate account, but the income and expenses related to these differences, realized at the maturity or disposal date of these securities were recognized to profit or loss account. At the year-end, the differences from revaluation

## 19. Capital and reserves (continued)

of securities in foreign currency remained in the portfolio, represented unrealized gain/loss and were recognized to profit or loss account. In 2006 the unrealized losses from revaluation of securities amounted MDL'000 6.924, respectively with this amount the annual net profit was decreased.

Similarly, during the year the unrealized income/losses from foreign exchange revaluation were recorded on separate account. At the year-end, the unrealized gains of MDL'000 133.099 were recognized to profit and loss account and according to the Law on NBM were transferred to the respective reserve.

As at 31 December 2006 the revaluation of state securities resulted in a loss of MDL'000 (1.739) and the capital was decreased respectively for the same amount.

## 20. Distribution of net profit

	<u>31 December 2006</u>	<u>31 December 2005</u>
Net profit for the year	545.806	11.941
Release of unrealized losses on exchange rate differences in accordance with the Law on the National Bank of Moldova	-	198.163
Allocation of unrealized gains on exchange rate differences in accordance with the Law on the National Bank of Moldova	(133.099)	-
Release of realized gains from fixed assets indexation	647	647
<b>Net profit for the year available for distribution</b>	<b><u>413.354</u></b>	<b><u>210.751</u></b>
Allocation to:		
Authorized capital	(32.531)	-
General reserve fund	(65.062)	(42.151)
<b>State Budget</b>	<b><u>315.761</u></b>	<b><u>168.600</u></b>

## 21. Interest income

	<u>31 December 2006</u>	<u>31 December 2005</u>
<b>Interest income from deposits and availabilities:</b>		
Interest from term deposits in foreign banks	179.508	102.988
Interest from deposits overnight	31.709	43.353
Interest income from availabilities	1.808	3.969
	<b><u>213.025</u></b>	<b><u>150.310</u></b>
<b>Interest income from securities:</b>		
Interest from securities with coupon and discount	137.328	60.416
Interest from amortised discount on treasury bills	22.011	13.659
	<b><u>159.339</u></b>	<b><u>74.075</u></b>
<b>Interest income from loans:</b>		
Interest from loans to the Moldovan Government	121.650	78.063
Interest from loans to banks and employees	4.873	6.138
	<b><u>126.523</u></b>	<b><u>84.201</u></b>
	<b><u>498.887</u></b>	<b><u>308.586</u></b>

## 22. Interest expense

	<u>31 December 2006</u>	<u>31 December 2005</u>
<b>Interest expenses arising from loans received:</b>		
Interest from loans received from the IMF	32.559	32.734
	<u>32.559</u>	<u>32.734</u>
<b>Interest expenses arising from availabilities:</b>		
Interest on obligatory reserves	15.418	12.643
Interest on deposits placed by the Banks	30.962	26.800
	<u>46.380</u>	<u>39.443</u>
<b>Interest expenses arising from transactions with securities and Repo agreements:</b>		
Interest on certificates of the Bank	40.235	9.864
Interest on Repo transactions	-	1.017
	<u>40.235</u>	<u>10.881</u>
	<u>119.174</u>	<u>83.058</u>

## 23. Gains/ (losses) from foreign exchange transactions and foreign exchange rate differences

	<u>31 December 2006</u>	<u>31 December 2005</u>
Realized gains from foreign exchange transactions	133.330	28.135
Unrealized gains/(losses) from foreign exchange rate difference	133.099	(198.163)
	<u>266.429</u>	<u>(170.028)</u>

## 24. Losses from the revaluation of securities

	<u>31 December 2006</u>	<u>31 December 2005</u>
Net realized gains from investment securities	4.544	1.566
Net unrealized loss from revaluation of securities at fair value	(6.924)	(9.757)
	<u>(2.380)</u>	<u>(8.191)</u>

## 25. Other income

Other income mainly represents income from settlement transactions performed with commercial banks of the Republic of Moldova.

