

NATIONAL BANK OF MOLDOVA

ANNUAL REPORT 2000



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I. Economic Situation of the Republic of Moldova ¹

The World Economy in 2000

In 2000 the world economy recorded the highest growth for the last 10 years. The major increase, observed mainly in the first half of the year was ultimately followed by relative stagnation caused by certain imbalances in international market and increasing prices for petrol products. The steady economic growth during this period and the high prices for energy resources generated the intensification of inflationary expectations.

In the USA the annual increase of the gross domestic product (GDP) in real terms constituted 4% in 2000 and is estimated to stay within the limits of 2.0% and 2.5% in 2001. Inflation constituted 3.4%. The unemployment rate remains low – 4.0%.

In Japan, although the economy recovered somewhat, it is still quite fragile. GDP in 2000 is estimated to go up by 1.2%. Yet, large dependence on petrol imports makes the development of the Japanese economy face serious impediments. The reduced inflation registered during the last years determined a deflation of about 1.0% in 2000 and an unemployment rate of about 5.0%.

GDP growth in the Euro zone in 2000 is expected to constitute about 3.0%. The unemployment rate fell below 8.7%. The Euro appreciation as against US\$ at the end of the year appeared to create necessary prerequisites to slow down the inflation increase, which is expected to stay at a level of 2.6% in 2000.

The countries of Central and Eastern Europe aspiring to join the European Union have largely shown signs of economic development, mainly due to their economic relationship with the Euro countries.

According to estimates, GDP in Romania should increase by 1.6%, in Bulgaria – by 4.0%, in Hungary – by 4.5%, in the Czech Republic – by 3.4%, in Croatia – by 2.5%, in Poland – by 4.8% and in Slovakia – by 2.1%.

The 2000 annual inflation rate in these countries constituted as follows: in Romania – 40.7%, in Bulgaria – 3.5%, in the Czech Republic – 4.3%, in Hungary – 11.2%, in Croatia – 3.5%, in Poland – 9.6% and in Slovakia – 8.5%.

GDP in Russia increase by about 8.0% in 2000. Annual inflation is expected to stay at around 20.2%, with an unemployment rate of 10.0%.

Ukraine's GDP growth rate was 6.0%, with inflation of 25.8%.

Despite all the economic, political and natural instabilities, the year of 2000 proved to be favorable for the world economy. Positive economic results were generally recorded in both developed countries and countries in transition and emerging markets.

¹ According to data submitted by the Department of Statistics and Sociological Analysis of the Republic of Moldova

The economy of the Republic of Moldova was directly influenced by the economic growth of the neighboring countries – basic trading partners like Romania, Ukraine and Russia.

Real Sector

Despite facing natural calamities that displayed skepticism about economic growth, the national economy of the Republic of Moldova succeeded to produce positive results. GDP in real terms is estimated to be 1.9% above the previous year. Inflation dropped from 43.7% in 1999 down to 18.4% in 2000. The consolidated budget deficit constituted 1.01% of GDP.

Gross Domestic Product amounted (as according to estimates) to Lei 15979.5 millions in current prices, exceeding the 1999 level by 1.9% in real terms (chart 1). Such increase was significantly due to the larger value of services and higher net taxes on goods and imports (1.3% and 15.8% respectively). The gross added value of industrial output and services went up by 2.8% and 1.3% respectively, while the agricultural one reduced by 2.1%.

Gross domestic product per capita amounted to Lei 4394.2, surpassing by 2.1% in real terms the level of 1999.

Gross domestic product was 93.7% formed on the account of economic gross added value (as compared to 94.7% in 1999). Taxes on goods and import (reduced with the value of subventions) constituted 6.3%, which is by 1.3 percentage point over the previous year.

Industrial output amounted to Lei 8750.4 millions in current prices and exceeded the 1999 level by 2.3% in previous year average prices. The industrial output produced in 2000 by entities subject to obligatory monthly recording valued Lei 6383.6 millions, which is by 6.9% in comparable prices higher than in 1999 (chart 2). Enterprises of the public sector reduced their activity in real terms by 17.8% versus private entities and joint ventures with foreign capital, which enlarged their output by 23.7% and 44.7% respectively (chart 3).

The larger industrial output was solely generated by the impressive development of the manufacturing industry that exceeded the 1999 level by 16.2% in comparable prices due to the higher value of physical industrial output in the following fields: production of goods from

metalloid minerals – by 81.9%; textile industry – by 29.1%; clothing and fur industry – by 24.2%, food industry – by 10.9%. The weight of these industries in total industrial output was 64.2%.

The operation of quarries and the supply with electricity, gas, steam and hot water reduced by 3.9% and 31.2% respectively as compared to 1999.

Following the reduction by 8.9% of animal products, **agricultural output** in 2000 was estimated at Lei

Chart 1. GDP growth rate

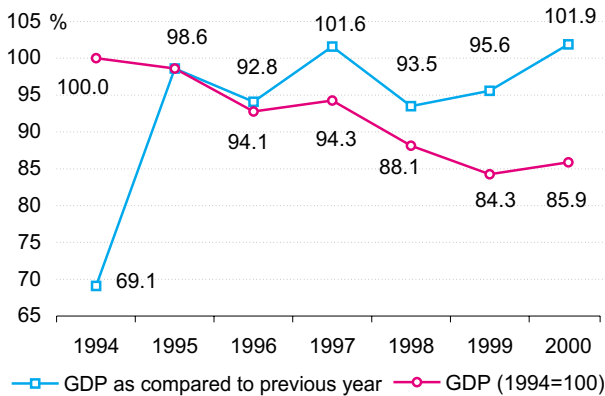


Chart 2. Industrial production growth rate (% as compared to corresponding period of previous year)

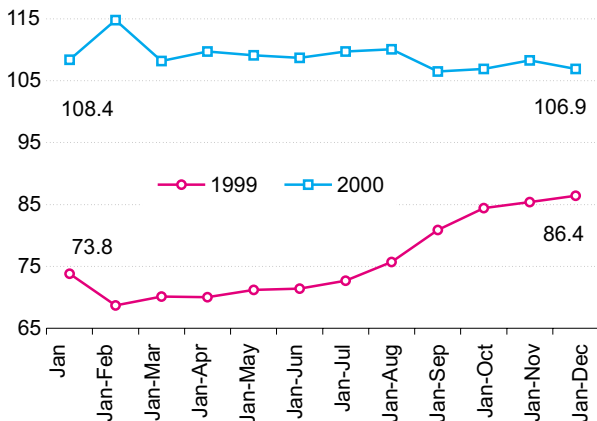


Chart 3. Structure of industrial output (by ownership)

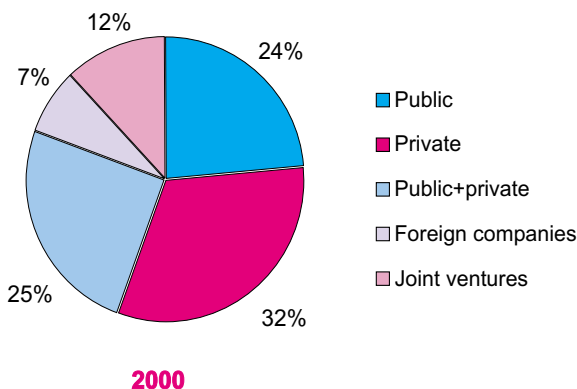
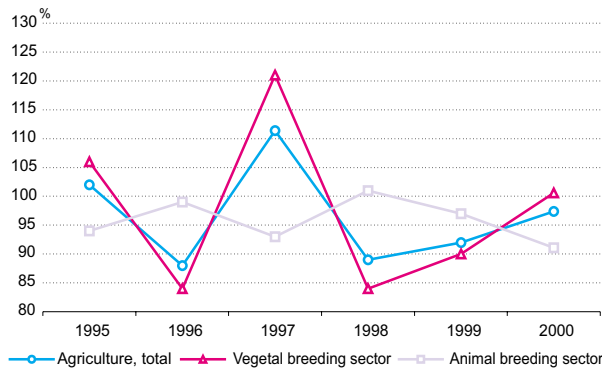


Chart 4. Agricultural production growth rate



8070 millions, or 97.4% of the 1999 value. Vegetable products registered an insignificant increase of 0.6% (chart 4).

The value of vegetable products was positively impacted by the larger harvest of grapes (by 1.5 time) and fruits (by 1.9 times) that contributed to the increase of agricultural output by 3.1% and 1.9% respectively. The lower harvest of cereals (by 12.0%) and vegetables (by 26.0%) resulted in a lower output (by 2.8% and 2.3% respectively).

The value of animal products commercialized in 2000 was 8.9% under the level of the previous year as a result of reduced number of cattle and poultry (by 15.0%) and bovines (by 3.0%).

Due to the larger number of land owners (by 23.0%), the weight of the agricultural private sector is continuously increasing, totaling around 74.0% in 2000.

As on December 31st, 2001 627.0 thousands persons submitted applications for separate agricultural land for organization of farms; out of this number, 80.0% received land under private property.

Investments in fixed capital during the year amounted to Lei 1511.1 millions, exceeding by 1.0% the value of the previous year.

About 85.5% of total investments were allocated in the productive sector, which is by 1.0% lower than in 1999. Larger investments in fixed capital (productive items) of the private and public sectors (by 18.0% and 7.0% respectively) points to the improvement of both capital investment and national economy in general. Simultaneously, same investments in foreign and joint (without foreign capital) property decreased by 42.0% and 37.0% respectively.

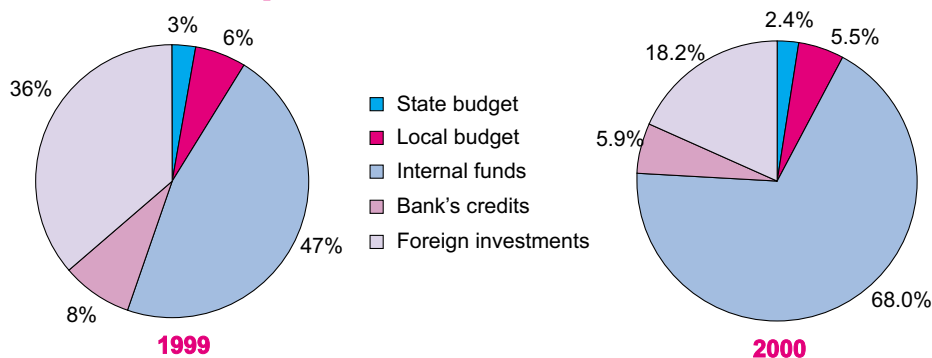
Investments in the non-productive sector amounted to Lei 219.2 millions or 14.5% of total investments in fixed capital. This value exceeded by 13.0% the 1999 figure due to larger investments (by 93.0%) in the public sector, especially due to investments made by the Social Investments Fund.

Investments in the fixed capital were distributed as follows: in the public sector – 45.9%, in joint ventures – 31.3% and in the private sector – 15.7%. The value of investments in joint property (without foreign participation) and foreign property followed its decreasing trend and constituted 59.0% of 1999.

The structure of financing is as follows: internally generated funds held the largest weight – 68.0%, foreign investments – 18.2%, bank credit – 5.9%, budget – 7.9%.

This situation underlines the importance in 2000 of investments made from internally generated funds (47.0% of the total in 1999) and the two-time reduction of foreign investment (compared to 36.0% of total investment in 1999). The modification of investments from bank credit (8.0% investment in 1999) and budgetary means (9.0% in 1999) is insignificant (chart 5).

Chart 5. Structure of capital investments



The value of **retail sales** increased insignificantly as compared to 1999 (by 0.1%) and amounted in 2000 to Lei 5770.2 millions. The 15.7%-increase in non-food product sales was offset by the 9.6%-reduction in food-product.

Retail sales via small traders amounted to Lei 2587.0 millions, and represented 44.8% of total retail sales.

Retail sales through entities subject to monthly recording went up by 0.3% and totaled Lei 3183.2 millions (55.2% of retail sales). Sales by joint ventures with foreign capital increased to 44.4% as compared to 1999. Public, private and joint (public and private) property enterprises' sales declined by 17.5%, 3.8% and 21.3% respectively.

Retail goods' stocks amounted to Lei 426.9 millions as on 31.12.2000, which is by 6.3% higher than as on 31.12.1999; this represented sales coverage for 39 days.

The **average nominal salary** in 2000 constituted as according to calculations Lei 407.0. As compared to 1999 this value is by 13.2% higher in real terms. The average salary in the budgetary sector amounted to Lei 292.2 or by 5.7% more than in 1999.

Salaries in agriculture and transport sector increased by 23.5% and 16.7% respectively in real terms. Production released on the account of salaries amounted to Lei 243.4 millions, out of which 61.1% - in agriculture.

The number of employees in 2000 reduced by 135.6 thousands persons and totaled 713.8 thousands. Staff reduction was recorded in all sectors of economy. The largest reductions were observed in agriculture (around 90.0 thousands persons), industry (16.7 thousands persons), health (around 10.0 thousands persons) and education (8.0 thousands persons).

As according to estimates of the International Labor Bureau the unemployment rate constituted around 9.0% in 2000. The number of officially unemployed persons at the end of the year totaled 28.9 thousands persons as compared to 34.9 thousands persons at the beginning of the year. The unemployment rate as according to data submitted by the Office of Labor Forces constituted 1.8%.

The **minimal consumer budget** increased by 9.0% in real terms and amounted to Lei 945. Within this budget, food products prevailed with the weight of 41.8%; non-food products and services constituted 27.9% and 30.3% respectively. The average nominal salary covered only 43.4% of the minimal consumer budget.

Evolution of Prices

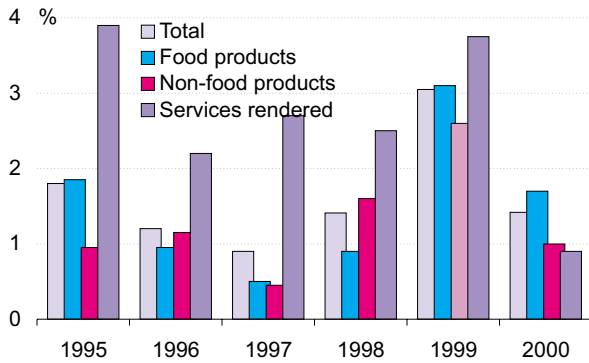
The increase in consumer prices in 2000 slowed to the end of the year and constituted 18.4% as against 43.7% in 1999. The average monthly inflation rate was 1.4% (table 1).

Table 1. Annual and monthly inflation rate, %

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Annual
1995	2.9	2.3	0.7	0.6	0.4	0.2	0.2	0.2	2.6	2.7	6.0	2.9	23.8
1996	3.5	2.5	1.1	1.1	0.8	0.1	0.1	-0.3	1.5	1.6	1.4	0.8	15.1
1997	1.9	1.4	1.0	0.8	0.6	2.0	-1.0	-0.8	1.2	0.9	1.1	1.5	11.2
1998	1.3	0.4	-0.1	0.7	0.2	-1.1	-1.4	-0.6	0.2	1.4	8.6	7.8	18.3
1999	5.4	1.5	0.6	2.0	4.1	7.2	2.5	0.7	1.7	2.1	4.3	5.0	43.7
2000	2.9	1.3	0.1	1.6	1.4	4.4	0.7	0.8	1.4	1.0	0.8	0.8	18.4

Price increases reached a pick in the first half of the year, especially in prices for food pro-

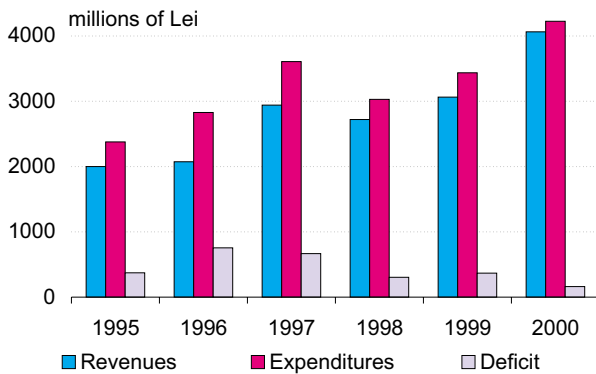
Chart 6. Average monthly inflation rate



ducts, which went up by 15.7% (including prices for wheat flour – by 2.1 times, for corn – by 66.4% and for meat, meat products and tins – by 18%). Prices for non-food products increased by 12.5% per annum, for fuel – by 17.3%, for paid services to the public– by 11.6% (as compared to 55.6% in 1999), including for water supply and sewerage – by 47.9%. The increase in services' prices has been the lowest since the beginning of structural reforms (chart 6).

Prices for industrial output in the domestic market at year-end exceeded those in December 1999 by 24.3% outrunning the increase in consumer prices by 5.9 percentage points. The food industry was the highest (with a 26.6% increase): meat and meat items production, processing and tinning got more expensive by 63.4%. The processing industry had to raise prices by 23.6% and electricity, gas and water – by 28.8% as a result of higher material costs determined by more expensive raw materials and transportation services for electricity (by 24%) and water and sewerage (by 48%). Against this background the monthly variation in prices for industrial output averaged 1.8%.

Chart 7. Consolidated budget indicators



Public Finance

According to the Ministry of Finance the consolidated budget deficit represented 1.01% of GDP. Revenues amounted to Lei 4064.2 millions, expenditures – to Lei 4225.7 millions (chart 7).

Budget Revenues. As compared to 1999, the consolidated budget revenues increased by around Lei 1 billion. Special destination grants amounted to Lei 132.4 millions or 3.3% of total consolidated budget revenues.

Tax revenues were 103.0% of projections; other revenues were 90.6% of projected outcomes.

Income tax amounted to Lei 539.8 millions or 108.7% of the annual projection, VAT – Lei 1332.6 millions (103.0%), excise duties – Lei 657.6 millions (107.4%).

Out of total consolidated budget revenues state budget totaled Lei 3134.2 millions or 77.1% and local budgets – Lei 1413.3 millions or around 22.9%.

Budget Expenditures. Continuous reforms, availability of revenue sources and state indebtedness servicing determined the austerity of the consolidated budget with regard to total budget expenditures.

The consolidated budget expenditures surpassed by Lei 790.6 millions or 23.0% the value in 1999. Expenditures related to foreign and domestic public debt servicing followed their increasing trend. In 2000 their value totaled Lei 1020.6 millions, which is 94.6% of annual projections and 117.7% of the 1999 level.

State budget expenditures amounted to Lei 3335.6 millions or 97.4% of 2000 projections and have grown by Lei 533.5 millions as compared to 1999, including Lei 153.7 millions for public debt servicing.

Expenditures of territorial administrative units in 2000 amounted to Lei 1372.7 millions or 101.8% of projections.

Budget Deficit. Over the three-year period the budget deficit to GDP ratio declined from 3.5% in 1998 to 3.0% in 1999 and to 1% in 2000.

The budget deficit includes the state budget deficit in the amount of Lei 201.4 millions and the surplus of local budgets in the amount of Lei 40.6 millions.

The state budget deficit has been financed mainly from sales of state securities.

Internal public debt totaled Lei 2022.2 millions as on 31.12.2000 and exceeded the 31.12.1999 figure by 5.8%. Loans from the National Bank of Moldova collateralized with SS amounted to Lei 1315.2 millions (65.0%); state securities in circulation amounted to Lei 707.0 millions (35.0%).

The increase of internal public debt was solely due to the 18.8% or Lei 111.7 millions increase of the value of state securities in circulation.

Internal public debt was serviced from consolidated budget in the amount of Lei 584.4 millions, which is by 1.3 times more than in 1999.

Consolidated budget expenses related to foreign debt servicing amounted to Lei 436.2 millions, which is by 1.0% less than in 1999.

External Debt

Gross external debt of the Republic of Moldova, including energy arrears, amounted as on December 31st, 2000 to US\$ 1561.0 millions, exceeding by US\$ 53.4 millions the level of the previous year.

External public (including debt on IMF facilities) and publicly guaranteed debt totalling US\$ 1021.8 millions held the largest share (65.5%) in total external debt stock. Private non-guaranteed debt (external non-guaranteed debt of commercial banks, legal entities and individuals, including debt for energy import) amounted to US\$ 539.2 millions, or 34.5% of total external debt. Compared with the previous year, this value reduced by Lei 1.6 millions.

Table 2. External debt of Moldova (millions of US\$)

	1997	1998	1999	2000
Loans from IMF	234.1	176.4	175.4	154.1
External direct debt	713.2	756.2	682.9	782.9
International organizations	257.5	293.6	356.7	379.3
IBRD and IDA	185.8	216.5	286.5	317.2
EBRD	5.5	6.7	9.7	10.6
EU	66.2	70.4	60.5	51.1
IFAD				0.4
Bilateral credits	178.4	187.8	203.2	211.5
USA	61.9	61.7	61.3	60.5
Japan	30.0	33.7	35.4	29.4
Russia	66.1	70.0	74.4	91.7
Other	20.4	22.4	32.1	29.9
other credits	32.3	51.9	48.0	27.1
long term state liabilities	245.0	222.9	75.0	165.0
Publicly guaranteed debt	71.5	76.7	89.4	84.8
International organizations	44.7	52.0	65.3	63.5
EBRD	44.7	52.0	65.3	63.5
other credits	27.0	24.7	24.1	21.3
Private non-guaranteed debt	53.2	100.7	124.6	205.6
Banking sector	11.0	28.6	8.7	5.9
other sectors	42.2	72.1	115.9	199.7
Debt for energy resources	221.1	332.8	416.2	333.6
External debt excl. debt for energy resources	1072.0	1110.0	1072.3	1227.4
Total external debt	1293.1	1442.8	1488.5	1561.0

As at the end of 2000, loans provided by multilateral creditors totalled US\$ 596.9 millions, or 38.2% of gross foreign debt. The share of IMF and World Bank loans constituted 25.8% and 53.1% respectively.

Bilateral credits held 13.7% of total amount and practically kept the level of the previous year.

The main external debt indicators recorded weaker performance as compared to 1999 as a result of ceased multilateral financing. Factors that had an impact upon the external debt evolution in 2000 were as follows:

1) downgrade of the sovereign rating by the international

Table 3. Moldova's external sector indicators

	unit	1997	1998	1999	2000*
Gross Domestic Product in current prices	mil. MDL	8917.0	9122	12322	15980
Gross Domestic Product	mil.USD	1928.8	1697.9	1170.8	1285.2
Exchange rate, annual average	MDL/USD	4.62	5.37	10.52	12.43
Current account balance/GDP	%	-14.3	-19.7	-3.8	-9.5
Current account excl. transfers/GDP	%	-17.1	-23.6	-11.1	-21.7
Transfers net/GDP	%	2.8	3.9	7.3	12.2
Balance of goods and services/GDP	%	-19.5	-25.6	-14.0	-27.4
Export of goods and services/Import of goods and services	%	73.8	64.6	78.9	64.4
Export of goods and services/GDP	%	54.8	46.7	52.4	49.6
Import of goods and services/GDP	%	74.3	72.4	66.5	77.1
Reserve assets/Import of goods and services	months	3.1	1.4	2.9	2.8
External debt***	mln.USD	1296.0	1444.0	1488.3	1561.0
External debt *** /GDP	%	67.2	85.0	127.1	121.5
External debt ***/population	USD	355	396	408	429
Debt service payments**/ Export of goods and services	%	16.8	28.4	40.9	22.9
External debt service / Export of goods and services	%	13.7	20.9	34.2	20.8

* Preliminary data.

** According to the schedule: includes principle on long-term loans and notes, interest on long- and short-term loans and notes

*** including debt for energy resources

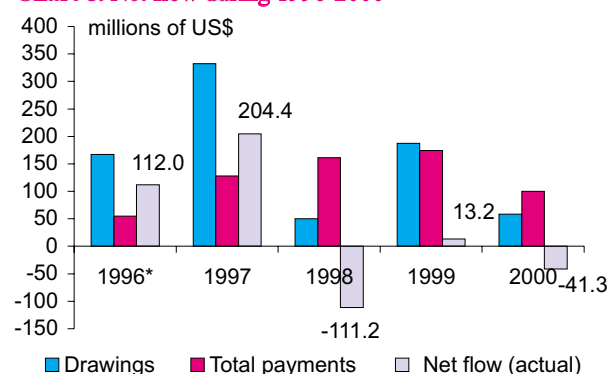
Source: NBM & DMFAS

Table 4. Moldova's rating in comparison with other countries in the region

	Moody's	FITCH-IBCA
Poland	Baa1	BBB+
Estonia	Baa3	BBB+
Latvia	Baa2	BBB
Lithuania	Ba1	BB+
Kazakhstan	B1	BB-
Bulgaria	B2	B+
Romania	B3	B
Russia	B3*	B
Moldova	B3	B-
Ukraine	Caa1	-

Note: * possible upgrade

Chart 8. Net flow during 1996-2000*



* