National Bank of Moldova

Translation

Inflation Report

no. 3, August 2011

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Note

Statistical data were taken from the National Bureau of Statistics,

Ministry of Economy, Ministry of Finance,

EUROSTAT, International Monetary Fund,

National Energy Regulatory Agency,

State Hydrometeorological Service.

Likewise selected were certain statistical data provided by the international community and by the Central Banks of the neighboring states.

The calculation of the statistical data was carried out by the National Bank of Moldova.

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List of acronyms

ANRE	National Agency for Energy Regulation
CHIBOR	Average interest rate at which the contributors banks are available to lend funds in MDL to other banks, on the interbank monetary market
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
EU	European Union
EUR	Common European Currency
FCC	Freely convertible currency
GDP	Gross Domestic Product
GVA	Gross Value Added
IMF	International Monetary Fund
IPPI	Industrial Producer Price Index
MDL	Moldovan Lei
NBC	Certificates issued by the National Bank of Moldova
NBM	National Bank of Moldova
NBS	National Bureau of Statistics of the Republic of Moldova
OPEC	Organization of the Petroleum Exporting Countries
SDR	Special drawing rights
SS	State Securities
USA	United States of America
USD	US Dollar
VAT	Value Added Tax

Summary

Inflation developments

In the second quarter of 2011, the annual rate of inflation measured by CPI recorded an upward trend, increasing from 5.8 percent in March to 7.7 percent in June 2011, being largely consistent with the Medium-term Monetary Policy Strategy. At the same time, it corresponds to the forecast stipulated in the Inflation Report no. 2, May 2011, recording an insignificant deviation in the context of high uncertainty driven by food prices development and by the existing pressures on global oil market, as well as by the current increases in tariffs for regulated services.

The annual rate of core inflation[1] rose from 2.8 percent in March to 3.4 percent in June 2011, which led to the amplification of the difference between the rate of CPI and core inflation from 3.0 percentage points in March to 4.3 percent in June, thus outlining further the non-monetary factors influence on the inflationary process in Moldova.

Food prices contributed the most to the annual inflation rate formation in June 2011, as a result of regional and global food price increases, second round effects intensification from higher prices for fuel, gas and electricity tariffs at the beginning of this year, and as a result of more unfavorable weather conditions than last year for fruit and vegetables. At the same time, the regulated prices had a major contribution, as a result of fuel, heating and electricity tariffs increases recorded in the first semester of this year. Second round effects from higher prices for regulated services, fuel and food, and an increased demand led to higher prices of goods and services related to core inflation. Oil prices fluctuations on the global market, enhanced by the tensions in the Middle East and North Africa, contributed to the fuel prices increase.

In the first quarter of 2011, the gross domestic product recorded an increase in real terms of 8.4 percent as compared to the same period of the last year.

[1]Decomposition of CPI inflation in these components is made based on the internal methodology of the NBM. Components of CPI inflation are: (1) core inflation (2) food prices (3) regulated prices (4) fuel prices.

Although the domestic demand is the determining factor in GDP growth, some of it is directed towards goods from abroad, which led to a sharp increase in imports during this period. Import growth was surpassed by that of exports, with a significant positive contribution to GDP growth in the first quarter of 2011. Data on external trade, industrial and agricultural production, transport of goods for the first half of this year outlines the prerequisites for registering a moderate increase in GDP in the second quarter of 2011, compared with the first quarter of 2011.

The unemployment rate in the first quarter of 2011 was 9.4 percent, increasing by 0.3 percentage points compared to the same period last year. However, seasonally adjusted data for this indicator shows a slight improvement of the situation during the reference period compared with the fourth quarter of 2010. In the first quarter of 2011, the average nominal wage of an employee in national economy increased on average by 9.6 percent against the same period last year, in April and May 2011 its growth was even more pronounced, reaching the level of 13.7 and 12.9 percent, respectively.

Monetary policy

National Bank of Moldova develops and implements the monetary and exchange rate policy aimed at ensuring and maintaining price stability. The NBM will ensure and maintain the inflation within the mid-single digit interval during 2011-2012.

Quantifying the inflation outlook in the short and medium terms, in the context of possible uncertainties and challenges of the reporting period, and to anticipate the inflationary pressures, the National Bank of Moldova has promoted a prudent monetary policy during the second quarter of 2011. At the same time, the NBM continued to manage the liquidity excess by sterilization operations on monetary market.

National Bank of Moldova intervened on the domestic foreign exchange market as a buyer of foreign currency during April to June 2011, to alleviate the excessive fluctuations of the exchange rate of the national currency against the U.S. dollar and to supplement the foreign currency reserves.

During the analyzed period, the volume of transactions of the National Bank of Moldova conducted on domestic foreign exchange market against MDL constituted the equivalent of USD 14.15 million.

In the second quarter of 2011, monetary indicators increased with a quarterly rate higher than the growth recorded in the previous quarter, the quarterly average in annual terms constituting 21.3 percent for M2 and 18.6 percent for M3.

In the current conditions of the banking system, after the increase of required reserves ratio by 3.0 percentage points during the second quarter of 2011, the interest rates on new deposits attracted by banks increased in quarterly terms, and new loans granted to individuals and legal entities recorded a downward trend.

To improve the transmission mechanism of monetary policy decisions, which is currently affected largely by significant liquidity in the banking system, within the meeting of May 26, 2011 the Council of Administration of the National Bank of Moldova decided to raise the required reserves ratio at the expense of funds attracted in MDL and nonconvertible currencies and at the expense of the funds attracted in freely convertible currency by 3.0 percentage points, setting a 14.0 percent value starting with the tracking period of funds attracted during July 8 - August 7, 2011.

Within the same meeting, the Council of Administration of the National Bank of Moldova adopted a decision on amending the Regulation on required reserve regime, which provides the application of a required reserves ratio of 0.0 (zero) percent for attracted funds, included in the calculation base, which maturity is more than 2 years. This change will increase the efficiency of banks cash management and will create some facilities to support the growth of funds attracted by banks in the long run.

Within the meeting of July 28, 2011, the base rate was increased from 8.0 percent to 9.0 percent and rates on overnight loans and deposits from 11.0 percent to 12.0 and from 5.0 to 6.0 percent, respectively.

Medium-term inflation forecasting

After a year of a fragile and uneven stabilization, the global economic growth is on a general downward trend, being jeopardized by problems such as unemployment, rising prices, sovereign debt risk and financial fragility. The latest data on global macroeconomic indicators show worsening of global economic situation and a slowdown in the process of recovering from the global financial crisis.

The real GDP gap showed positive values at the beginning of 2011, being over the potential level of the economic activity, which constitutes an inflationary factor for the next period. Compared to the projection of the Inflation Report No. 2, May 2011 where the output gap was negative, the output gap in the current round of forecasting has changed due to a higher increase than previously anticipated for the first quarter of this year. According to the current projections, the output gap will record positive values, thus recording an insignificant excess of demand.

The current projection places the annual inflation rate at the level of 8.4 percent at the end of the year while at the end of the next year at the level of 7.4 percent. Compared with the Inflation Report no. 2, May 2011, the annual inflation rate at the end of this year showed no deviations, while for the end of 2012 it was revised towards increase. The main causes of higher inflation for the next year are increasing food prices on international markets and the excess of the aggregate demand, which will occur over the next year.

Chapter 1

Inflation developments

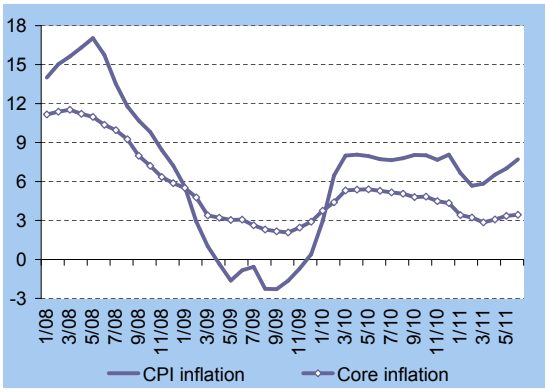
In the second quarter of 2011, the annual rate of inflation measured by CPI recorded an upward trend, constituting 7.7 percent in June 2011, being largely consistent with short-term inflation forecast published in the Inflation Report no. 2, May 2011. At the same time, the annual rate of core inflation during the reporting period falls within the mid-single digit interval that is the medium-term objective of inflation stipulated in the Monetary Policy Strategy for 2010-2012. The annual core inflation rate recorded a much lower value (3.4 percent) compared to the CPI, the difference revealing thus the increased contribution of the non-monetary factors in prices increases in Moldova. The food prices and regulated prices, followed by the contribution from growth in core inflation and fuel prices have contributed the most to the formation of the annual inflation rate in June 2011. A slight acceleration of the pace of annual price index of industrial production has been recorded in the second quarter of 2011, constituting 6.6 percent in June 2011. As a result of positive developments in the construction sector, prices in this sector in the second quarter 2011 increased by 9.4 percent compared with the same period last year.

1.1 Consumer price index

After the downward trend recorded earlier this year, in the second quarter of 2011, the annual rate of inflation measured by CPI had an upward trend, increasing from 5.8 percent in March to 7.7 percent in June 2011 (Chart 1.1). Within the component structure in June 2011, the highest increase compared to June 2010 was recorded in food prices (10.3 percent), followed by services (7.7 percent) and non-food (5.1 percent).

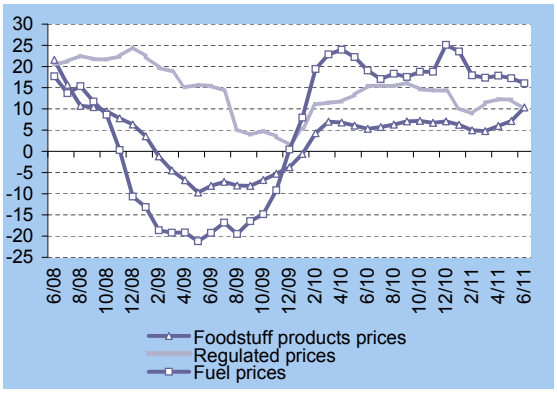
However, in the second quarter of 2011, the CPI annual rate falls within the mid-single digit interval, which constitutes the medium-term objective of inflation stipulated in the Monetary Policy Strategy for 2010-2012.

Chart 1.1: The annual rate of CPI and core inflation (%)



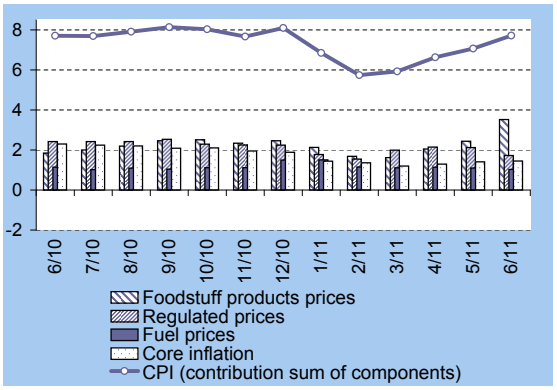
Source: NBS

Chart 1.2: Annual rate of inflation subcomponents (%)



Source: NBS

Chart 1.3: The evolution of annual inflation and subcomponents contribution (%)



Source: NBS

At the same time, the short-term inflation forecast published in the Inflation Report no. 2, May 2011, largely corresponds with the actual average value for the second quarter of 2011, being only by 0.1 percentage points higher than that projected (7.0 percent). The insignificant deviation was mainly driven by food prices behavior, caused by adverse weather conditions for fruit and vegetables in June, which delayed the propagation of negative seasonal effect, characteristic for this period. At the same time, food price increase, over the expectation, was caused by second-round effects from increases in fuel prices and regulated tariffs from the beginning of the year.

The annual rate of core inflation[2] has experienced an upward dynamic in this period, but was less pronounced than that of overall inflation. Thus, it increased from 2.8 percent in March 2011 to 3.4 percent in June 2011, which resulted in amplification of the difference between CPI and the core inflation rate from 3.0 percentage points in March to 4.3 percentage points in June. Thus, the inflationary process in Moldova, like in the previous periods, is greatly affected by non-monetary factors. In this respect, impressive contributions have had the regulated prices, prices for fuel and foodstuff prices, which evolution has been influenced by factors such as prices of certain goods on world markets, climatic conditions, the central authorities' decisions, etc., factors that can not be controlled or predicted by the monetary policy actions of the National Bank of Moldova. However, besides the causes affecting the aggregate supply, price increases were driven by increased demand from population on the background of higher disposable income.

Food prices (3.5 percentage points) had the most contribution to the annual inflation rate formation in June 2011, as a result of regional and global price increase, the intensification of second round effects from higher prices for fuel, gas and electricity tariffs at the beginning of this year, and as a result of more unfavorable weather conditions than last year for fruit and vegetables. At the same time, the regulated prices had a major contribution (1.7 percentage points), as a result of fuel, heating and electricity tariffs increases recorded in the first semester of this year.

Prices increases for goods and services related to core inflation caused by second-round effects from higher prices for regulated services, fuel and food prices, and increased demand led to a contribution of 1.5 percentage points to the annual growth rate inflation in June 2011. Fluctuations in oil prices on the world market, enhanced by the tensions in North Africa and

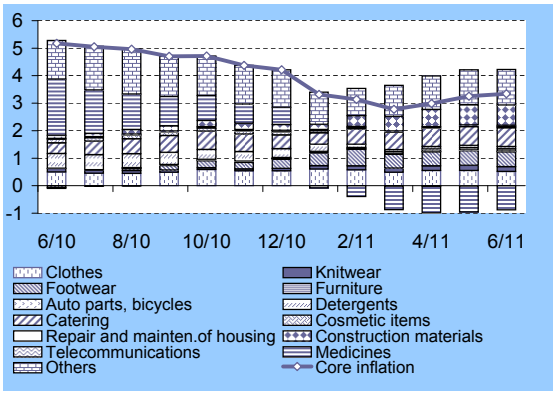
[2]Decomposition of CPI inflation in these components is made based on the internal methodology of the NBM. Components of CPI inflation are: (1) core inflation (2) food prices (3) regulated prices (4) fuel prices.

the Middle East, have led to increased fuel prices, which have contributed by 1.0 percentage points to the annual inflation formation (Chart 1.3).

Core inflation index

In the second quarter of 2011, the annual rate of core inflation[3] recorded a moderate increase (from 2.8 percent in March to 3.4 percent in June 2011) after having experienced a downward trend that lasted about a year. Higher prices of goods included in core inflation was, on the whole, marked by the second round effects from the increase in fuel prices earlier this year, which increased the costs of transport. In this regard, in June 2011, a significant positive contribution to the increase in core inflation rates have been generated from building materials, footwear and clothing, which increased by 11.4, 5.2 and 3.2 percent respectively. However, in addition to supply-side factors, the increase in disposable income of the population, due to higher wages and social transfers, reduction of bills for the payment of utilities as the cold season has ended, and to the increase in remittances contributed to an increased demand of the population for some categories of goods. At the same time, the significant contribution from building materials prices was driven by the significant revival of the sector after the crisis.

Chart 1.4: Components contribution to the annual growth rate of core inflation (p.p.)



Source: NBS

As from the category of services, the increased prices of catering services had the greatest contribution. These increased by 12.3 percent in June 2011 as compared to the same period last year. This dynamic was determined by secondary effects from the increase in food prices, tariffs for gas and electricity that have resulted in increased production costs, and by increased demand for these services.

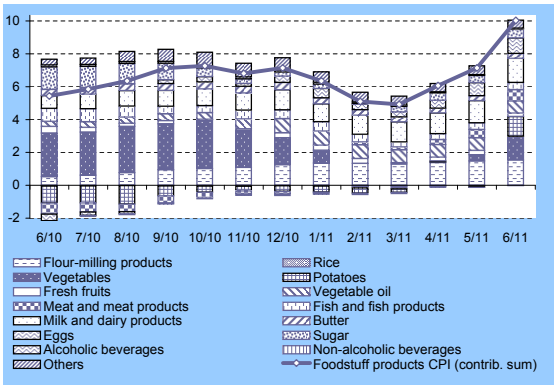
The most significant negative contribution to the annual growth rate of core inflation has been driven by the developments in medicines prices. However, due to the administrative measures and pressures applied at the beginning of the current year, the medicines prices have declined by 7.2 percent compared with June 2010.

Food prices

In the second quarter of 2011, the annual growth rate of food prices increased from 4.8 percent in March 2011 to 10.3 percent

[3]Index calculated by the method of exclusion (there were excluded food, fuel, products and services with administered prices), based on the CPI calculated by the National Bureau of Statistics of the Republic of Moldova.

Chart 1.5: Components contribution to the annual growth rate of food prices (p.p.)



Source: NBS

in June 2011, as a result of the existence of stronger inflationary pressures in the second quarter of 2011 as compared to the same period last year, and the delayed deflationary process, which supposed to start in June, as a result of lower prices for vegetables and fruits.

The increase in annual terms of food prices in June was mainly determined by the price increases in vegetable oil (33.8 percent), potatoes (24.6 percent), eggs (21.6 percent), sugar (13.3 percent), milk and dairy products (13.1 percent), fresh vegetables (10.3 percent), milling and bakery (9.1 percent). The vegetable oil price increased because of the raw material prices growth at the end of 2010, as the harvest in the Black Sea region was poorer. The main factor that increased the prices of potatoes and vegetables were heavy rains in June that disfavored the collection and marketing of these products. However, the price of new potatoes in the reference period was higher than the same period last year, due to more favorable weather conditions in 2010 for this product. The upward trend in prices of eggs was favored by their export at a higher price, which eliminated the excessive supply of this product recorded in the spring. Despite the fact that sugar production in 2010 increased by 2.5 times, the price for sugar was affected by the gap between domestic prices and prices from Ukraine.

It should be mentioned that both second-round effects from increases in electricity and gas tariffs, and higher prices for raw materials from importers spurred price increases for milling and bakery products. At the same time, fuel price increase recorded in recent months resulted in increased transportation costs, which directly influenced the price of these products. Besides internal factors, food prices increase was caused by increase in world food prices, which increased in June 2011 with about 39.1 percent compared with the same period last year.

Regulated prices

The annual growth rate of regulated prices decreased from 11.4 percent in March to 9.9 percent in June 2011. However, in the second quarter of 2011 its average (11.5 percent) was higher as compared to the first three months of this year (10.2 percent).

Regulated prices growth in the second quarter of 2011, compared to the same period last year, was driven mainly by increases in tariffs for gas, central heating and electricity made in the first half of this year. Thus, in February, the natural gas price increased by about 14.2 percent, the tariff for heating increased by about 12.4 percent for capital residents, while increases in

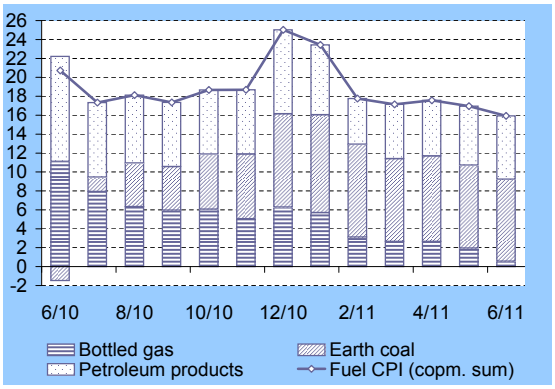
other cities were even more pronounced, decisions reasoned by increased import prices of natural gas that have stimulated further growth in related services prices. At the same time, in April, the tariff for electricity rose by 10.8 percent. These increases, together with higher prices for water and sewerage services by 4.1 percent, determined the increase of utilities services as a whole, in June 2011, to be higher by 12.5 percent compared with the same period last year.

However, a positive contribution to the growth of regulated prices was driven by higher prices for passenger transport, being in June 2011 by 1.3 percent higher than in the previous year, following increases occurred in railway transport and international air transport (by 20.9 and 7.6 percent, respectively), developments motivated by higher prices for petroleum products internationally and MDL depreciation against the Swiss franc.

Fuel prices

Since the beginning of this year, the annual growth rate of fuel prices recorded a downward trend, decreasing from 23.5 percent in January to 16.0 percent in June 2011. This trend has been determined by the effect of high base period, following the trend of depreciation of the national currency against the U.S. dollar in the first half of 2010. Fuel prices increase in the second quarter of 2011, compared with the same period last year, was driven by higher import prices of derived products as a result of higher world oil prices following the global economic recovery, but also as a result of tensions in the Middle East and North Africa recorded this year. Thus, in the second quarter of 2011, Urals oil price reached the average of USD 114.2 per barrel, by 49.1 percent higher than the level recorded in the same period last year.

Chart 1.6: Components contribution to the annual growth rate of fuel prices (p.p.)



Source: NBS

A moderating effect on fuel prices growth is exercised by the appreciation trends of the national currency against the U.S. dollar, and by the International Energy Agency's decision to release on the market approximately 60.0 million barrels of oil reserves of the Member States, which attenuated the increase of price of this product on international markets in the second quarter of 2011 and, thus, in the context of a favorable exchange rate, the growth conditions necessary for fuel prices in the local market have disappeared during this period.

Within the structure, in the second quarter of 2011, the increase in fuel prices and earth coal continues to be the most significant positive contribution to the annual growth of fuel prices, while the contribution from the bottled gas price is falling (Chart 1.6).

1.2 Comparing forecasts of the Inflation Report no. 2, May 2011 with the inflation developments in the second quarter of 2011

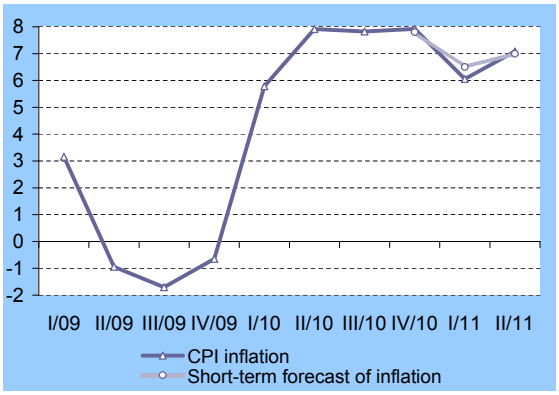
Table 1.1: Evolution and forecast of CPI and its components

	De facto	Forecasted (IR nr. 2)
	Q II, 2011 /Q II, 2010	Q II, 2011 /Q II, 2010
CPI	**7.1**	**7.0**
Core inflation	3.3	2.7
Foodstuff products	7.8	6.9
Regulated prices	11.5	14.0
Fuel	17	18.2

Source: NBM

Rising prices in the second quarter of 2011 exceeded the CPI forecast by 0.1 percentage points, published in the Inflation Report no. 2, May 2011. This deviation was mainly caused by the behavior of food prices in June 2011, which increased by 7.8 percent in the second quarter of 2011 compared to the forecast of 6.9 percent (Table 1.1). Thus, the expected deflation in the previous forecasting round for June, against the background of falling prices for vegetables and fruits, was less pronounced and even delayed and was not sufficient to cover the price increases in this component from April and May 2011. This delayed decrease in food prices will be compensated in July and August so that the inflation value at the end of this year will not be decisive. A positive deviation, but of a smaller magnitude (0.6 percentage points) was recorded for prices of goods and services related to core inflation. The negative deviations from the forecasted values in the Inflation Report no. 2, May 2011, were recorded for fuel prices (minus 1.2 percent) and regulated prices (minus 2.5 percent). Their incidence has slowed, to some extent, the deviation caused by the above-mentioned developments in food prices and core inflation.

Chart 1.7: Evolution and forecast of CPI since the implementation of inflation targeting regime (%)



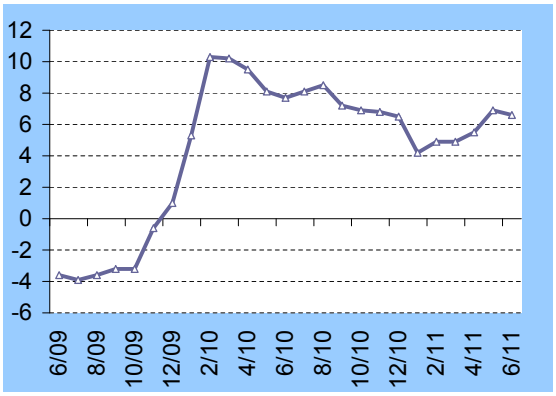
Source: NBS

As regarding the fuel prices, the forecasted value of 18.2 percent was motivated by the tense situation in the Middle East and North Africa that generated pressure on oil prices. Tempering tensions in this region, and the International Energy Agency intervention that released about 60.0 million barrels of oil on the market from the reserves of Member States, which attenuated the increase of price of this product on international markets in the second quarter of 2011 and, thus, in the context of a favorable exchange rate, the growth conditions necessary for fuel prices in the local market have disappeared. As regarding the regulated prices, the deviation was occurred as a result of lack of anticipated increases in tariffs of health services. The reduced magnitude of forecast deviation from actual data, and oscillation of deviation mark in the last three rounds of forecast (Chart 1.7) reveals that the short-term forecasting process is effective and free from bias.

1.3 Industrial production price index

According to the National Bureau of Statistics, the annual rate of industrial production price index was 6.6 percent in June 2011, decreasing by 0.3 percentage points compared to the previous month. Within the structure, the highest growth was recorded in prices of the energy industry, which is higher by 9.2 percent compared to June 2010, while prices of extractive industry and manufacturing recorded growth rates in annual terms of 1.3 and 6.2 percent, respectively. It should be mentioned that since the beginning of the year, the pace of price increases in industry is accelerating (Chart 1.8). Price increases in annual terms for industrial production was determined by the increase of raw material and food prices in international markets and the exchange rate of MDL against the currencies of the major trading partners of the Republic of Moldova. Compared to May 2011, the prices in industry increased by 0.3 percent overall. This increase was influenced by price increases in manufacturing by 0.4 percent. At the same time, this increase was offset by lower prices in the extractive industry by 3.9 percent.

Chart 1.8: The annual rate of IPPI (%)



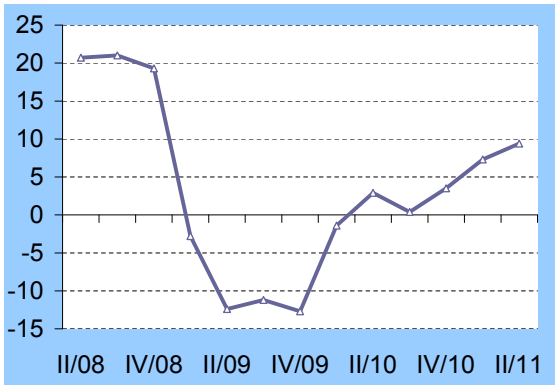
Source: NBS

It should be mentioned that the biggest increases were recorded in manufacturing in the following subcomponents: “Manufacture of tobacco articles” (7.2 percent), “Sugar production” (3.6 percent), “Manufacture of wearing apparel; fur preparing and dyeing” (3.1 percent), “manufacture of footwear” (2.9 percent), “ Manufacture of furniture and other industrial activities” (2.5 percent), “Manufacture of textiles” (2.2 percent) and “Manufacture of wood and wooden articles” (1.7 percent).

1.4 Construction prices

In the second quarter of 2011, the annual growth rate in construction prices recorded the value of 9.4 percent compared to the same period of the previous year. It should be mentioned that in the last three quarters, the annual growth rate has increased significantly, as a result of revival in the construction sector. Within the structure of the national economy sectors, the largest price increases in the second quarter of 2011, as compared to the second quarter of 2010, were recorded in telecommunications (13.2 percent), dwelling building (by 13.1 percent), agriculture (by 11.4 percent), commerce and catering (by 8.4 percent).

Chart 1.9: Evolution of construction price index (% compared to the same period last year)



Source: NBS

Chapter 2

Economic developments

2.1 Demand and supply

According to the preliminary data of the National Bureau of Statistics, the gross domestic product increased by 8.4 percent in real terms in the first quarter of 2011 as compared to the same period of the last year. Domestic demand was the key factor in GDP growth, following the restoration of expectations on the development of the national economy, but also the increase in funding sources. The acceleration of the real GDP growth rate by categories of resources was driven by positive developments in all sectors of the economy.

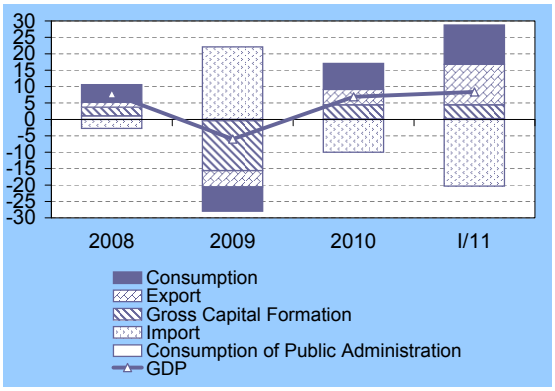
Data on foreign trade, industrial and agricultural production, transport of goods for the first half of this year outlines the prerequisites for registering a lower increase of GDP in the second quarter of 2011 as compared to the previous quarter. Thus, during January – May 2011, the exports increased by 63.1 percent, while the import of goods - by 44.7 percent versus the same period of 2010. However, in January - June 2011, the enterprises of railway, vehicular transport, inland water transport and air transport has increased by 26.6 percent versus the same period of 2010. During January - June 2011, the agricultural output on all forms of property increased by 3.9 percent compared to January – June 2010. During January – May 2011, the volume of industrial output on all forms of property increased in real terms by 8.2 percent versus the same period of 2010.

Demand

Preliminary data of the National Bureau of Statistics on the gross domestic product shows a pronounced increase of the national economy, thus recording an increase of 8.4 percent in real terms in the first quarter of 2011 as compared to the same period of the last year.

In terms of uses (Chart 2.1), the domestic demand was the determining factor in GDP growth. Thus, following the restoration of expectations on the development of national economy, but also the increase of funding sources, the household consumption rose by 11.9 percent in the first three months of 2011. Investment demand has made the most significant development compared with the first quarter of 2010 so that it increased by 32.5 percent, generating an important positive contribution (4.2 percentage points) in the evolution of GDP. The restoration of the economic agents' expectations and their access to funding sources and the increase of the amount of financial means allocated from state budget for purchasing equipment and inventory, contributed to the acceleration of the annual rate of gross capital formation. Within the structure, both the "gross fixed capital formation" component (by 2.8 percentage point) and the "variation in inventory" (by 1.4 percentage points) contributed to the acceleration of GDP growth rate. Final consumption expenditure of general government recorded a modest increase (0.9 percent) and thus did not cause significant changes in GDP growth. Stimulated by the economic recovery of Moldova's main trading partners, the exports have increased by 31.5 percent, generating the biggest positive contribution to the GDP dynamics (12.4 percentage points). However, the imports have recorded a significant evolution as well, recording an increase of 25.9 percent as compared to the same period of 2010, which determined a reduction in the positive contribution of the above-mentioned components by 20.4 percentage points.

Chart 2.1: Contribution of demand components (p. p.) to GDP growth (%)

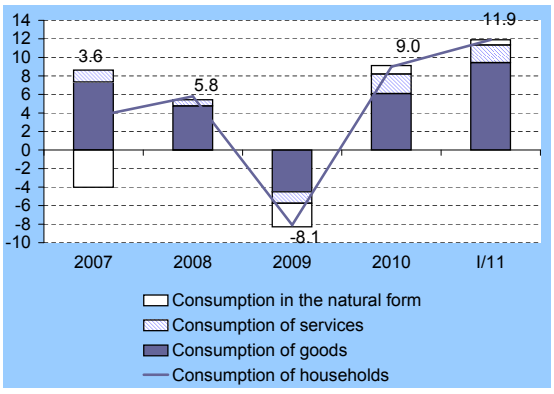


Source: NBS, NBM calculations

Household consumer demand

In the first quarter of 2011, the household consumption continued its upward trend started at the beginning of 2010, as a result of the increase of its funding sources, and to the restoration of people's expectations regarding the development of national economy, recording an increase of 11.9 percent versus the same period of the previous year.

Chart 2.2: Contribution of household final consumption components (p. p.)



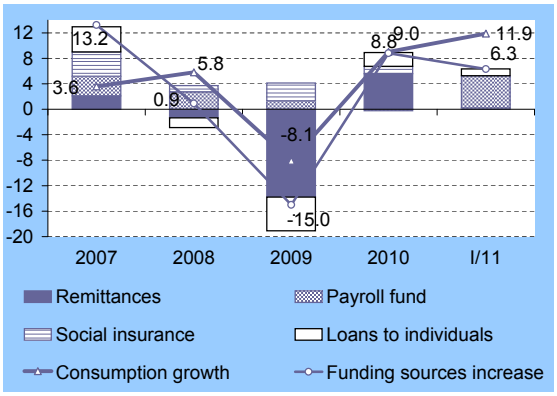
Source: NBS, NBM calculations

The expenditure related to the procurement of goods for final consumption, which increased by 17.7 percent in the first quarter of 2011, had the largest contribution to the increase of household consumption as compared to the same period of the last year.

The expenditure related to the procurement of services recorded an increase in real terms of 6.5 percent versus the same period last year, but, given their lower weight, their contribution was significantly reduced compared with the expenditure related to the procurement of goods.

However, the increase in final consumption of goods and services for final consumption in kind by 4.2 percent constituted

Chart 2.3: Contribution of funding sources (p. p.) to the real growth of household consumption



Source: NBS, NBM calculations

a minor contribution to the growth. This evolution was driven mainly by rising global agricultural production by 8.3 percent compared to the same period last year.

Persistence of positive dynamics of household consumer demand was mainly due to the rise in disposable income of population in the first quarter of 2011, increases in real terms were recorded in all major segments - income from wages, social transfers and remittances. Thus, in the first quarter of 2011, the main consumption financing sources[4] (Chart 2.3) recording an upward trend, recording an increase of 6.3 percent in real terms[5] versus the same period of 2010. In this regard, the main source of funding remains to be the total labor cost (wage bill), which recorded an increase of 11.0 percent in real terms versus the first quarter of 2010, generating such a maximum positive contribution to the dynamics of funding sources. At the same time, a significant positive contribution, despite the low weight, was generated by the considerable increase in new loans granted to households (by 29.5 percent). Intensification of lending process is mainly due to the recovery of foreign trade that has fueled the demand for foreign currency loans to finance import operations.

During the reporting period, remittances recorded a positive but modest increase in consumption growth, which registered an increase in real terms of 0.6 percent. The volume of social security payments has declined by 0.2 percent in real terms, generating a negative contribution to the dynamics of funding recourses.

Government consumption

Final consumption of general government recorded a modest increase (0.9 percent) and thus the GDP dynamics has been not significantly modified.

Public sector

According to the data of the Ministry of Finance, during January-June 2011, the national public budget has accrued revenues in the amount of 13646.5 million lei, representing an increase of 10.1 percent compared with the same period last year.

Tax revenues continue to hold the major share (85.0 percent) in budget revenues, the main sources of income remain to be the taxes on domestic goods and services, which registered a 15.0 percent increase, in particular, income accruing from VAT. Thus,

[4]Main funding sources are approximated by the sum of the payroll, social transfers, and transfers in the form of remittances from workers abroad.

[5]In 2000 year prices.

we can notice the increase of VAT on goods imported during January-June by 25.8 percent.

In addition, there were increases in national insurance contributions of 11.4 percent and state income taxes by 16.2 percent. As a result of changes in these indicators, tax revenues have registered a value greater than during the previous year by 13.4 percent. Grants for budget support from external sources fell by 1.6 percent, while the domestic grants have reported an increase of 22.9 percent.

At the expense of the national public budget in January- June 2011 have been recorded expenditures totaling 15009.1 million lei, which represents 9.5 percent more compared to the same period last year. The increase in expenditures was caused mainly by increased spending on insurance and social assistance (by 12.5 percent), health (by 5.1 percent) and education (by 1.3 percent). Thus, execution of the general government deficit resulted in an increase of 4.4 percent from the value recorded in the corresponding period of previous year, negative balance representing minus 1362.6 million lei.

For financing the deficit were primarily used financial means from the sale of SS and loans of international financial organizations, whose growth rates were lower in January-June 2010, by 8.8 percent and 39.0 percent, respectively.

State debt

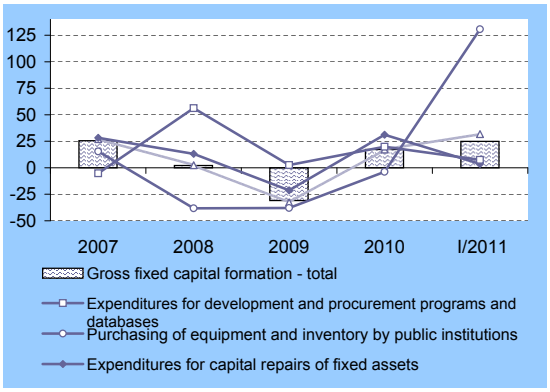
On June 30, 2011 the balance of state debt constituted 18991.6 million lei, increasing by 120.8 million lei from the beginning of the year.

This is due to the increase in domestic state debt by 64.0 million lei (at the expense of raising the issue of state securities issued by auction in the amount of 164.0 million lei and repurchase of state securities placed by subscription in the amount of 100.0 million lei) and to the increase in external state debt by 56.8 million lei. The evolution of external state debt was due to inflows of foreign loans that have exceeded the repayments of external loans by about USD 21.4 million and the positive exchange rate fluctuation of U.S. dollar against other currencies amounting to USD 36.1 million.

Investment demand

Similar to previous periods, gross capital formation was the most dynamic component of domestic demand so that it rose in the first quarter of 2011 by 32.5 percent in real terms as compared to the same period last year. Gross fixed capital formation

Chart 2.4: Gross fixed capital formation (% versus the same period of the previous year)



Source: NBS, NBM calculations

increased by 24.9 percent compared with the first quarter of 2010 and contributed by about 21.3 percentage points to the evolution of investment. The upward trend in gross fixed capital formation was determined mainly by the positive developments of the following components: "procurement of equipment by budget institutions" and "capital investment" that increased by 130.7 percent and 31.8 percent respectively, compared with the first quarter of 2010. Expenditure on the "development and acquisition of programs and databases" and on "capital repairs of fixed assets" increased by 7.5 percent and 3.7 percent respectively, but had a less contribution (Chart 2.4).

Component "changes in inventories" registered a 77.8 percent change compared with the same period last year, generating a contribution of about 11.2 percentage points to the growth of gross capital formation.

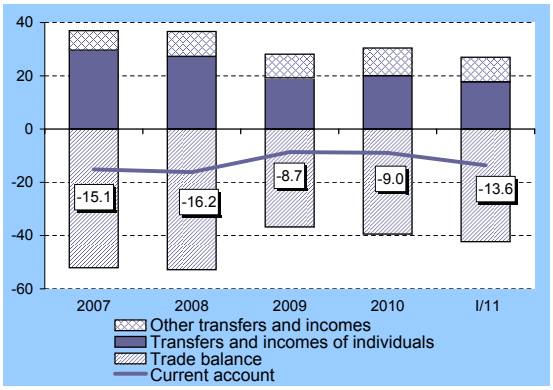
Net external demand

In the first quarter of 2011, the exports of goods and services increased by 31.5 percent in real terms, compared with the first quarter of 2010, generating a significant contribution to GDP growth, the imports of goods and services - by 25.9 percent, signaling the growth of domestic demand and increased competition for domestic products.

External sector

In the first three months of 2011, the current account deficit was increasing compared to the previous periods, representing about 13.6 percent of GDP, by 4.6 percentage points more than last year.

Chart 2.5: Current account share in GDP (%)



Source: NBM

The Chart 2.5 shows that the trend of deepening the deficit to GDP was due to the continuous growth of negative balance of trade in goods and services since 2009, the decline in transfers and the income of individuals working abroad[6]. On March 31, 2011 the positive components of the current account[7] to GDP have covered the negative balance of trade balance at a rate of 64.0 percent.

In the first three months of this year, the balance of trade transactions related to goods and services recorded a deficit of about 42.3 percent of GDP, up from 2010 and 2009 by 2.9

[6]Standard terminology according to IMF methodology was not used for the analysis of the current account. Total transfers of individuals include the compensation for labor and employee transfers (current account items), the remaining items, except those included in the Trade balance, are grouped in the category Other transfers and other income.

[7]Quarterly data used in the analysis of current account were seasonally adjusted.

percentage points, and respectively, by 5.5 percentage points. This was determined by the dynamics of flows in exports and imports of goods.

As a share of GDP, the imports held an 84.6 percent share, by 6.1 percentage points more compared with 2010, the exports accounted for 42.3 percent, up only by 3.2 percentage points (Chart 2.6). However, in the first quarter of 2011, the growth rate of exports in GDP of 8.3 percent outpaced that of imports (7.8 percent) compared with 2010. Analyzing the structure of imports, it can be seen that the trade deficit is largely due to the imports of non-foodstuff products (46.0 percent in GDP) and energy (14.2 percent), the Republic of Moldova being entirely dependent on external resources in terms of fuel and energy supply.

To ensure the domestic demand with non-foodstuff products were brought from abroad: machinery and apparatus, chemical products (including pharmaceuticals and fertilizers), textiles and articles thereof, etc. Similar to previous periods, the non-foodstuff (17.6 percent) were mainly exported, growing as a share of GDP by 3.3 percentage points compared to 2010. Agri-food component is the only component favoring the deficit reduction, the share of exports of 14.2 percent in GDP exceeding the imports by 10.3 percent from the same category.

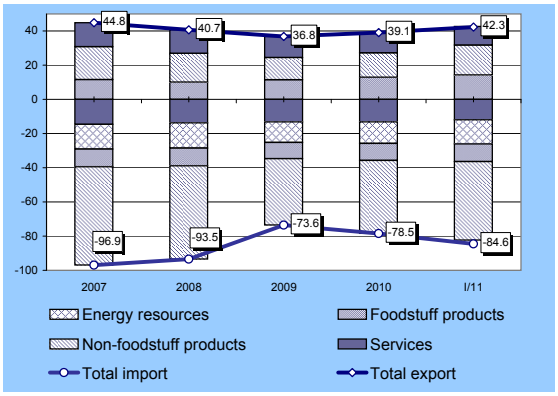
From the value point of view, the foreign demand for agri-food has been marked by the exports of oleaginous seeds and fruits, edible fruit and nuts, strong drinks, cereals, etc. Dynamics of import and export of services, as a share of GDP, remains down, without influencing significantly the trade deficit.

In the first quarter of 2011, the individuals' transfers have compensated in a lesser extent the trade imbalance, their share in GDP being of 18.4 percent, down from last year by about 1.6 percentage points (Chart 2.7).

Analyzing the evolution of such transfers for a longer period it can be seen a decline of this indicator due to the reduction of foreign exchange inflows from countries classified as Rest of the world (group of all countries except CIS states). The share of transfers in GDP received from the CIS decreased by 0.6 percentage points as compared to the previous year and constituted 11.6 percent.

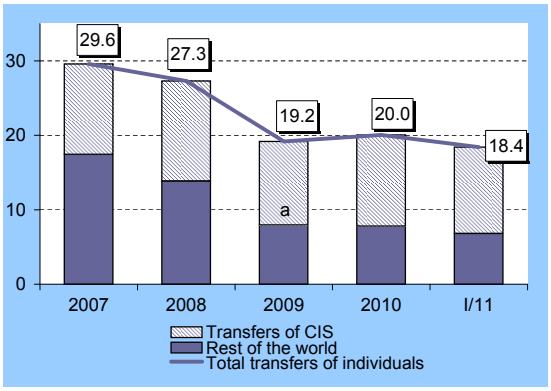
Structurally, the total transfers made by individuals working abroad in the CIS countries constitute 63.0 percent, the remaining 37.0 percent are from individuals working in other countries. Gradual reduction of transfers from the Rest of the world began in the period in which European countries were affected by the

Chart 2.6: The share of exports and imports in GDP (%)



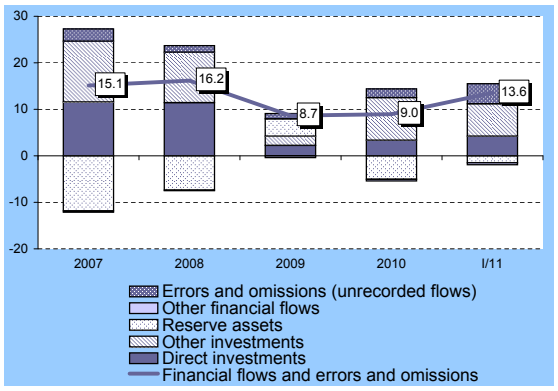
Source: NBM

Chart 2.7: Share of transfers in GDP (%)



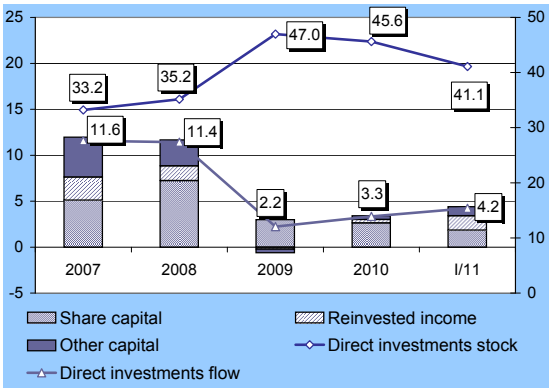
Source: NBM

Chart 2.8: Share in GDP of the movement of financial flows (%)



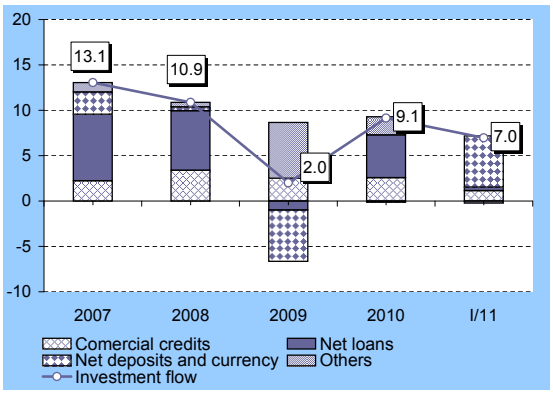
Source: NBM

Chart 2.9: Direct investment share in GDP (%)



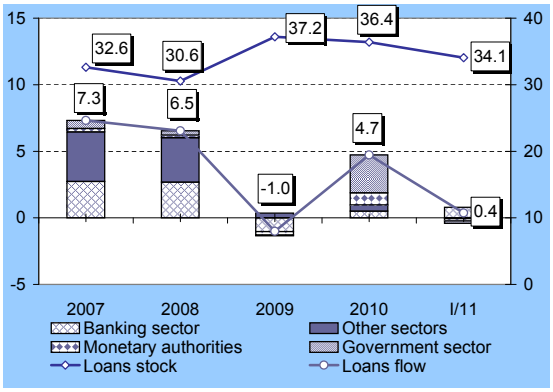
Source: NBM

Chart 2.10: Share of other net investments in GDP (%)



Source: NBM

Chart 2.11: Share of loans in GDP (%)



Source: NBM

global financial crisis, some countries encountering difficulties so far and than depending on loans from the IMF, such as Greece.

Capital and financial account reflects financial flows (Chart 2.8) which share constituted 13.6 percent in the first quarter of 2011, increasing by 4.6 percentage points as compared to 2010. This trend is determined by the growing requirements of the national economy that implies an increase in foreign funding in the form of loans, trade loans granted to local economic agents by foreign partners. Other investments (by 7.0 percent) and direct investment (by 4.2 percent) recorded a significant share in GDP.

Since 2009 there is an increasing trend of FDI, whose share in GDP increased by 0.9 percentage points compared to 2010. Direct investment flows were mainly directed in the share capital of the enterprises, constituting 1.8 percent of GDP in the analyzed period (Chart 2.9). Most investments oriented towards share capital are from European Union countries. The income reinvested by non-residents recorded a share 1.6 percent in GDP, increasing by 1.2 percentage points compared with 2010.

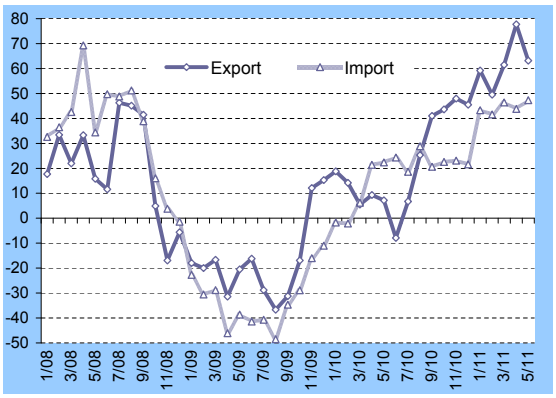
This was supported by higher profitability of enterprises with foreign capital. “Other capital” is another component of direct investment that had a significant increase compared to 2010, being represented mainly by intra-group loans. The loans used by resident economic agents granted by foreign investors (between affiliated enterprises) accounted for 1.0 percent of GDP, increasing by 0.6 percentage points compared to 2010.

In the first quarter of 2011, the total financial flows, other investment component generated the most significant share (7.0 percent of GDP), decreasing by 2.1 percentage points compared to 2010 (Chart 2.10). The net deposits and currency have the greatest contribution with a share of 5.7 percent of GDP, and the net trade loans had a share of 1.1 percent of GDP. The volume of net commercial loans decreased considerably compared to 2010, about 1.4 percentage points to GDP. Net deposits and currency increased significantly in the first quarter of 2011 compared with 2010 because the local licensed banks withdrew their deposits held in foreign banks. Net loans decreased essentially during the analyzed period, whose share in GDP decreased by 4.3 percentage points compared to 2010 (Chart 2.11), due to the reduction of loans contracted by the government sector and monetary authorities, and loan repayment previously contracted. The share of banking sector was most significant during this period, constituting 0.8 percent of GDP. The stock of loans was 34.1 percent of GDP, by 2.3 percentage points lower than in 2010.

Foreign trade

According to the information provided by the National Bureau of Statistics, the increasing trend of exports of goods has accelerated in first five months of 2011, so that in May 2011 it increased by 63.2 percent as compared to the same period last year. It should be noted that during January-May 2011, compared to the same period of the previous year, the exports of goods increased by 63.1 percent, which indicates the increasing recovery of external demand for domestic products. The essential factor that contributed to this increase is the substantial increase in exports oriented towards Russian Federation, Romania and Italy, the share of these countries being the most significant in the total exports.

Chart 2.12: Developments in real terms of foreign trade (% versus the same period of the last year)



Source: NBS

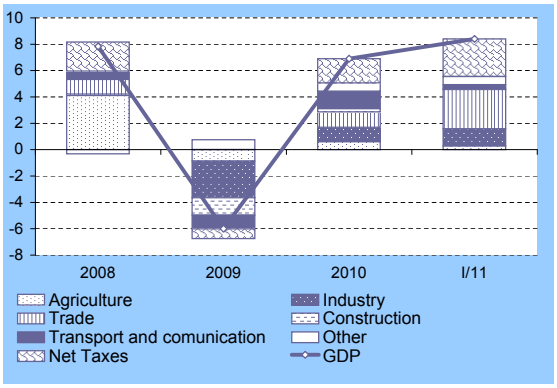
However, by groups of countries, the exports from the EU countries had the most significant share (about 50.2 percent), while the exports to the EU countries increased by 67.1 percent, those oriented towards CIS countries (about 38.2 percent) increased by 61.2 percent as compared to January – May 2010.

Within the structure, by groups of goods, the components that have contributed essentially to the growth of goods export during January – May 2011, as compared to the same period of the last year, are: “inedible raw materials” – by 17.1 percentage points, excluding “fuel”, “machinery and equipment transport” – by 12.9 percentage points, “miscellaneous manufactured articles” – by 11.7 percentage points and “foodstuff and livestock” – by 9.8 percentage points. It should be mentioned that the “beverages” and “medicinal and pharmaceutical products” have contributed negatively during the reference period, conducting to the reduction of the analyzed indicator by 1.6 and by 0.1 percentage points respectively. However, the imports of foreign products showed a similar situation, so that in May 2011 was recorded an increase of 47.3 percent compared to the same month last year. Since the beginning of the year, the imports of goods increased by 44.7 percent compared to January-May 2010, due to the significant growth of imports from the Russian Federation, Ukraine and Romania, these countries holding the largest share in total imports. This increase proves again the recovery of domestic demand.

By groups of goods, the components that have contributed essentially to the growth of goods import during January – May 2011, compared with the same period last year, are: “machinery and transport equipment”, “mineral fuels, lubricants and derivatives thereof”, “manufactured goods, classified mainly by raw material” and “chemicals and derivatives thereof”, which contributed by 13.0, 11.0, 8.6 and 5.2 percentage points, respectively.

Supply

Chart 2.13: Economic sectors contribution (p. p.) to GDP growth (%)



Source: NBS, NBM calculations

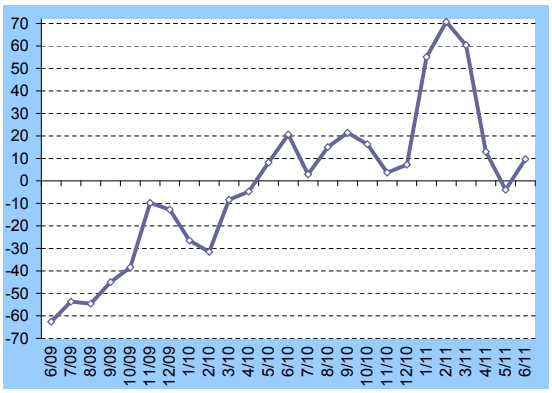
The acceleration of the growth rate of real GDP by categories of resources was driven by positive developments in all sectors of the economy (Chart 2.13). Net taxes on products had a significant influence on the dynamics of GDP, recording an increase of 17.9 percent and contributing with 2.9 percentage points to GDP growth. Gross value added increased by 6.6 percent in first quarter of 2011, due to the increase of "goods" and "services" component by 8.2 percent and by 6.7 percent respectively, compared with the first quarter of 2010. Trade recorded the best performance in the evolution of GVA (19.5 percent), thus contributing to GDP growth by 3.0 percentage points. In industry, GVA accelerated the annual growth rate up to 8.8 percent in first quarter of 2011 compared to 5.6 percent recorded in first quarter of 2010. The most pronounced developments in annual growth rate of industrial production were recorded in the "extractive industry" (26.5 percent) and "manufacturing" (12.6 percent).

Unlike the first quarter of 2010, when the construction sector recorded a negative annual rate, in the first quarter of 2011 it recorded an increase of 4.0 percent, which indicates that the construction sector continues to recover.

A contribution of 0.3 percentage points to GDP dynamics in the reference period was generated by the evolution of "agriculture" and "transport and communication", which rose by 6.4 and 2.0 percent compared with the first quarter of 2010. At the same time, a significant contribution to GDP growth was generated by the increase of "other services" component by 3.2 percent, resulting in a contribution of 1.1 percentage points.

Goods transport

Chart 2.14: The volume of transported goods (% versus the same period of the previous year)



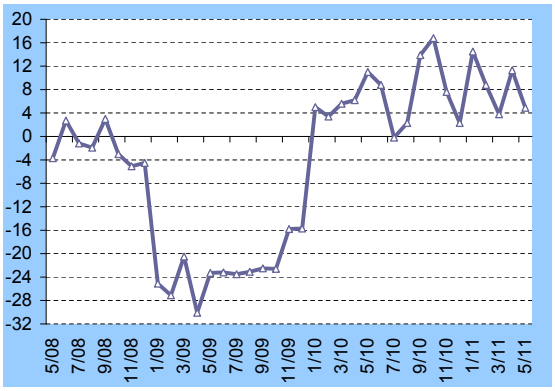
Source: NBS

According to the National Bureau of Statistics data, the annual growth rate of the transported goods has increased significantly in the first quarter of 2011, ranging around 60.0 percent. It should be mentioned that in the second quarter of 2011 the annual rate has decreased significantly, so that in June 2011 it recorded an increase of 9.7 percent (Chart 2.14). This increase was driven by higher volume of goods transported by rail and air transport, which grew by 26.3 and 31.2 percent, respectively. At the same time, the annual rate of goods transported by vehicle decreased by 0.6 percent. It should be mentioned that in January-June 2011 the enterprises of railway, road, inland and air transport transported goods by 26.6 percent more than the same period last year.

Industrial production

During January - May 2011, according to the National Bureau of Statistics, the industrial production volume in all forms of property has increased in real terms by 8.2 percent compared to the same period last year. It should be mentioned that in May 2011 the volume of industrial production increased by 4.9 percent compared to May 2010 (Chart 2.15).

Chart 2.15: Evolution of industrial production in real terms (% versus the same period of the previous year)



Source: NBS

The increase of industrial production volume, compared with January – May 2010, was determined by the increase in extractive industry by 17.8 percent and the manufacturing production by 10.6 percent. At the same time, the industrial production volume in energy sector recorded a decline of 3.0 percent.

It should be mentioned that the most significant increases in manufacturing were recorded in the following activities: “machinery and equipment manufacturing” (by 60.5 percent), “furniture production and other industrial activities” (by 45.5 percent), “waste and scrap recycling” (by 41.7 percent), “production of medical equipment and instruments, of measuring and optical instruments” (by 34.1 percent), “machinery and appliances manufacturing” (by 30.1 percent), “production of other non-metallic mineral products” (by 26.5 percent) and “production of tobacco articles” (by 21.6 percent).

During the analyzed period, as compared to the same period of 2010, have been recorded reductions in the production volume in the following components: “production of vegetable and animal oils and fats”, “paper and paperboard production”, “rubber and plastic articles production”, “chemical industry”, “electricity production and distribution” by 7.3, 5.7, 5.5, 4.6 and 3.0 percent, respectively.

Agricultural production

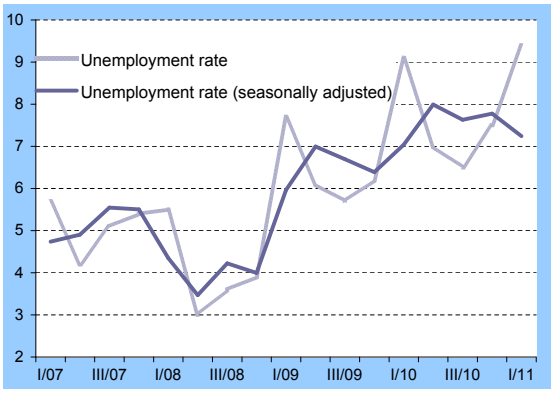
World agricultural production, in all categories of households, increased by 3.9 percent during January-June 2011, as compared to the same period last year. This development was mainly determined by the growth in livestock production by 4.2 percent.

During January - June 2011, the livestock sector has recorded an increase in cattle and poultry production with 8.7 percent, driven mainly by the increase of 24.0 percent in the production of pigs in farms. Also, during this period, the production of eggs decreased by 2.0 percent. This development was influenced by the decrease in eggs production in farms by 17.7 percent, as a result of reducing livestock-laying hens by about 15.0 percent and their productivity - by 4.0 percent.

2.2 Labour market

The unemployment rate constituted 9.4 percent in the first quarter of 2011, increasing by 0.3 percentage points, as compared to the previous year. At the same time, the unemployment rate, seasonally adjusted, constituted 7.2 percent, by 0.6 percentage points less than in the forth quarter of 2010. In the first quarter of 2011, the average nominal wage of a worker in the national economy increased on average by 9.6 percent compared to the same period last year. In April and May 2011, its dynamics was more pronounced, reaching the level of 13.7 and 12.9 percent, respectively. The average annual growth rate of real wages throughout the economy stood at the level of 3.3 percent in the first quarter of 2011, this increase was supported by higher wages in agriculture, industry and services compared to the same period last year.

Chart 2.16: Evolution of unemployment rate (%)

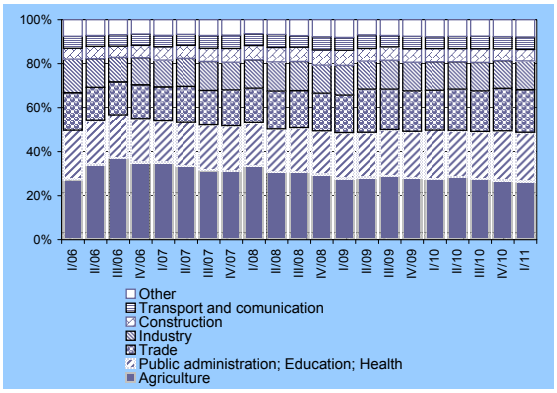


Source: NBS, NBM calculations

Workforce

In the first quarter of 2011, the indicators provided by the NBS no not show essential modification in the labor market situation in Moldova compared to the first quarter of 2010. Thus, the economically active population increased by 1.2 percent versus the same period last year. At the same time, the number of people employed in this period increased by 0.8 percent versus the first quarter of 2010, which resulted in an increase of population employed in industry and services sector.

Chart 2.17: Distribution of employed persons by economic sector (s. a.)



Source: NBS, NBM calculus

Within the structure of the active population, the employment share was 90.6 percent, decreasing by 0.3 percentage points compared with the first quarter of 2010, which contributed to the increase of unemployment rate at the country level up to 9.4 percent. Labor market situation, according to seasonally adjusted data, reveals an improvement in the situation compared to the fourth quarter of 2010.

Thus, the unemployment rate, seasonally adjusted, constituted 7.2 percent, by 0.6 percentage points lower compared to the forth quarter of 2010. In the first three months of 2011, the number of vacancies identified by the NEA has increased by 30.8 percent during January-March 2010, being stimulated by the revival of national economy. The number of laid off persons declined by 25.6 percent compared to the average of the first quarter of 2010, which means that companies staffing requires less major downsizing of the workforce (Chart 2.17).

By the distribution on the activities of the national economy, the largest concentration of population employed (seasonally adjusted) is registered in agriculture. Its share was 26.3 percent in the first quarter of 2011, dropping by 0.6 percentage points compared with the forth quarter of 2010. The share of persons employed in "industry", "commerce" and "other activities" increased insignificantly as compared to the forth quarter of 2010, recording values from 13.0, 19.4 and 7.9 percent, respectively. In the first quarter of 2011, the number of persons employed in "public administration, education, health and social care" constituted 22.5 percent as compared to the previous quarter. The share of persons employed in "construction" sector constituted 5.3 percent in the first quarter of 2011, holding the lowest number of employed persons.

Wages

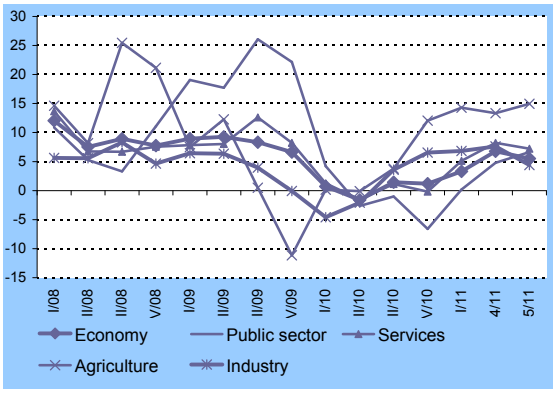
According to the National Bureau of Statistics, in May 2011, the average wage of a worker in the national economy constituted 3216.0 lei, increased by 12.9 percent compared to the same period last year. Both in the budgetary sphere and the real sector of the economy, it was recorded an average salary increase of 14.1 and 12.5 percent as compared to May 2010.

The annual growth rate of the average real salary in the economy constituted 3.3 percent in the first quarter of 2011, by 2.6 percentage points more than in the first quarter of 2010, fact supported by the wage increase in agriculture, industry and services sectors.

Continuing the upward trend, in April 2011 was recorded an increase in salary of 6.8 percent compared to the same period of 2010 (Chart 2.18). However, in May 2011, the growth rate has slowed down, by 1.2 points percentage less than in the previous month of this year. The annual growth of the wage in the budget passed in the first quarter of 2011 on a positive track, recording the lowest increase of 0.2 percent, while in May, the budgetary salary reached the level of 6.6 percent, the most important acceleration of the growth rate being recorded in hotel and restaurant services (75.1 percent), in industrial sector (37.9 percent) and commerce (51.4 percent).

The annual growth rate of real average wages in the agricultural sector constituted about 14.3 percent in the first quarter of 2011, accelerating by 2.2 percentage points compared to the previous quarter, while in April 2011, the wage decreased by 0.9 percentage points compared to the first three months of 2011. In May 2011, the situation has improved, recording increases in

Chart 2.18: Real average wage* (% versus the same period last year)



Source: NBS, NBM calculations
*deflated by CPI

the average real wages by 1.6 percentage points compared to the previous month.

The annual average real wage growth in industry continued to grow starting with the forth quarter of 2010. The first quarter of 2011 was marked by an increase of 6.8 percent, rising by 0.3 percentage points compared to the previous quarter.

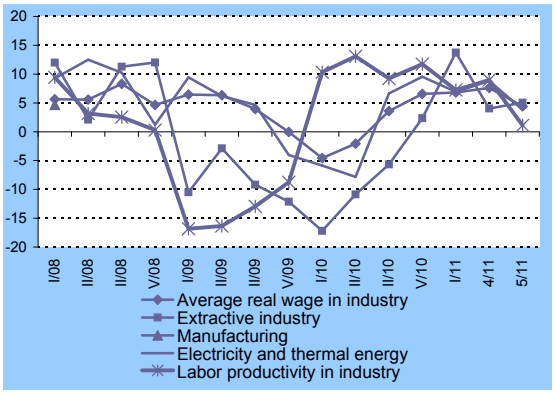
During January - March 2011, the labor productivity growth has slowed down to an annual basis compared to the forth quarter of 2010 (by 4.5 percentage points), mainly due to lower average growth rate of the industry. In April 2011, the situation has improved, the labor productivity growth reached almost the level of 9.0 percent, exceeding the growth rate of the average real wage in the industry. However, in May, the situation has changed, recording a drastic decrease in growth rate by 7.9 percentage points compared with April 2011. This was due to the slow growth rate in industry, especially in electricity, gas and water supply sectors.

The annual growth rate of real average wages in the mining industry continued its upward trend, back on positive track in the fourth quarter of 2010, so the wages increased in the first quarter, 2011 by 13.7 percent (about 11.4 percentage points more than the previous quarter), correlated with an increase in the mining industry: extraction of sand and clay increased dramatically compared to the same period last year. However, in April 2011, there was a decrease in real average wages by 9.7 percentage points compared with the first three months of this year, a fact supported by the decrease in the mining industry. In May, it was recorded a reversal trend compared to the previous month, the salary increasing by 1.0 percentage points.

Energy industry has seen a decline in wages by 2.6 percentage points in the first quarter of 2011 compared to the previous one, the decrease in production and distribution of electricity, gas and water supply has contributed as well.

In April 2011, with the increased production in this sector, it was registered an increase in the real average salary by 8.8 percent, while in May its growth rate has slowed down by 3.1 percentage points compared to the first quarter of 2011.

Chart 2.19: Real average wage in industry (% versus the same period last year)



Source: NBS, NBM calculus

Chapter 3

Monetary Policy

3.1 Monetary Policy Instruments

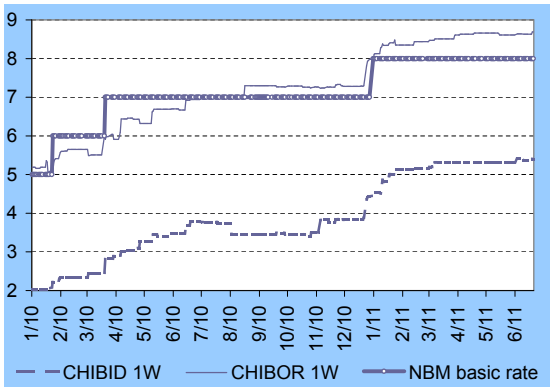
Interest rate policy

During the second quarter of 2011, the monetary policy pursued by the NBM was aimed to lead the inflation within the target range of NBM forecast. Thus, by the decisions of three meetings of the Council of Administration held in the second quarter of 2011, NBM has kept the interest rates on monetary regulation instruments at the level set at the end of the previous quarter (8.0 percent - the rate base, 5.0 and 11.0 percent - the interest rates on credit and deposit facilities).

CHIBOR 2W interbank reference rate was slightly higher than the base rate of the NBM, registering 8.69 percent at the end of the quarter.

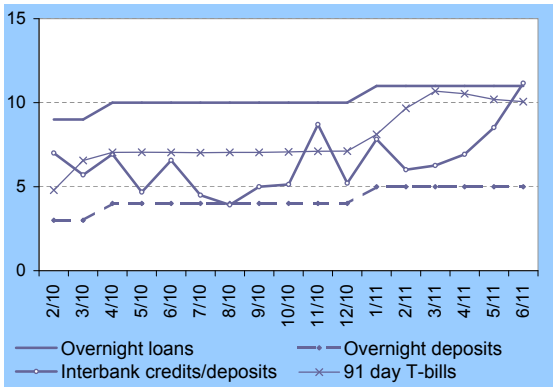
The yields on state securities (SS) of 91 days were located on a slightly downward track throughout the quarter. The monthly average of yields on state securities of 91 days increased from 10.53 percent annually in April to 10.06 percent annually in June 2011. At the same time, the average interest rates on credits/deposits interbank market had an upward trend, exceeding the upper limit of interest rates corridor set by the NBM.

Chart 3.1: Average monthly reference rate in the interbank market and the base rate of the NBM (%)



Source: NBM

Chart 3.2: Monthly evolution of interest rate corridor (%)



Source: NBM

Open Market Operations

NBM Certificates-selling operations

During the second quarter of 2011, the excess liquidity in the banking system remained high and was drained exclusively by selling NBM certificates. The operations were carried out according to the schedule published on the official website of

the NBM, two weekly auctions, the NBC had a maturity of 14 days.

NBM carried out 26 auctions with the announcement of the maximum interest rate equivalent to the NBM base rate, which constituted 8.0 percent annually throughout the quarter. The participants' requests were fully accepted.

Following that, the interest rates asked in the requests were equal to the maximum rate announced at the auctions, the NBC were sold to an interest rate equivalent to the NBM base rate.

Consistency of super liquidity sterilization by the NBM has determined the maintenance of NBC daily balance at a high level throughout the quarter, which represented mainly, values over 3000.0 million lei.

However, gradual restriction of excess liquidity, due to the increase in required reserves ratio of funds attracted in MDL and in foreign currency (as applied in early March 2011) from 8.0 to 11.0 percent, resulted in reducing the average quarterly balance of sterilization by 333.4 million lei compared with the amount recorded in the first quarter of 2011, constituting 3445.3 million lei.

Lending activity

In the second quarter of 2011, ten credit agreements in the amount of 207.3 million lei have become due, granted to banks for lending the economic agents in the real sector, which were fully reimbursed by the banks on time.

The total amount of loans repaid during the analyzed period constituted 300.0 million lei, including loans granted to banks for lending the real sector of economy - 299.1 million lei and for lending the construction of housing cooperatives - 0.9 million lei.

Thus, on June 30, 2011 the credit indebtedness of the licensed banks to the National Bank of Moldova was 547.1 million lei, represented by the loans granted to banks for lending the real sector of economy - 88.6 million lei, for the protection of the integrity of the banking system - 442.4 million lei and for lending the construction of housing cooperatives - 16.1 million lei.

On June 30, 2011, compared with the end of the previous quarter, the balance of loans granted to banks decreased by 299.6 million lei, or about 35.4 percent.

In the reporting quarter, within the pledge structure, which assures the credit debt and relating interests of the banks to the NBM, no changes have occurred. On June 30, 2011, the pledge was represented of state securities and required reserves in freely convertible currency held by banks at the NBM.

Standing Facilities

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

In the second quarter of 2011, the average daily balance of overnight deposits constituted 198.7 million lei, decreasing by 175.9 million lei, or by 47.0 percent compared to the first quarter of 2011.

The overnight credit facility was not required in the reported quarter.

Required Reserves

In the second quarter of 2011, the required reserves mechanism continued to exercise the monetary control function and to manage the liquidity in the banking system.

To improve the transmission mechanism of monetary policy decisions, which currently is affected largely by significant liquidity in the banking system, within the meeting of May 26, 2011 the Council of Administration of the National Bank of Moldova decided to increase the required reserves ratio of funds attracted in MDL and nonconvertible currencies and funds attracted in freely convertible currency by 3.0 percentage points, setting a 14.0 percent worth starting with the tracking period of funds attracted during July 8 to August 7, 2011.

Within the same meeting, the Council of Administration of the National Bank of Moldova adopted a decision on amending the Regulation on required reserve regime, which provides the application of a required reserves ratio of 0.0 (zero) percent for attracted funds, included in the calculation base, which maturity is more than 2 years. This change will increase the efficiency of banks cash management and will create some facilities to support the growth of funds attracted by banks in the long run.

Required reserves maintained by banks in MDL. The amount of required reserves maintained by banks in MDL, according to the attracted means tracking period of May 8 – June 7, 2011, maintained by banks during June 8 - July 7, 2011, constituted

1907.4 million lei, increasing by 72.2 million lei, or by 3.9 percent compared to the tracking period of February 8 – March 7, 2011, maintained by banks during March 8 - April 7, 2011.

Required reserves maintained by banks in FCC. The amount of required reserves maintained by banks in U.S. dollars and Euros on June 30, 2011 constituted USD 65.4 million and EUR 73.9 million, respectively, increasing by USD 3.3 million (5.3 percent) and decreasing by EUR 0.3 million (0.4 percent) compared to March 31, 2011.

The required reserves both in MDL and FCC have developed similarly to the funds attracted in these currencies.

Interbank Market for Loans/Deposits

In the second quarter of 2011, the total volume of transactions in interbank market amounted to 390.3 million lei, increasing by 109.8 million lei or by 39.1 percent compared to the first quarter of 2011.

Unlike the previous quarter, securities transactions (126.3 million lei) constitute about one third of interbank market transactions recorded during April to June 2011, while the loans / deposits account for 67.6 percent of the total. The volume of interbank loans/deposits operations amounted to 264.0 million lei, down by 4.4 percent compared with the first quarter of 2011.

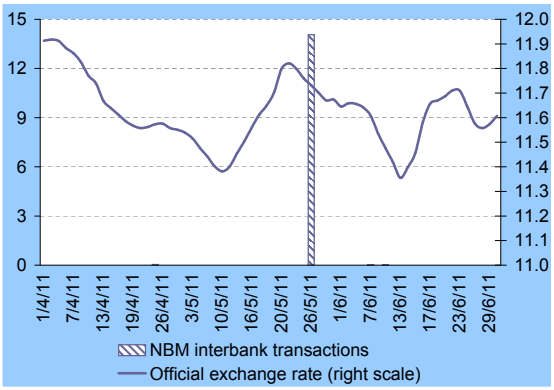
The average interest rate on interbank loans/deposits increased in the reference quarter from 6.43 to 8.38 percent annually, superior by 1.95 percentage points to the rate recorded in the first quarter of 2011. Weighted average interest rate increase has been recorded against the background of the term interbank transactions increase, its average level constituting 27 days versus 8 days in the previous quarter.

Intervention on the Domestic Foreign Exchange Market

National Bank of Moldova has intervened on the domestic foreign exchange market during April – June 2011 as a buyer of foreign currency, to reduce the excessive fluctuations of the exchange rate of national currency against the U.S. dollar and to accumulate the foreign currency reserves.

During the analyzed period, the volume of transactions of the National Bank of Moldova carried out on the domestic foreign exchange market against MDL constituted the equivalent of USD 14.15 million, of which, euro purchases were USD 14.06 million and the amount of other foreign currency purchases - USD 0.09 million.

Chart 3.3: Evolution of the official foreign exchange rate (MDL/USD) and the daily volume of NBM transactions (million, USD)



Source: NBM

It should be mentioned that, in the first quarter of 2011, the transactions (net sales) in foreign currency against MDL, carried out by the NBM on the interbank market, accounted for USD 3.5 million.

3.2 Dynamics of monetary indicators

In the second quarter of 2011 it was recorded a higher increase than in the previous quarter, the quarterly average in annual terms being of 21.3 percent for M2 and 18.6 percent for M3. The growth rate of over 20.0 percent for M2 was characteristic for 2010, with small deviations, and the value of M3 quarterly growth was the highest during the last nine quarters.

Money supply

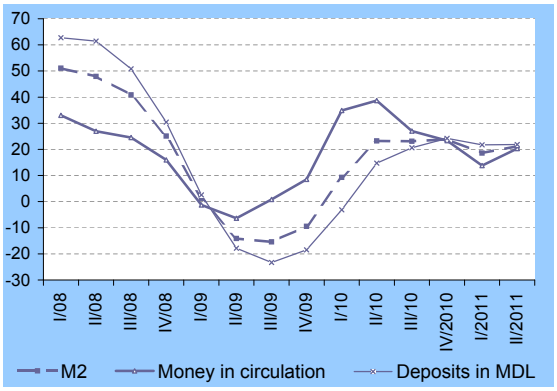
In the second quarter of 2011, the money supply M2 in MDL rose by 21.3 percent compared to the same period of 2010. In annual terms, the growth rate of this indicator increased compared to the first quarter 2011.

The revival of economic activity, combined with the slowdown of the lending process and consumption increase led to a moderate development of money multiplier and, respectively, to a lower growth of deposits in national currency against the first quarter of 2011, combined with the increased money in circulation, contributed directly to the increase of monetary aggregate M2.

Thus, money in circulation increased by 20.3 percent, while deposits in MDL – by 21.9 percent. During the quarter, the fluctuation of money in circulation and deposits has been uneven. It should be mentioned that the volume of money in circulation increased essentially in April (by 21.4 percent) and deposits in MDL - in May (by 23.1 percent). Within the structure of deposits in MDL, the growth rate of term deposits - 22.2 percent exceeded the growth rate of sight deposits - 21.4 percent. In the second quarter of 2011, the deposits in MDL held a share of 65.1 percent (64.9 percent at the end of June 2011 (Chart 3.4)) of the total deposits in MDL, continuing the growth trend of the first quarter of 2011. The share of term deposits in MDL of individuals was 84.0 percent, no essential changes have occurred (Chart 3.5).

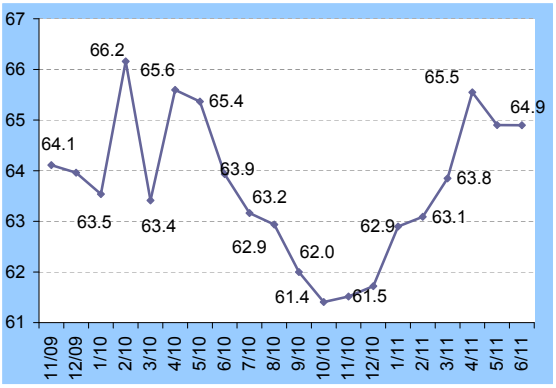
During April - June 2011, the money supply M2 grew by 5.2 percent, by 2.4 percentage points over the monetary aggregate

Chart 3.4: Evolution of the components of M2 monetary aggregate (average quarterly increase, %)



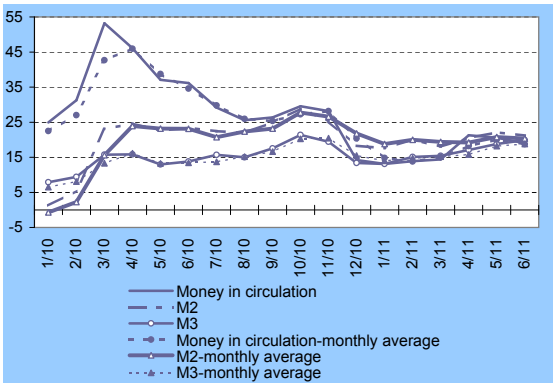
Source: NBM

Chart 3.5: The share of term deposits in total balance of deposits in lei (%)



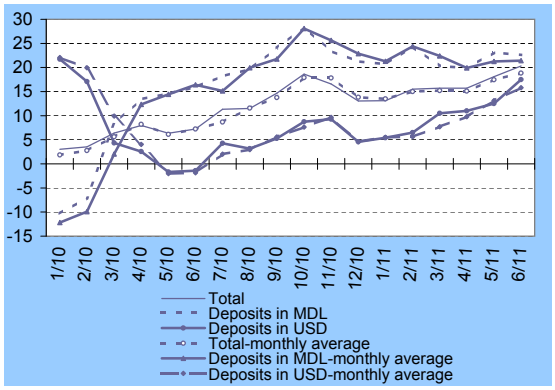
Source: NBM

Chart 3.6: Monetary aggregate development (annual growth, %)



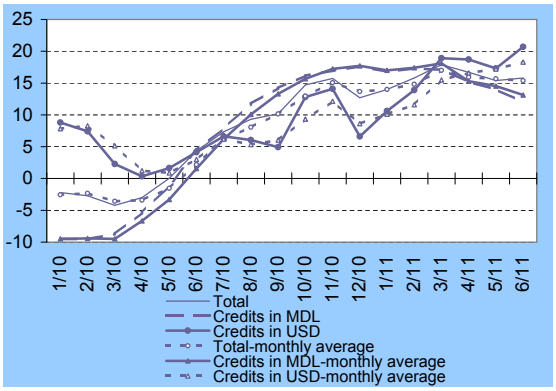
Source: NBM

Chart 3.7: Deposits development (annual growth, %)



Source: NBM

Chart 3.8: Loans development (annual growth, %)



Source: NBM

M2 growth recorded in the previous quarter. This growth is due to the increase in balance of deposits in MDL by 3.5 percent as compared to the first quarter of 2011 and the volume of money in circulation - by 7.9 percent. The money supply M2 structure reflects insignificant changes, the share increase being characteristic for money in circulation by 1.0 percentage points – up to 39.9 percent, against deposits in MDL - 60.1 percent.

The dynamics of money supply M3 in annual values was characterized by the growth of this indicator during the second quarter of 2011, the quarterly growth constituting 18.6 percent. However, money supply M3 has increased the growth pace in June to 19.9 percent. It should be mentioned that money supply M3 development during the second quarter of 2011 has been largely affected by the positive dynamic of deposits in MDL and in foreign currency, as well as of money in circulation. Total deposits increase recorded a significant growth in the last 12 months: by 20.3 percent at the end of June 2011, the monthly average recorded in June 2011 constituted 18.8 percent (Chart 3.7).

At the end of June 2011, the growth of deposits in national currency amounted to 22.6 percent, the monthly average constituting 21.4 percent, while the growth of deposits in foreign currency amounted to 17.5 percent at the end of period and 15.8 percent in monthly averages terms.

During the second quarter of 2011, ***money supply (M3)***[8] increased by 3.9 percent compared to the first quarter of 2011, by 0.1 percentage points more the increases recorded in the previous quarter. It should be mentioned that in the second quarter of 2010, the M3 monetary aggregate recorded an increase of 0.3 percent. The components of M3 monetary aggregate recorded a positive dynamic: money in circulation increased by 7.9 percent in the second quarter of 2011, while the deposits in MDL and foreign currency increased by 3.5 and 1.3 percent, respectively. At the same time, the share of deposits in foreign currency in total deposits decreased to 45.1 percent in the second quarter of 2011 from 45.6 percent in the first quarter of 2011, which shows a preference for foreign currency deposits.

In terms of counterparties, the credit balance in the economy, which turned back on the positive growth track in June 2010, at the end of June 2011 recorded an increase of 15.8 percent for the last 12 months. However, the average monthly growth constituted 15.4 percent in June 2011. Chart 3.8 shows that the loans in MDL registered a steady increase, but decreasing by the end of the reporting period, their growth being of 12.0 percent,

[8]Money supply M3 includes money supply M2 and deposits in foreign currency of residents expressed in MDL.

while the monthly average constituted 13.1 percent. However, the foreign currency loans growth was not very stable in the reference period, recording a high level at the end of June 2011, reaching the level of 20.7 percent, while the average monthly changed with 18.3 percent.

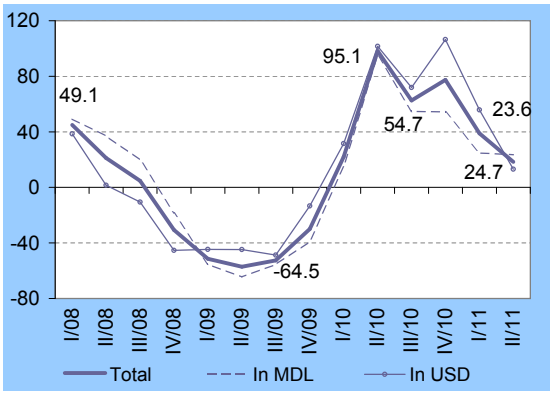
Credit market

In the second quarter of 2011, the credit growth has slowed down, exceeding by 18.4 percent the level recorded in the second quarter of 2010 (Chart 3.9) and by 21.6 percent the level recorded at the beginning of this year, recording the value of 7294.7 million lei. The increase of this indicator was characteristic both for the component in national currency and foreign currency. Thus, the volume of new loans granted in national currency rose by 23.6 percent (reaching the level of 3873.6 million lei) as compared to the second quarter of 2010. The dynamics of lending in national currency was mainly due to the increase of 20.5 percent of the loans granted to legal entities. However, the new loans granted to individuals increased by 38.4 percent as compared to the second quarter of 2010.

The development of loans in foreign currency was more modest, recording an annual growth rate of 13.1 percent (reaching the level of 3421.1 million lei). The dynamics of lending in foreign currency was mainly due to the increase of 13.2 percent of the loans granted to legal entities, contracted mainly to finance the foreign trade operations, and of 5.3 percent of loans granted to individuals.

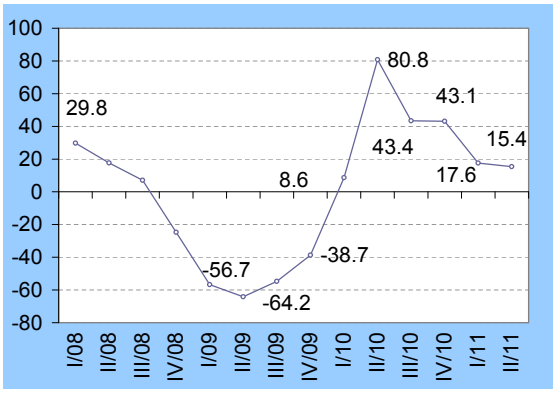
The development of new loans in MDL, examined in terms of real dynamics, shows a level of increase of 15.4 percent compared to the second quarter of 2010 (Chart 3.10) and continuing trend of reducing rates of lending in the first quarter of 2011.

Chart 3.9: Evolution of new granted loans (annual growth, %)



Source: NBM

Chart 3.10: Quarterly evolution of new granted loans in MDL (annual growth in real terms, %)



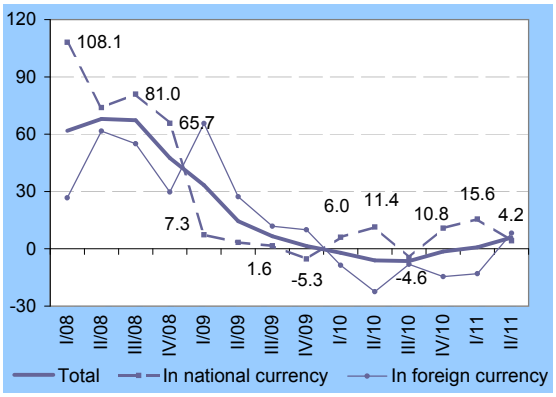
Source: NBM

Deposits market

The development of new attracted deposits continues its positive dynamic started at the beginning of this year, setting an annual growth rate of 5.9 percent in the second quarter of 2011 as compared to the same period of the previous year, reaching the level of 9566.8 million lei (Chart 3.11).

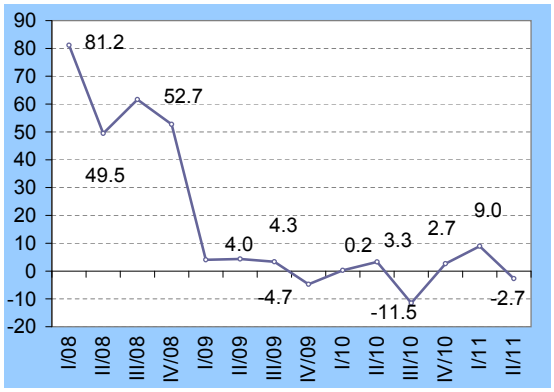
This increase is mainly due to the increase of growth rate of the component in foreign currency. It stood on a positive level,

Chart 3.11: Quarterly evolution of new attracted deposits (annual growth, %)



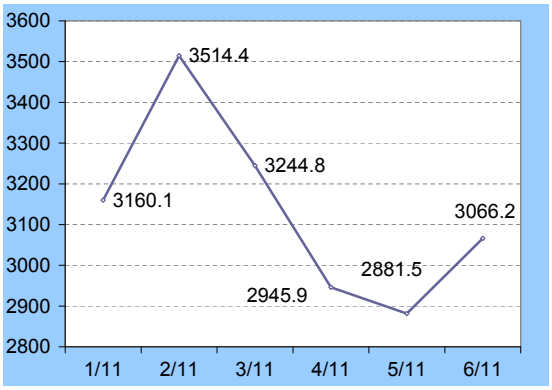
Source: NBM

Chart 3.12: Quarterly evolution of new attracted deposits in MDL (annual growth in real terms, %)



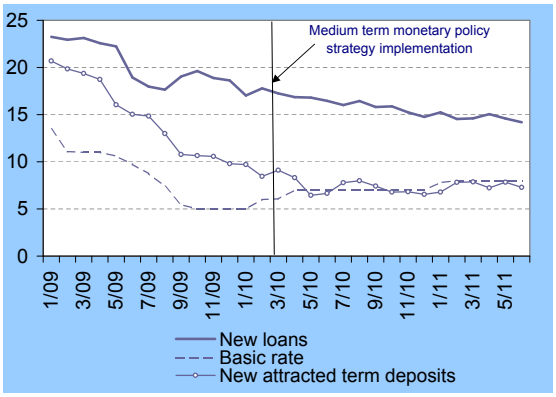
Source: NBM

Chart 3.13: Evolution of net liquidity balance (million, MDL)



Source: NBM

Chart 3.14: Average interest rates in MDL (%)



Source: NBM

which has not occurred at the end of 2009. Thus, the increase of 8.2 percent, as compared to the second quarter of 2010 (up to the level of 4167.2 million lei), was enhanced by the upward dynamic of both deposits of legal entities, facilitated largely by increased export operations, and the dynamics of deposits of individuals, encouraged by higher remittances.

The growth rate of the component in national currency was more modest – 4.2 percent as compared to the second quarter of 2010 (up to the level of 5399.6 million lei), due to positive development of individuals deposits. However, the deposits in MDL decreased in real terms by 2.7 percent in the second quarter of 2011 as compared to 3.3 percent recorded in the second quarter of 2010 (Chart 3.12).

The modest development of new term deposits is mainly determined by the reluctance of people to place deposits more actively in the context of a fragile global economic recovery. However, low interest on deposits, as a result of liquidity excess in the market, is one of the main factors that have discouraged the tendency of saving and making bank investments.

Interest rates and monetary policy transmission mechanism

During the second quarter of 2011, NBM continued to manage the liquidity excess existing on the monetary market.

However, following the net balance dynamic of the liquidity excess of licensed banks (monthly average (Chart 3.13)), it can be seen the persistent presence of a tremendous amount of money that delays the transmission of monetary policy decisions on interest rates. Thus, the new attracted deposits and loans are getting cheaper.

Under these conditions, it can be seen the downward evolution of interest rates used by banks with customers, which are at the lowest levels ever recorded, being practically in a continuous decrease since 2010.

At the same time, the high level of liquidity in the market, lack of active development of real sector, able to absorb all the liquidity, combined with the reluctance of banks in the lending process, lower rates on loans and deposits, rapid acceleration of consumption creates further inflationary pressures, leading to the need to create more restrictive monetary conditions designed to improve the situation.

During the second quarter of 2011, the interest rate on new loans in national currency and foreign currency stood on a downward track. The rate on loans in MDL decreased by 0.40 percentage points in June as compared to the end of the previous quarter, representing 14.20 percent (Chart 3.14).

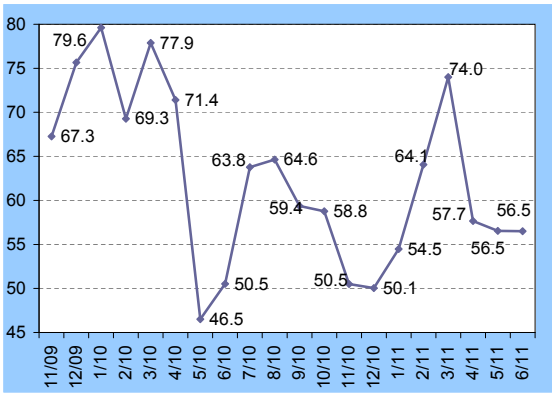
In turn, the average quarterly yield on term deposits attracted in national currency and in foreign currency recorded a fragile increased. However, the rate of deposits in MDL was by 0.60 percentage points in June 2011, below the level recorded at the end of the previous quarter - March 2011, representing 7.28 percent (Chart 3.14). In June 2011, the interest rate on deposits in real terms showed negative values - a factor that discourages the banking investment, given that the inflation exceeded by 0.42 percentage points the interest on deposits.

In this context, it can be mentioned that the share of new deposits attracted during the second quarter of 2011 from individuals decreased compared with the first quarter of 2011 on both segments: in total deposits in MDL - 56.9 percent (compared to 63.0 percent), in total deposits in foreign currency - 83.4 percent (versus 88.8 percent), falling during the quarter to 56.5 percent in June 2011 and increasing in foreign currency up to 85.9 percent (Chart 3.15).

The banking margin (the difference between the average rates on loans and deposits), as a result of the decrease in interest rates on loans and of the modest increase in rates on deposit, both in national and foreign currency operations was placed during the reporting quarter at a lower level (Chart 3.16). Thus, the margin on operations in national currency registered an increase of 0.19 percentage points in June 2011 compared to the end of the previous quarter, constituting 6.92 percentage points. However, margin evolution on operations in foreign currency recorded a decline of 0.39 percentage points, up to the level of 5.32 percentage points. In terms of annual progress, it can be seen a more pronounced reduction of the interest margin in the conditions of a relative stabilization of the economic situation, and the decrease of credit risks.

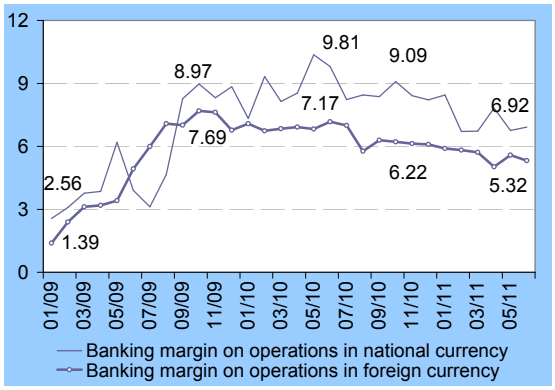
However, based on the national economy trends, the level of liquidity, increased demand for money and the evolution of interest rates on loans and deposit, in the third quarter of 2011, it is expected to be created monetary conditions designed to reduce the inflationary pressures and to ensure a favorable climate to the national economic development.

Chart 3.15: Dynamics of the share of new deposits attracted in MDL from individuals (%)



Source: NBM

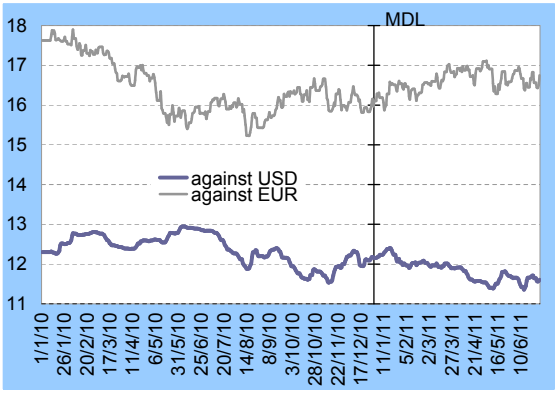
Chart 3.16: Evolution of banking margin (p.p.)



Source: NBM

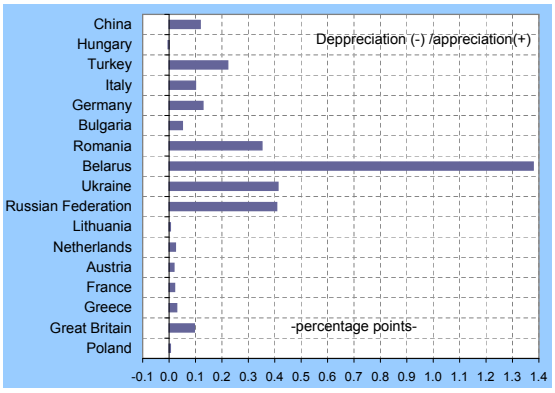
Foreign exchange market (the nominal exchange rate and real effective rate)

Chart 3.17: Fluctuations of official exchange rate of MDL against USD and EUR



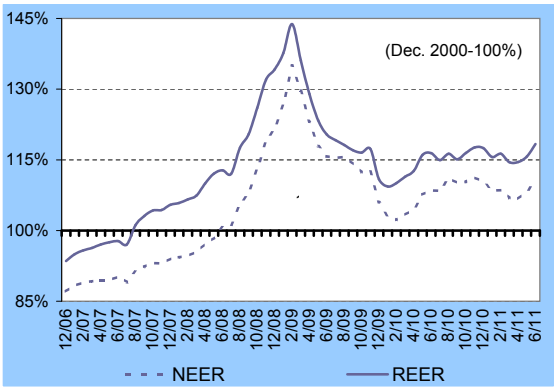
Source: NBM

Chart 3.18: Contribution of major trading partners of Moldova to the real effective modification in the second quarter of 2011



Source: NBM

Chart 3.19: Real and nominal effective exchange rate dynamics of the national currency calculated based on the share of the major trading partners



Source: NBM

During the second quarter of 2011, ***the official nominal exchange rate of the national currency against the U.S. dollar*** appreciated by 2.5 percent and against the euro – by 0.2 percent (Chart 3.17).

The average official nominal exchange rate of the national currency against the U.S. dollar recorded in the second quarter of 2011 appreciated by 3.6 percent, while against euro depreciated by 1.6 percent compared to the average official nominal exchange rate of the national currency recorded during the previous quarter.

The real effective exchange rate of the national currency[9], calculated under the weight of the major trading partners, has appreciated by 3.4 percent versus March 2011. This appreciation was mainly determined by the nominal depreciation of Belorussian ruble against the U.S. dollar by 63.5 percent and of other foreign currencies of the countries holding significant shares in Moldova's foreign trade (e.g. Turkish lira - by 5.0 percent, the Romanian leu and the Ukrainian grivna - by 0.3 percent).

Thus, almost all of Moldova's main trading partners, except Hungary, have contributed to the real effective exchange rate appreciation of the national currency, namely, Belarus – by 1.4 percentage points, Russian Federation and Ukraine – by 0.4 percentage points each, Romania – by 0.3 percentage points (Chart 3.18).

The exchange rate of the national currency during the quarter was primarily due to the fluctuations in foreign currency liquidity volume of domestic foreign exchange market, generated by variations related to foreign currency inflows and outflows.

The 20.9 percent increase in net supply of foreign currency from individuals has created prerequisites for the appreciation of the national currency, as compared to the previous quarter. At the same time, the significant growth in the second quarter of 2011, the balances of foreign currency deposit accounts of individuals (by USD 28.9 million, or by 3.5 percent compared to the end of March 2011) shows individuals preference of hoarding the foreign currency, mainly the euro, thus contributing to a lower foreign currency net offer than the potential one.

During April 2011, the official nominal exchange rate of national currency against the U.S. dollar appreciated gradually by 3.1

[9]Calculated compared to December 2000.

percent as compared to the end of the previous month, and the average official nominal exchange rate of national currency against the U.S. dollar appreciated by 2.1 percent as compared to March 2010.

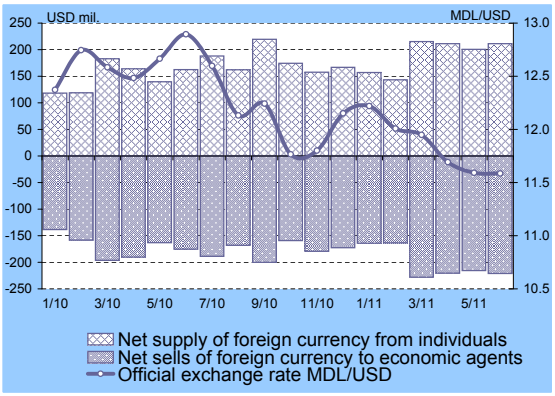
Thus, the appreciation of the national currency has occurred in conditions of considerable coverage - 95.8 percent of net sales of foreign currency of licensed banks to legal entities (USD 220.5 million) by the net supply of foreign currency from individuals, which amounted to USD 211.3 million (Chart 3.20). Unsatisfied demand for foreign currency liquidity of USD 9.2 million was largely complemented at the expense of disposable funds in foreign currency of the licensed banks.

During May 2011, the average nominal exchange rate of national currency against the U.S. dollar appreciated by 0.9 percent compared to the previous month, in the context of a net supply of foreign currency from individuals of USD 200.6 million, which covered a proportion of 93.1 percent the demand for foreign currency from legal entities (USD 215.5 million).

The shortage of foreign currency liquidity of USD 14.9 million was largely complemented at the expense of disposable funds in foreign currency of licensed banks and from the funds in foreign currency of the legal entities, their accounts decreasing by USD 4.1 million. The decrease in foreign currency disposable funds by the end of the period was significant (by USD 21.4 million) at the expense of purchasing interventions made at the end of the month by the NBM on domestic foreign exchange market in the amount of USD 14.1 million, in the context of an appreciation of the national currency. At the end of June 2011, the official exchange rate of national currency against the U.S. dollar appreciated by 0.6 percent compared to the end of May, recording on June 13, 2011 (MDL / USD 11.3552) the most significant appreciation in the first half of 2011 (by 6.6 percent compared to the end of 2010). However, the average nominal exchange rate of national currency against the U.S. dollar experienced a 0.1 percent appreciation compared to the previous month. The modest appreciation of the national currency took place in the context of a net supply of foreign currency from individuals by USD 211.2 million, which created the premises to cover a proportion of 95.6 percent of the demand for foreign currency from legal persons (USD 220.9 million).

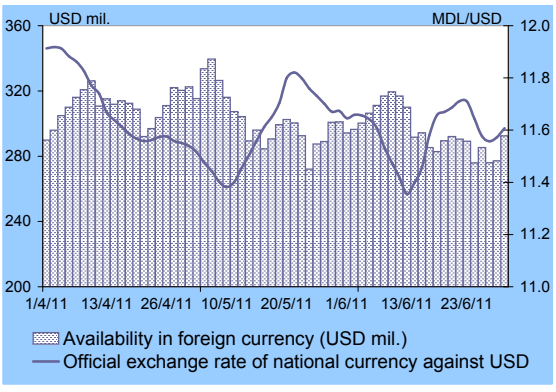
The uncovered difference of liquidity in foreign currency of USD 9.7 million was mainly complemented by licensed banks at the expense of disposable funds in foreign currency, which at the end of the month amounted to USD 292.4 million, decreasing by USD 8.6 million compared to the end of the previous month. However, at the end of June, the share of disposable funds in

Chart 3.20: Coverage of net sales in foreign currency to legal entities by the net supply in foreign currency of individuals and the dynamics of the average official nominal exchange rate of MDL against USD



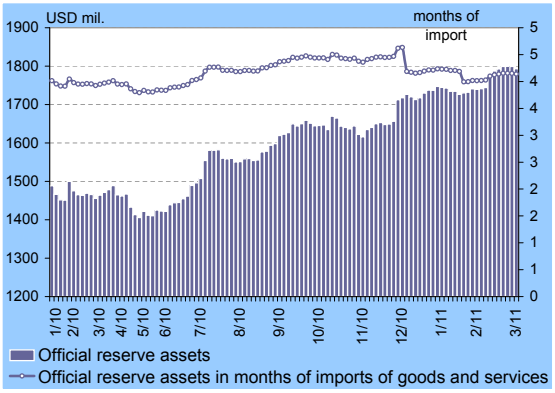
Source: NBM

Chart 3.21: Dynamics of the availability in foreign currency and of the official nominal exchange rate of MDL against USD



Source: NBM

Chart 3.22: Evolution of foreign exchange reserves expressed in months of imports of goods and services



Source: NBM

foreign currency amounted to 18.4 percent in total net balance sheet assets in foreign currency, so that the licensed banks held a comfortable level of liquidity.

During the second quarter of 2011, the foreign exchange reserves rose to USD 108.1 million, or by 6.0 percent, from USD 1793.4 million on March 31, 2011 to USD 1901.5 million on June 30, 2011 covering 4.0 months of imports (Chart 3.22).

The increase of foreign exchange reserves was due mainly to the receipt by the NBM from the IMF the tranches of SDR 25.0 million (USD 39.8 million) within the Extended Credit Mechanism program, SDR 10.0 million (USD 15.9 million) within the Extended Fund Mechanism program, to the receipt by the Ministry of Finance of the third tranche of EUR 13.6 million (USD 19.4 million) from the European Commission within the Financial Support for Sector Policies program and due to the credit granted by the IMF amounting to SDR 15.0 million (USD 23.9 million) within the Extended Credit Mechanism program for budgetary support.

Chapter 4

Medium-term inflation forecasting

After a year of a fragile and uneven stabilization, the global economic growth is on a general downward trend, being jeopardized by problems such as unemployment, rising prices, sovereign debt risk and financial fragility. The latest data on global macroeconomic indicators show worsening of global economic situation and a slowdown in the process of recovering from the global financial crisis.

Following an unfavorable meteorological conditions year, the world food prices have reached a maximum level, generating additional pressure on living standards in poorer regions of Asia, Africa and Latin America. It is hoped that with the start of the new agricultural season in the northern hemisphere and due to lower prices of oil price, the international food prices will fall.

In addition to the existing financial fragility in developing countries, there was recorded an increase in unemployment that became a weak link in the economic recovery. With the resumption of seasonal economic activities, the unemployment rate decreased in countries like Germany and the Russian Federation, but in problematic countries in Europe and the USA the labor market continues to worsen.

Worsening of U.S. foreign debt and maintaining monetary policy interest rate at a very low level by the Federal Reserve System contributed to the overall depreciation of the U.S. dollar. At the same time, the increase of the reference rate by the European Central Bank, as a measure to counter the inflation, eased the single European currency appreciation against the U.S. dollar for a short period of time, but eventually the deepening crisis of sovereign debt in euro zone has led to its depreciation.

The real GDP gap showed positive values at the beginning of 2011, being over the potential level of the economic activity. Compared to the projection of the Inflation Report No. 2, May 2011 where the output gap was negative, the output gap in the current round of forecasting has changed due to a higher

increase than previously anticipated for the first quarter of this year. According to the current projections, the output gap will record positive values, thus recording an insignificant excess of demand.

The current projection places the annual inflation rate at the level of 8.4 percent at the end of the year while at the end of the next year at the level of 7.4 percent. Compared with the Inflation Report no. 2, May 2011, the annual inflation rate at the end of this year showed no deviations, while for the end of 2012 it was revised towards increase. The main causes of higher inflation for the next year are increasing food prices on international markets and the excess of the aggregate demand.

4.1 External environment

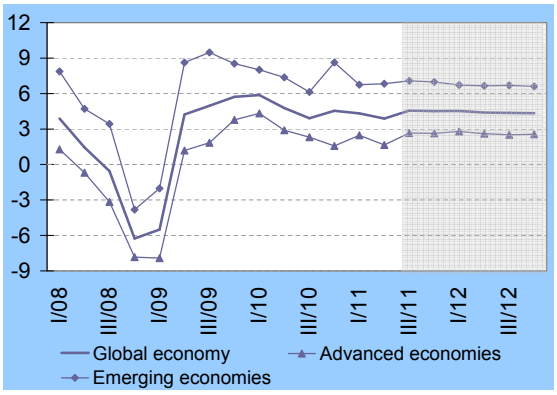
The economic recovery, after the great recession, proved to be difficult, complicated and unstable. After a year of a fragile and uneven stabilization, the global economic growth is on a general downward trend, being jeopardized by problems such as unemployment, rising prices, sovereign debt risk and financial fragility.

The latest data on global macroeconomic indicators show worsening of global economic situation and a slowdown in the process of recovering from the global financial crisis. The future is uncertain, remaining serious risks for a possible decline.

According to the recent IMF forecasts, during 2011 - 2012 the world economy is expected to grow by 4.3 and 4.5 percent, respectively. In 2011, the growth in the advanced economies is expected to reach the level of 2.2 percent, by 0.2 percentage points less than the previous forecast, and for 2012 it is expected to reach the level of 2.6 percent. In 2011, in emerging economies is projected an increase of 6.6 percent, by 0.1 percentage points more than the previous forecast, while in 2012 a 6.4 percent growth, by 0.1 percentage points less than in the previous forecast.

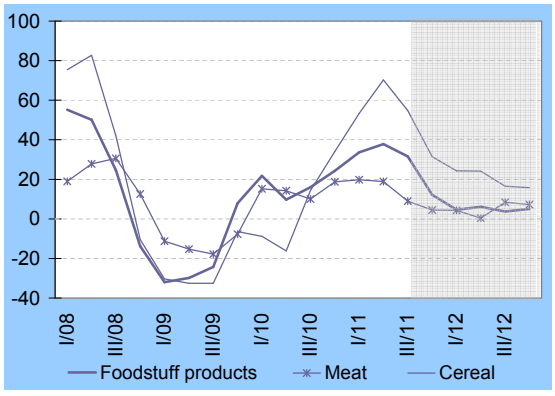
In the second quarter of this year, the global food prices have increased by 37.9 percent compared with the same period last year, adding further pressure on living standards in poorer regions of Asia, Africa and Latin America. The cereal crops recorded highest price increase - by 70.3 percent compared with the second quarter of 2010, as a result of the output decrease followed by unfavorable meteorological conditions and the cessation of exports by some producing countries. World

Chart 4.1: Annual growth in world economy (%)



Source: IMF, World Economic Outlook – June 2011

Chart 4.2: Annual growth rate of global food prices (%)

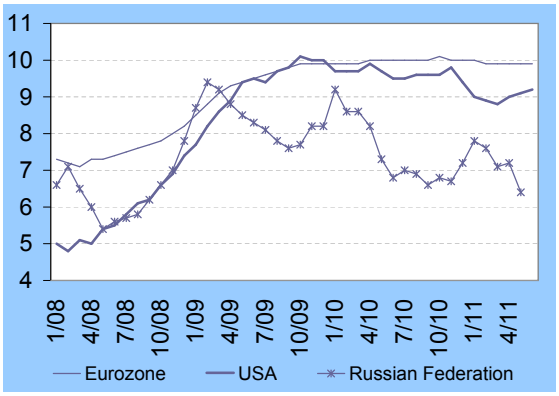


Source: Food and Agriculture Organization of the United Nations, Bloomberg

prices for food declined slightly compared to the first quarter of this year by 0.1 percent due to better weather conditions that have tempered the harvest in Europe and USA, to the resumption of exports and falling oil prices towards the end of quarter. According to the Food and Agriculture Organization, it is possible a relative small decrease in food prices in the near future, the quotations remaining volatile and close to historical highs, including the following year.

In addition to the existing financial fragility in developing countries, there was recorded an increase in unemployment that became a weak link in the economic recovery. Despite the improving labor market in Germany, the unemployment rate remained steady in the euro zone - 9.9 percent, as compared to the past few months. In Spain, the unemployment rate rose to 20.9 percent in Portugal - to 12.4 percent. An improvement was registered in Ireland, where the unemployment rate fell to 14.0 percent. Overall, the unemployment rate is expected to decline in Europe this year. Following the improvement recorded in the USA labor market in the first quarter of this year, the situation has worsened again in the second quarter, the unemployment rate reaching the level of 9.2 percent in June. In the Russian Federation, the unemployment rate decreased last month, which is due to seasonal resumption of economic activities.

Chart 4.3: Unemployment rate (%)



Source: Eurostat, Federal State Statistics Service of Russia

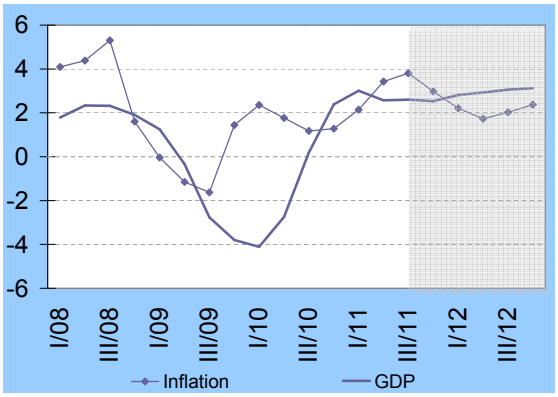
Worsening of U.S. foreign debt and maintaining monetary policy interest rate at a very low level by the Federal Reserve System contributed to the overall depreciation of the U.S. dollar. At the same time, the increase of the reference rate by the European Central Bank, as a measure to counter the inflation, eased the single European currency appreciation against the U.S. dollar for a short period of time, but eventually the deepening crisis of sovereign debt in euro zone has led to its depreciation. As a result there has been recorded turbulences in international financial markets.

United States of America

According to the latest estimates of the U.S. Department of Commerce, gross domestic product of the USA recorded an annual increase of 3.0 percent in first quarter of 2011. This primarily reflects the positive contributions of private consumption, foreign and private investment and exports, which were partially offset by negative contributions of public consumption and imports. The average inflation registered in the USA was 3.4 percent in the second quarter of 2011 compared with the same period last year.

At the end of April, the Federal Reserve decided to keep the reference rate at a minimum level, this decision causing the U.S.

Chart 4.4: The annual rate of inflation and GDP in the USA (%)



Source: Bureau of Economic Analysis. U.S. Department of Commerce, U.S. Bureau of Labor Statistics, Consensus Forecasts

dollar depreciation against the euro, but also with other main currencies of international circulation. Worsening of macroeconomic indicators affected the consumer confidence, thereby boosting the uncertainty about the recovery power of the largest economies in the world.

The U.S. government reached the maximum of indebtedness in May and the Treasury authorized extraordinary actions, allowing the government being able to borrow up to August 2, 2011. If American politicians will fail to reach an agreement to raise the debt ceiling, the state will not be able to borrow to meet payments, which would be very dangerous both for the U.S. and global economy. The USA could continue to honor its debts and after that date, but should give up certain obligations such as payment of social benefits, unemployment insurance or to pay to militaries.

No matter how disastrous such a situation would be for the affected families, it would be minimal compared to the problems generated by a reaction of financial markets. For 2011, it is expected a 2.5 percent growth, in the context of an average inflation of 3.1 percent. For 2012, the GDP is expected to increase by 3.1 percent in the USA and prices on average by 2.1 percent.

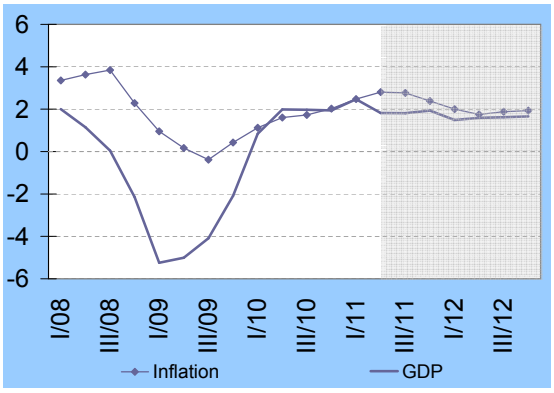
Euro zone

According to Eurostat, in the first quarter of 2011, the annual economic growth recorded in the euro zone was 2.5 percent. Private consumption and fixed capital investment have increased as well as exports and imports.

According to Eurostat, the annual economic growth in the euro zone constituted 2.0 percent in the fourth quarter of 2010. The consumer expenditure, imports and exports increased, while the investment in fixed capital fell. Thus, the euro zone economy has had a distinguished dynamic, with strong performance in countries that have a better situation, while countries with high debt and high budget deficits continue to face a weak economic activity and high unemployment.

In the second quarter of 2011, the euro zone was marked by the debt crisis in Greece. After many consultations, a new series of austerity measures was adopted, the ability to pay of Greece continues to be uncertain. At the same time, the fiscal crisis worsens and the huge losses in the banking system of Portugal, Spain and Ireland, in addition to the public debt, continue to grow. Also, the recent economic data of Italy show that Italy will be the next country that will deepen Europe's sovereign debt crisis.

Chart 4.5: The annual rate of inflation and GDP in the euro area (%)



Source: Eurostat, Consensus Forecasts

The adoption of austerity measures is long overdue, and in such circumstances the unique European currency continues to depreciate, and the effects are felt by Europe's peripheral economies such as Romania, Hungary and Poland, by the depreciation of the national currencies. Also, there is a differentiated evolution of euro zone countries. All countries with competitive economies based on export have a considerable advantage, for example, countries with strong links to Germany are booming, so that economies of Poland and Slovakia have already achieved good growth rates. The different growth rate is caused by the recovery of domestic demand, which will help exports to cease to be the main factor of economic growth in the next year. Despite public debt problems, the economic growth in the euro zone in 2011 will constituted 2.0 percent. For 2012, it is expected a GDP increase of 1.6 percent.

European Central Bank increased its reference rate by 0.25 percentage points in April, reaching the level of 1.25 percent. The purpose of this measure was to counter the inflation, which from the beginning of the year was quite high for the euro zone. However, the flow of macroeconomic data showed that the market reaction was minimal. In July 2011, the reference rate increased again by 0.25 percentage points, reaching the level of 1.5 percent, and in the fall it is expected to increase again. According to Eurostat, the average inflation in the euro zone was 2.8 percent in the second quarter of 2011, as compared to the same period last year. For 2011 and 2012 it is expected an inflation of 2.6 and 1.9 percent, respectively.

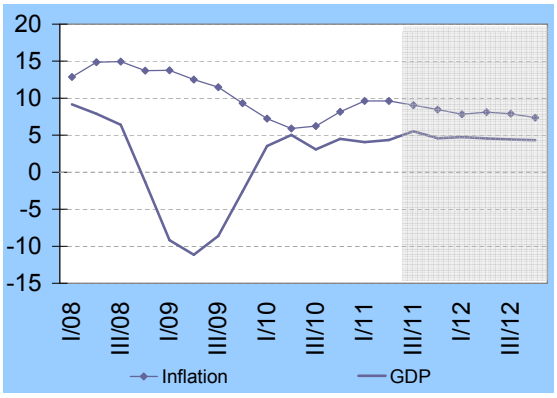
Russian Federation

In the first quarter of 2010, according to the Federal State Statistics Service of Russia has registered an annual growth of 4.1 percent. This reflects a higher volume in manufacturing and services. At the same time, public finance sectors have stagnated or even dropped. The exports did not register any changes, even the exports of energy products have significantly increased, being negatively offset by the lack or decrease of other exports such as cereal crops.

Russian Federation continued its economic recovery in the second quarter, having regard that the prices of energy products remained relatively high. The positive development of macroeconomic indicators in the first half of 2011 contributed to the increase of projected values. Thus, Russian economy is expected to increase by 4.6 percent in 2011 and by 4.5 percent in 2012.

Food prices increase contributed to an average inflation rate of 9.6 percent in the second quarter of 2011 compared to the same period last year. In 2011, the prices are expected to increase

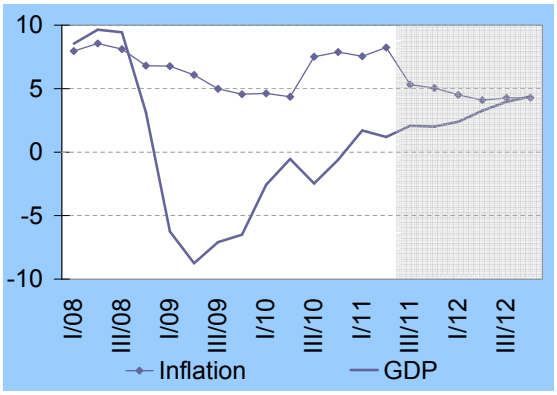
Chart 4.6: The annual rate of inflation and GDP in the Russian Federation (%)



Source: Federal State Statistics Service of Russia, Consensus Forecasts

on average by 9.2 percent, given that the positive expectations on the new agricultural crop will come true, and for 2012 on average by 7.8 percent.

Chart 4.7: The annual rate of inflation and GDP in Romania (%)



Source: National Institute of Statistics, Consensus Forecasts

Romania

According to the National Institute of Statistics, Romania's gross domestic product recorded for the first time in the last two years an increase of 1.7 percent in the first quarter of 2011 compared to the same period in 2010. Compared to the fourth quarter of 2010, GDP grew by 0.6 percent (seasonally adjusted data).

Industry was the branch that has recorded the highest growth, followed by trade, repair of cars and household appliances, hotels and restaurants, transport and telecommunications. Major reductions in the volume of activity were recorded in financial activities, real estate, renting and services rendered to enterprises, construction and other services.

As a consequence of the positive development of the gross value added at a whole economy level, the amount of taxes collected to the state budget has increased. In terms of gross domestic product use, the domestic demand declined in the first quarter of 2011 compared to the same quarter of 2010 due to significant reduction of expenditure. The net exports improvement had a positive effect on GDP, due to faster increase of exports of goods and services (23.6 percent) compared to the volume of imports (15.4 percent).

In the second quarter of this year, Romania's economy has continued to grow. This was driven by the exports and manufacturing, even to a lesser extent than in the first quarter of 2011. The exports are clearly the only ones that will ensure the Romanian economic recovery by the end of the year, although the consumption remains relatively low due to high inflation. Romania could register in 2011 a growth rate of around 1.7 percent. For 2012, it is expected that public and private consumption and investment will grow and maintain positive performance of exports and industry, contributing to the economic growth by 3.6 percent.

The average inflation in Romania was 8.2 percent in the second quarter of 2011 compared to the same quarter of 2010, constituting the highest inflation in the EU. The average inflation in 2011 and 2012 is expected to be 6.5 and 4.3 percent, respectively.

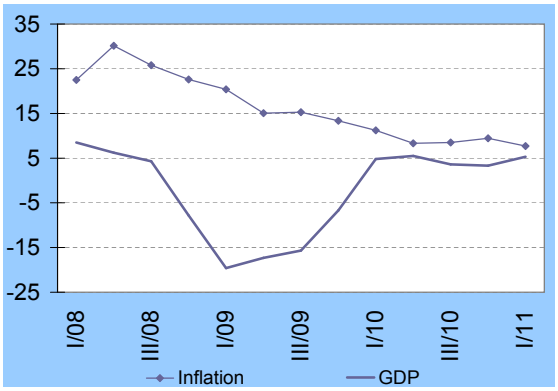
Ukraine

State Statistics Committee of Ukraine reported for the first quarter of 2011 an economic growth of 5.3 percent compared

to the same period last year and of 2.9 percent (seasonally adjusted) compared to the forth quarter of 2010. The highest increases were registered in manufacturing, trade and construction. Volume decreases were registered in publicly-funded economic activities, such as education, health and national assistance. Export (by 19.0 percent) and imports (39.3 percent) growth denotes an increase in economic activity and private final consumption, which is a signal of the economic situation improvement of the country.

Macroeconomic prospects for Ukraine are quite promising. Investments are gradually reviving, mainly due to political and economic continuous stability. Industry benefits from new impetus after falling metals prices. There is also availability of financing from the IMF, considering that the Ukraine announced to reform the pension system and other austerity measures. At the same time, there are still many risks regarding the economic recovery having regard that the metals prices in the subsequent period are uncertain, and private investments are reduced. It also assumed that new austerity measures will damage the business environment. For 2011 and 2012, GDP is expected to increase by 4.6 and 5.0 percent, respectively.

Chart 4.8: The annual rate of inflation and GDP in Ukraine (%)



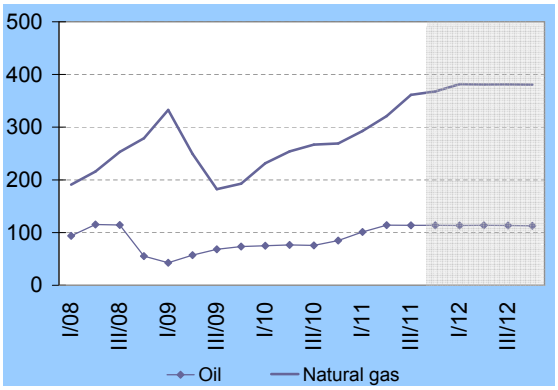
Source: State Statistics Committee of Ukraine

In the second quarter of 2011 in Ukraine prices increased on average by 10.8 percent compared to the same period last year. For 2011 and 2012, it is expected an inflation of 10.2 and 9.5 percent, respectively.

Evolution of natural gas and oil prices

During the second quarter of 2011 on international markets was recorded an increased volatility of oil, the average price for Urals brand representing USD 114.2 per barrel, 12.7 percent more than in the previous quarter. OPEC reference basket reached 112.4 barrels in the second quarter of 2011, increasing by 11.3 percent compared to the previous quarter.

Chart 4.9: Evolution and forecast of natural gas (USD/1000m^3) and oil prices (USD per barrel)



Source: NBM, Energy Information Administration (U.S. Government Official Statistics), http://tonto.eia.doe.gov/dnav/pet/hist/wepcuralsw.htm

Oil prices continued to rise in April, reaching an average value of USD 117.8 a barrel. The evolution of oil prices in this period was driven by the persistence of the following factors: the tense situation in the countries of North Africa and Middle East (OMAN) and depreciation of U.S. dollar against the euro. The continuing increase in oil futures prices is caused by the eventual deviations in the supply of oil within the respective countries.

At the same time, following the evolution of oil prices, it can be seen that in May and June the price of oil fell to USD 111.7 and 113.2 per barrel, respectively. One of the main reasons that contributed to the slowdown in international oil prices was to

increase of U.S. oil reserves. In this context, oil stocks increased in January, so that in the last week of June it was recorded a level of 359.5 million barrels[10]However, an uncertainty about the development prospects of U.S. and Chinese economy dominated the world markets in the recent months, with negative impact on the oil market.

Growth forecasts of global oil demand contributed to rising oil prices. Thus, it is expected that oil demand will increase to 88.1 MB per day in 2011, recording an increase of 1.4 percent in annual terms[11].

It is expected that over the next quarters of this year the price of Urals brand oil will be within the range of USD 113.1 to 114.4 per barrel.

Purchase price of natural gas in the second quarter of 2011, announced by JSC "Moldovagaz" is USD 321.1 per 1000 m^3. We anticipate that in the third quarter of 2011, the import price of natural gas will be USD 361.2 per 1000 m^3[12], representing an increase of about 12.5 percent compared to the previous quarter.

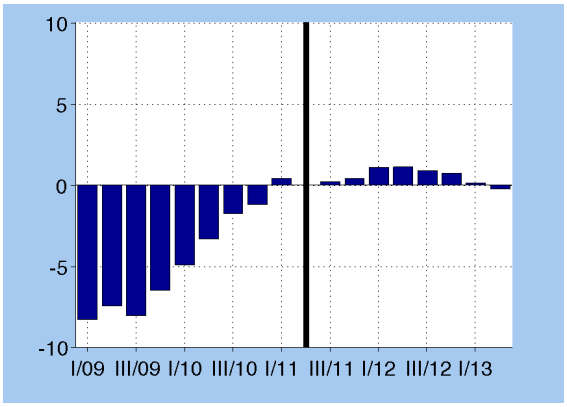
4.2 Medium-term forecasting

Aggregate demand

During the first quarter of this year the economic recovery that began in the second half of 2009 continued. According to the recent data, the real GDP growth in the first quarter was significant and amounted to 8.4 percent, as compared to the same period last year. Real GDP growth is due to positive contribution of final consumption, gross capital formation, and positive developments in exports. This dynamic is determined by the recovery of world economy especially of the main economic partners.

Deviation of real GDP in early 2011 showed positive values being over the potential level of economic activity. Compared to the projection of the Inflation Report No. 2, May 2011 where the output gap was negative, the output gap in the current round of forecasting has changed due to a higher increase than

Chart 4.10: Output gap forecast (%)



Source: NBS, NBM calculus

[10]www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WCESTUS1&f=W

[11]http://www.opec.org/opec_web/static_files_project/media/downloads/publications/MOMR_July_2011.pdf

[12]NBM calculations

previously anticipated for the first quarter of this year and will be positive, so that recording an insignificant excess demand.

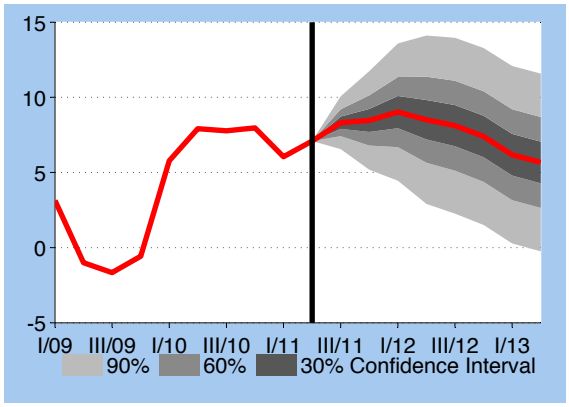
Fiscal policy for the next two years will have a greater degree of expansion than projected in the Inflation Report No. 2, May 2011. Changes in taxes, especially indirect - excise duty and VAT, will influence the general level of prices towards their increase.

In nominal terms there will be recorded an increase in interest rates, although will be insignificant and incentive in real terms. Real effective exchange rate will have a slightly restrictive impact.

Inflation

Current projection places the annual inflation rate at the end of the year at the level of 8.4 percent, and at the end of the next year at the level of 7.4 percent. Compared with Inflation Report No. 2, May 2011 the inflation rate at the end of this year showed no deviations, while for the end of 2012 it was revised towards increase. The increased food prices on international markets and excess of aggregate demand are the main causes of higher inflation in the next year.

Chart 4.11: The annual rate forecast of total CPI (annual, %)



Source: NBS, NBM calculus

During the forecast, due to positive output gap, the inflationary pressures and the demand will exist from the demand side as well, but most of them will be driven by factors from the supply side. Higher prices for imported natural gas will be reflected in the increase of regulated prices, which will contribute to the increase of general level of prices both directly and indirectly - by increasing the cost of products other than energy.

Inflationary pressures from food prices will be increased during the forecasting period. Their evolution is greater than the evolution of the Inflation Report No. 2, May 2011. This is due to significant increases in world food prices, following the supply decline in many categories.

Core inflation at the end of this year and the end of next year will have a higher evolution compared to the previous forecast. The cause of this difference between the two projections is the impact of exogenous shocks that are beyond the control of National Bank of Moldova.

Currently, real GDP is slightly above its potential level. In this context it can be said that inflationary pressures may come later from the demand side as well, but the latter will have a low intensity under the circumstances of an active monetary policy.

Risks and uncertainties

Among the main risk factors for the global economy development are: volatility in world financial markets, determined by the public finances crisis in Europe, amplification of unfavorable signals of U.S. economy, budgetary imbalances from the private financial system manifested mainly among developed economies (USA, Japan, Europe), signals of overheating in some developing and emerging economies, developments of international prices of crude oil (considering the tense situation in the area of OMAN).

Continuation of sovereign debt crisis in Europe could destabilize the entire global financial system. A reflection of the situation on the European market is the single currency depreciation against other currencies, which reduces the competitiveness of exports from other countries in the euro zone. A possible joining of Italy to the group of countries with default risk will have significant consequences on the economy of Moldova by reducing the money transfers made by individuals and perhaps by reducing demand for our products.

Difficult negotiations on U.S. deficit could have global consequences, taking into account the central role of the U.S. government securities on the international securities markets. Late adoption of a restrictive monetary policy may lead to a higher growth of world prices and U.S. dollar depreciation.

More pronounced risks that could compromise to some extent the baseline projection for medium - term inflation in the Inflation Report no. 3, 2011, similarly to the previous periods, will be represented by the trajectory of world oil and food prices. Thus, the continuation of global economic recovery and social and political imbalances triggering in petroleum exporting countries could increase oil prices in foreign markets. Hence, both fuel prices and some prices for regulated services of the domestic market will be directly affected and will have a higher development than anticipated. These, according to their share in the cost of other goods and services in the CPI will cause second-round effects that will increase the inflationary pressures over the forecast published in the Inflation Report no. 3, 2011. Moderation in global economic growth and the International Energy Agency intervention, similar to that of June 2011, could reduce the risk of impact on growth over inflation forecasts.

This year drought recorded in North America could create conditions to increase worldwide cereal crops prices, which will increase their domestic prices, following the liquidation of

their export barriers in Moldova. This will increase prices in food and some services in core inflation. In addition to external factors, the risk of rising food prices over the forecast will be internally determined by weather conditions. According to the information provided by the State Hydro meteorological Service, the weather conditions in spring as well as in June and July were mostly favorable for growing crops, and the moisture in the arable layer was within the limits. Therefore, the current inflation forecast for 2011 and 2012 was carried out based on favorable conditions for crops and the lack of inflationary pressures from weather conditions. However, the incidence of adverse shocks, such as the reduced amount of precipitation or, conversely, floods would reduce the supply of fruits and vegetables that cause increased pressure on food prices.

A major part of goods included in core inflation, food prices and energy resources are imported products, which determines the price to be sensitive to the exchange rate. Against the background of sovereign debt crisis in Europe, and increased U.S. indebtedness, exchange rate fluctuations is a significant risk that might deviate inflation from the medium-term projection.

An important risk is the increase of natural gas tariffs more than included in the baseline scenario. The probability of this scenario would be favored by increased natural gas import price due to increased demand externally, and by the consequences of the dispute between Moldovagaz and ANRE on the amount of losses included in the tariff. Increased natural gas tariff would result in regulated prices increase, as well as indirectly would increase the prices for some services included in core inflation.

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Appendix A

Statistical tables

Table A.1: Monetary policy rates (%)

	Ukraine	Russian Federation	Romania	Hungary	Belarus	Poland	Kazakhstan	Moldova	Turkey	Armenia	Georgia*
2008											
Dec.	12.0	13.0	10.3	10.5	11.5	7.5	n/d	15.1	17.0	n/d	8.0
2009											
Jan.	12.0	13.0	10.3	9.8	13.6	6.8	10.5	13.5	15.3	7.1	8.0
Feb.	12.0	13.0	10.0	9.5	14.0	6.5	10.0	11.1	13.8	6.8	7.0
Mar.	12.0	13.0	10.0	9.5	14.0	6.3	9.6	11.0	12.4	7.5	6.5
Apr.	12.0	13.3	10.0	9.5	14.0	6.3	9.5	11.0	11.4	7.6	6.0
May	12.0	12.2	9.6	9.5	14.0	6.3	9.5	10.6	10.8	7.4	6.0
Jun.	11.0	11.6	9.5	9.5	14.0	6.0	9.2	9.7	10.3	6.4	6.0
Jul.	11.0	11.2	9.0	9.4	14.0	6.0	8.7	8.7	9.8	5.6	6.0
Aug.	10.3	10.8	8.6	8.4	14.0	6.0	8.2	7.4	9.3	5.3	6.0
Sep.	10.3	10.6	8.5	8.0	14.0	6.0	7.7	5.5	8.8	5.1	6.0
Oct.	10.3	9.8	8.5	7.3	14.0	6.0	7.1	5.0	8.3	5.0	6.0
Nov.	10.3	9.4	8.0	6.9	14.0	6.0	7.0	5.0	7.9	5.0	5.0
Dec.	10.3	9.0	8.0	6.4	13.5	6.0	7.0	5.0	7.8	5.0	5.0
2010											
Jan.	10.3	8.8	7.6	6.2	13.5	6.0	7.0	5.0	7.8	5.2	5.0
Feb.	10.3	8.7	7.1	5.9	13.3	6.0	7.0	6.0	7.8	5.7	5.0
Mar.	10.3	8.5	7.0	5.7	13.0	6.0	7.0	6.1	7.8	6.4	5.0
Apr.	10.3	8.2	6.5	5.5	12.8	6.0	7.0	7.0	7.8	6.8	5.0
May	10.3	8.0	6.3	5.3	12.2	6.0	7.0	7.0	7.8	7.2	5.0
Jun.	10.3	7.8	6.3	5.3	12.0	6.0	7.0	7.0	7.8	7.3	6.3
Jul.	10.3	7.8	6.3	5.3	12.0	6.0	7.0	7.0	7.8	7.3	6.5
Aug.	8.0	7.8	6.3	5.3	11.3	6.0	7.0	7.0	7.8	7.3	6.5
Sep.	7.8	7.8	6.3	5.3	10.7	6.0	7.0	7.0	7.6	7.3	7.0
Oct.	7.8	7.8	6.3	5.3	10.5	6.0	7.0	7.0	7.5	7.3	7.5
Nov.	7.8	7.8	6.3	5.5	10.5	6.0	7.0	7.0	5.9	7.3	7.5
Dec.	7.8	7.8	6.3	5.6	10.5	6.0	7.0	7.0	5.3	7.3	7.5
2011											
Jan.	7.8	7.8	6.3	5.8	10.5	6.3	7.0	8.0	5.3	7.3	7.5
Feb.	7.8	7.8	6.3	6.0	10.5	6.3	7.0	8.0	5.3	7.6	8.0
Mar.	7.8	8.0	6.3	6.0	11.3	6.3	7.4	8.0	5.3	8.2	8.0
Apr.	7.8	8.0	6.3	6.0	12.4	6.5	7.5	8.0	5.3	8.4	8.0
May	7.8	8.2	6.3	6.0	13.4	6.8	7.5	8.0	5.3	8.5	8.0
Jun.	7.8	8.2	6.3	6.0	16.6	7.0	7.5	8.0	5.3	8.5	8.0

*At the end of the period

Source: Official websites of the central banks of the respective countries

Table A.2: Required reserve rates of countries in the region (%)

	2010												2011					
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mat.	Apr.	May	Jun.
Ukraine	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russian Fed.	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	3.3	4.0	4.8	4.8	4.7
Romania	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Hungary	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Belarus	3.5	3.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	4.5	4.5	4.5	4.5
Poland	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.5	3.5	3.5
Kazakhstan	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Moldova	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	10.3	11.0	11.0	11.0	11.0
Turkey	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.5	5.6	6.0	6.0	8.9	9.0	13.0	13.0	13.0
Armenia	29.1bil. AMD	27.5 bil. AMD	n/d	n/d	n/d	n/d	n/d	n/d	n/d	n/d	n/d	n/d	n/d	n/d	n/d	n/d	n/d	n/d
Georgia*	4.0	4.0	3.9	3.9	3.8	3.9	3.5	3.6	5.3	5.2	5.1	5.0	10.5	15.3	16.0	15.5	16.0	n/d

*At the end of the period
Source: Official websites of the central banks of the respective countries

Table A.3: Annual consumer price index (%)

	2010												2011					
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
Ukraine	11.1	11.5	11.0	9.7	8.5	6.9	6.8	8.3	10.5	10.1	9.2	9.1	8.2	7.2	7.7	9.4	11.0	11.9
Russian Fed.	8.1	7.2	6.5	6.1	5.9	5.7	5.5	6.2	7.0	7.5	8.1	8.8	9.7	9.6	9.5	9.6	9.6	9.4
Romania	5.2	4.5	4.2	4.3	4.4	4.4	7.1	7.6	7.8	7.9	7.7	8.0	7.0	7.6	8.0	8.3	8.4	7.9
Hungary	6.4	5.7	5.9	5.7	5.1	5.3	4.0	3.7	3.8	4.2	4.1	4.7	4.0	4.1	4.5	4.7	3.9	3.5
Belarus	6.6	5.9	6.4	6.6	7.1	6.9	6.8	7.7	9.0	9.7	10.3	9.9	10.6	13.0	13.9	18.1	32.6	43.8
Poland	3.5	2.9	2.6	2.4	2.2	2.4	2.0	2.0	2.6	3.0	2.8	3.2	4.0	4.0	4.4	4.5	4.8	4.0
Kazakhstan	7.3	7.4	7.2	7.1	7.0	6.8	6.7	6.5	6.7	7.3	7.7	7.8	8.1	8.8	8.6	8.4	8.3	8.4
Moldova	2.9	6.5	8.1	8.1	7.9	7.8	7.6	7.8	8.0	8.0	7.7	8.1	6.7	5.7	5.8	6.5	7.0	7.7
Turkey	8.2	10.1	9.6	10.2	9.1	8.4	7.6	8.3	9.2	8.6	7.3	6.4	4.9	4.2	4.0	4.3	7.2	6.2
Armenia	7.0	9.4	8.8	6.8	6.3	5.8	7.8	9.6	8.6	9.1	9.6	9.4	10.6	12.4	11.5	8.9	9.0	8.5
Georgia	2.7	5.6	5.9	5.6	4.0	3.7	7.0	9.5	9.8	9.6	10.5	11.2	12.3	13.7	13.9	13.5	14.3	10.0

Source: Official websites of the central banks of the respective countries

Table A.4: Monetary policy real rates (%)

	2010												2011					
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.
Ukraine	-0.8	-1.1	-0.7	0.5	1.6	3.1	3.2	-0.3	-2.5	-2.1	-1.3	-1.2	-0.4	0.5	0.0	-1.5	-2.9	-3.7
Russian Fed.	0.6	1.4	1.9	2.1	2.0	1.9	2.1	1.5	0.7	0.2	-0.3	-1.0	-1.8	-1.7	-1.5	-1.5	-1.3	-1.1
Romania	2.3	2.5	2.7	2.1	1.8	1.8	-0.8	-1.2	-1.4	-1.5	-1.4	-1.6	-0.7	-1.3	-1.6	-1.8	-1.9	-1.5
Hungary	-0.2	0.2	-0.2	-0.2	0.1	0.0	1.2	1.5	1.4	1.0	1.4	0.8	1.7	1.8	1.4	1.2	2.0	2.4
Belarus	6.5	7.0	6.2	5.8	4.8	4.8	4.9	3.3	1.6	0.7	0.2	0.5	-0.1	-2.2	-2.3	-4.8	-14.5	-18.9
Poland	0.0	0.6	0.9	1.1	1.3	1.1	1.5	1.5	0.9	0.5	0.7	0.3	2.2	2.2	1.8	1.9	1.9	2.9
Kazakhstan	-0.3	-0.4	-0.2	-0.1	0.0	0.2	0.3	0.5	0.3	-0.3	-0.6	-0.7	-1.0	-1.7	-1.1	-0.8	-0.7	-0.8
Moldova	2.0	-0.5	-1.9	-1.0	-0.8	-0.7	-0.6	-0.7	-0.9	-0.9	-0.6	-1.0	1.0	2.4	2.1	1.4	0.9	0.3
Turkey	-0.4	-2.1	-1.7	-2.2	-1.2	-0.6	0.2	-0.5	-1.5	-1.0	-1.3	-1.1	0.3	1.0	1.2	1.0	-1.8	-0.8
Armenia	-1.7	-3.4	-2.2	0.0	0.8	1.4	-0.5	-2.1	-1.2	-1.7	-2.1	-2.0	-3.0	-4.3	-3.0	-0.5	-0.5	0.0
Georgia	2.2	-0.6	-0.8	-0.6	1.0	2.5	-0.5	-2.8	-2.5	-1.9	-2.8	-3.4	-4.2	-5.1	-5.2	-4.8	-5.5	-1.8

Source: Official websites of the central banks of the respective countries