## 26. Operating expenses

	<u>31 December 2006</u>	<u>31 December 2005</u>
Expenses related to the production of the national currency	50.624	20.916
Staff costs	33.624	32.964
Depreciation of tangible assets and amortization of intangible assets	12.662	10.034
Communication expenses	5.028	4.271
Repair of property and equipment	718	1.692
Maintenance of the equipment	517	1.003
Other operating expenses	4.869	5.234
	<u>108.042</u>	<u>76.114</u>

## 26. Operating expenses (continued)

The staff costs include mandatory state social contribution and mandatory medical insurance calculated at 26 per cent and 2 per cent, respectively, from salary and other awards (2005: 27 per cent and 2 per cent respectively).

## 27. Related parties

During the year ended at 31 December 2006, the remuneration paid to the Bank management, including middle level management, was MDL'000 3.335 (2005: MDL'000 2.961).

The Bank has granted loans to its employees. The following disclosure represents the movement for loans granted and remaining balances of the loans granted to the management of the Bank, including the middle level management:

	Remaining balance as at 1st of January	Loans granted	Reimbursements	Remaining balance as at 31st of December
2005	801	-	125	676
2006	676	-	43	633

The loans were granted to the management of the Bank according to the NBM internal regulation and the interest rates charged are the same for all NBM employees. Outstanding balances at the year-end are secured by individual collateral. For the year ended 31 December 2006 these loans were classified as performing loans and therefore the Bank has not made any provisions relating to amounts owed by related parties.

## 28. Commitments and contingencies

### *Litigations*

As at 31 December 2006 the Bank was involved in a litigation against a former employee and two litigations against the Bank. As at 31 December 2006 the Bank has recorded a provision for litigations of MDL'000 46, considering that the value of the provision is adequate to cover the future expenses related to the litigations against the Bank (as at 31 December 2005: MDL'000 46).

### *Credit related commitments*

As at 31 December 2006, there were no outstanding credit related commitments.

## Annexes

Table no. 1. DYNAMICS OF MACROECONOMIC INDICATORS

	2004	2005	2006
<b>Nominal Gross Domestic Product</b> (million lei)	<b>32031.8</b>	<b>37651.9</b>	<b>44068.8</b>
– % change over the previous year in real terms	107.4	107.5	104.0
GDP deflator, %	108.0	109.3	112.6
<b>Industrial Production</b> (million lei)	<b>17591.1</b>	<b>20770.2</b>	<b>22243.2</b>
– % change over the previous year in real terms	108.2	107.0	93.1
Industrial Production Price Index (average)	105.6	105.3	112.2
<b>Agricultural Production</b> (million lei)	<b>11819.0</b>	<b>12688.0</b>	<b>13695.0</b>
– % change over the previous year in real terms	120.8	100.8	95.4
<b>Investments in Fixed Capital</b> (million lei)	<b>5140.0</b>	<b>7189.1</b>	<b>9580.4</b>
– % change over the previous year in real terms	108.0	112.0	117.0
<b>Deficit (-), surplus (+) of the public budget</b> (million lei)	<b>131.4</b>	<b>578.4</b>	<b>-126.1</b>
- as % of GDP	0.4	1.5	-0.3
Consumer Price Index (average)	112.4	111.9	112.7
Consumer Price Index (at period-end)	112.5	110.0	114.1
Average number of employed persons per period (thousand persons)	667.2	662.8	648.7
Number of officially registered unemployed persons at period-end (thousand persons)	21.0	21.7	20.4
Unemployment rate according ILO definitions	8.1	7.3	5.6 <sup>1</sup>
<b>Average wage</b> (lei)	<b>1103.1</b>	<b>1318.7</b>	<b>1697.1</b>
– % change over the previous year in real terms	110.1	106.8	114.2
Wage arrears at period-end (million lei)	<b>134.9</b>	<b>96.0</b>	<b>114.7</b>
<b>External Public and Publicly Guaranteed Debt</b> (million USD) <sup>2</sup>	<b>880.1</b>	<b>774.1</b>	<b>876.7</b>
<b>Total External Debt</b> (million USD)	<b>1897.8</b>	<b>2080.5</b>	<b>2482.1</b>
<b>Domestic Debt</b> (million lei)	<b>3714.1</b>	<b>3787.1</b>	<b>3790.2</b>
– loans extended by NBM under SS collateral	2338.0	2211.0	2092.24
– State securities in circulation,	1376.1	1576.0	1697.94
Including SS in the NBM portfolio	400.0	400.0	400.0

<sup>1</sup> Quarter IV, 2006<sup>2</sup> Balance at period-end

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

Table no. 2. INFLATION DYNAMICS

Period	% change over the previous month			% change over December of the previous year			% change over the similar month of the previous year		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
January	1.5	1.1	1.9	1.5	1.1	1.9	15.2	12.1	10.9
February	0.9	2.1	1.4	2.4	3.2	3.3	14.2	13.4	10.1
March	0.6	0.8	1.5	3.0	4.0	4.8	13.9	13.6	10.8
April	0.9	1.4	1.0	3.9	5.5	5.9	13.2	14.2	10.4
May	0.5	0.1	1.2	4.4	5.6	7.2	13.2	13.8	11.7
June	0.1	-0.8	0.2	4.5	4.7	7.4	12.2	12.7	12.8
July	0.3	-1.1	-0.4	4.8	3.5	7.0	11.0	11.1	13.7
August	0.5	0.2	0.8	5.3	3.7	7.9	11.2	10.8	14.5
September	1.0	1.2	1.1	6.4	4.9	9.1	10.5	10.9	14.4
October	2.2	1.5	1.6	8.7	6.5	10.8	10.6	10.2	14.4
November	1.8	1.9	1.7	10.7	8.5	12.7	11.5	10.3	14.3
December	1.6	1.4	1.2	12.5	10.0	14.1	12.5	10.0	14.1

Source: National Bureau of Statistics

Table no. 3. GROSS DOMESTIC PRODUCT

	Million lei, current prices		Real growth, %		Weight, %	
	2005	2006	2005	2006	2005	2006
<i>Breakdown by resource category</i>						
<b>Gross Domestic Product</b>	<b>37651.9</b>	<b>44068.8</b>	<b>7.5</b>	<b>4.0</b>	<b>100%</b>	<b>100%</b>
<b>Gross Added Value, total</b>	<b>31615.9</b>	<b>36668.7</b>	<b>5.2</b>	<b>2.6</b>	<b>84.0</b>	<b>83.2</b>
<b>Goods</b>	12110.7	12962.5	2.5	-5.5	32.2	29.5
<b>Agriculture</b>	6174.9	6635.5	1.5	-4.1	16.4	15.1
<b>Industry</b>	5935.8	6327.0	3.6	-7.0	15.8	14.4
<b>Services</b>	20262.1	24699.2	7.6	7.7	53.8	56.0
<b>Constructions</b>	1257.0	1730.3	2.1	16.3	3.4	3.9
<b>Wholesale trade</b>	3928.6	4583.0	4.1	5.5	10.4	10.4
<b>Transportation and communications</b>	4603.9	5342.6	15.2	14.8	12.2	12.1
<b>Other Services</b>	10472.6	13043.3	6.3	4.4	27.8	29.6
<b>Financial Intermediation Services Indirectly Measured</b>	-756.9	-993.0	21.9	7.8	-2.0	-2.3
<b>Net taxes on goods and imports</b>	<b>6036.0</b>	<b>7400.1</b>	<b>21.7</b>	<b>10.8</b>	<b>16.0</b>	<b>16.8</b>
<i>Breakdown by use category</i>						
<b>Final consumption</b>	<b>41368.4</b>	<b>49965.9</b>	<b>13.8</b>	<b>6.7</b>	<b>109.9</b>	<b>113.4</b>
<b>Households</b>	34694.1	41319.1	13.7	7.0	92.2	93.8
<b>Public and private administration</b>	6674.3	8646.8	14.3	5.3	17.7	19.6
<b>Gross capital formation</b>	<b>11606.4</b>	<b>15107.0</b>	<b>18.1</b>	<b>15.1</b>	<b>30.8</b>	<b>34.3</b>
<b>Gross fixed capital formation</b>	9257.9	12315.8	14.4	17.4	24.6	28.0
<b>Change in inventories</b>	2348.5	2791.2	33.2	5.9	6.2	6.3
<b>Net exports</b>	<b>-15323.0</b>	<b>-21004.1</b>	<b>38.2</b>	<b>19.8</b>	<b>-40.7</b>	<b>-47.7</b>
<b>Exports</b>	19264.1	20590.7	14.7	2.8	51.2	46.7
<b>Imports</b>	34587.1	41594.8	23.4	10.3	-91.9	-94.4

Source: National Bureau of Statistics, National Bank of Moldova

Table no. 4. MONETARY INDICATORS (million lei, year-end)

	2004	2005	2006
<b>Monetary Aggregates</b>			
<b>Reserve Money</b>	<b>5313.1</b>	<b>7002.9</b>	<b>6512.3</b>
<b>M0</b> (currency in circulation)	<b>3699.9</b>	<b>4571.2</b>	<b>5145.8</b>
Sight deposits	1864.3	2761.9	3122.4
<b>M1</b>	<b>5564.2</b>	<b>7333.1</b>	<b>8268.2</b>
Term deposits	2572.3	3792.4	4202.0
Money market instruments	0.5	0.1	15.0
<b>M2</b>	<b>8137.0</b>	<b>11125.6</b>	<b>12485.2</b>
Deposits in foreign currency	3582.7	4701.2	7072.8
<b>M3</b>	<b>11719.7</b>	<b>15826.8</b>	<b>19558.0</b>
Velocity (M2)	3.94	3.38	3.53
Multiplier (M2)	1.53	1.59	1.92
<b>Deposits (total)</b>	<b>8019.3</b>	<b>11255.5</b>	<b>14397.2</b>
Deposits by legal entities	3207.4	4255.6	5033.3
Including in foreign currency	1068.4	1296.6	1915.6
Deposits by individuals	4811.9	6999.9	9363.9
Including in foreign currency	2514.3	3404.7	5157.2
<b>Credits</b>			
NBM claims to banks	62.3	51.7	40.7
Claims to non-governmental sector, total	7399.3	9990.5	13767.8
In national currency:	4272.0	6255.1	8509.0
– state enterprises	422.3	401.0	339.7
– private sector	3110.2	4219.5	5380.9
– households	688.3	1100.9	2072.2
– other financial institutions	51.2	533.7	716.2
In foreign currency	3127.3	3735.4	5258.8

Source: National Bank of Moldova

Table no. 5. AVERAGE WEIGHTED INTEREST RATE ON TERM DEPOSITS

Period	Deposits				
	total	in MDL		in foreign currency	
		value, million lei	interest rate %	value, million lei	interest rate, %
January 2005	764.0	380.5	15.71	383.5	5.18
February	760.5	449.5	15.40	311.0	5.33
March	857.5	480.6	14.37	376.9	5.28
April	746.5	364.6	13.90	381.9	5.13
May	730.6	392.2	13.35	338.4	5.24
June	861.2	461.2	13.19	400.0	5.08
July	830.5	440.7	12.96	389.8	5.13
August	989.2	438.4	12.78	550.8	5.11
September	953.5	469.3	12.29	484.2	5.04
October	865.0	440.5	12.28	424.5	5.06
November	951.3	517.9	11.80	433.4	5.14
December	1313.9	806.9	10.55	507.0	5.18
<b>Total 2005</b>	<b>10623.7</b>	<b>5642.3</b>	<b>12.99</b>	<b>4981.4</b>	<b>5.15</b>
January 2006	1212.6	669.0	10.83	543.6	5.00
February	881.6	478.1	11.74	403.5	5.00
March	1040.2	516.7	11.50	523.5	4.85
April	936.0	416.0	11.33	520.0	5.76
May	1134.0	471.4	10.74	662.6	5.23
June	1135.8	415.8	11.15	720.0	4.60
July	1044.5	443.1	10.90	601.4	5.12
August	1182.3	401.7	11.99	780.6	5.22
September	1097.0	381.8	12.62	715.2	5.26
October	1164.4	466.6	13.28	697.8	5.10
November	1285.9	569.5	13.08	716.4	5.18
December	1560.6	713.2	13.40	847.4	5.62
<b>Total 2006</b>	<b>13674.9</b>	<b>5942.9</b>	<b>11.93</b>	<b>7732.0</b>	<b>5.17</b>

Source: National Bank of Moldova

Table no. 6. AVERAGE WEIGHTED INTEREST RATE ON CREDITS

Period	Credits				
	total	in MDL		in foreign currency	
		value, million lei	interest rate, %	value, million lei	interest rate, %
January 2005	524.2	338.9	21.16	185.3	11.29
February	757.1	485.2	20.88	271.9	11.26
March	1048.8	656.0	20.70	392.8	11.45
April	1037.3	646.2	20.16	391.1	11.18
May	963.4	646.4	19.21	317.0	11.29
June	1096.5	769.4	19.36	327.1	11.06
July	957.2	660.8	19.32	296.4	11.18
August	1253.8	763.4	18.71	490.4	10.68
September	1686.6	1188.3	18.14	498.3	11.05
October	1244.1	873.0	18.21	371.1	11.07
November	1239.0	848.4	17.98	390.6	11.10
December	1636.2	1150.4	17.30	485.8	10.64
<b>Total 2005</b>	<b>13444.2</b>	<b>9026.4</b>	<b>18.93</b>	<b>4417.8</b>	<b>11.07</b>
January 2006	865.7	600.7	17.93	265.0	11.00
February	1049.1	733.5	18.30	315.6	11.07
March	1469.3	1000.2	18.18	469.1	10.91
April	1147.2	727.4	17.83	419.8	10.83
May	1155.5	790.5	17.60	365.0	11.04
June	1234.6	727.3	17.58	507.3	11.27
July	1124.4	658.6	17.61	465.8	11.11
August	1457.1	782.3	18.29	674.8	10.95
September	1525.8	836.4	18.61	689.4	11.05
October	1612.9	961.5	18.68	651.4	11.25
November	1726.6	1112.2	18.34	614.4	11.26
December	2222.1	1305.0	18.59	917.1	10.97
<b>Total 2006</b>	<b>16590.3</b>	<b>10235.6</b>	<b>18.18</b>	<b>6354.7</b>	<b>11.06</b>

Source: National Bank of Moldova

Table no. 7. YIELDS ON SS ISSUED IN THE PRIMARY MARKET (%)

Period	Average weighted monthly yield by types of SS			Average weighted nominal yield
	91 days	182 days	364 days	
January 2005	5.68	6.81	9.4	<b>6.76</b>
February	1.99	3.09	5.12	<b>2.77</b>
March	1.21	1.98	3.72	<b>1.93</b>
April	1.62	3.89	5.06	<b>2.71</b>
May	1.24	2.98	4.34	<b>2.25</b>
June	2.32	3.10	4.67	<b>2.94</b>
July	3.32	3.40	4.90	<b>3.65</b>
August	3.08	3.30	4.79	<b>3.51</b>
September	2.88	3.19	4.57	<b>3.33</b>
October	4.89	5.31	6.23	<b>5.28</b>
November	4.58	5.02	6.12	<b>4.98</b>
December	3.73	4.27	5.73	<b>4.27</b>
<b>Annual nominal average weighted yield – 2005</b>	<b>2.98</b>	<b>3.77</b>	<b>5.36</b>	<b>3.66</b>
January 2006	2.43	3.44	5.23	<b>3.20</b>
February	1.21	1.94	3.36	<b>1.83</b>
March	3.52	4.24	5.26	<b>4.05</b>
April	5.33	6.11	7.48	<b>5.95</b>
May	6.53	7.44	9.12	<b>7.32</b>
June	7.72	8.23	11.03	<b>8.53</b>
July	7.54	8.21	10.78	<b>8.37</b>
August	7.19	8.06	10.95	<b>8.23</b>
September	7.02	8.66	11.16	<b>8.29</b>
October	7.71	9.05	12.96	<b>9.11</b>
November	8.34	9.57	13.76	<b>9.77</b>
December	11.99	12.97	15.06	<b>12.89</b>
<b>Annual nominal average weighted yield – 2006</b>	<b>6.46</b>	<b>7.56</b>	<b>9.90</b>	<b>7.34</b>

Source: National Bank of Moldova

Table no. 8. OFFICIAL EXCHANGE RATE (lei)

Type of currency	2004		2005		2006	
	period-end	annual average	period-end	annual average	period-end	annual average
USD (1\$)	12.4600	12.3283	12.8320	12.6003	12.9050	13.1319
EUR (1€)	16.9542	15.3286	15.1950	15.6978	16.9740	16.4918
RUB (1)	0.4487	0.4280	0.4459	0.4455	0.4894	0.4834
ROL (1000)	0.4300	0.3790	0.4113	0.4333		
RON (1)*			4.1129	4.3327	4.9869	4.6800

\* as of July 1, 2005, the national currency of Romania, the Romanian leu, was denominated, so as 1 new leu (RON) is equivalent to 10 000 old lei (ROL). The old lei (ROL) were legal tender until December 31, 2006.

Source: National Bank of Moldova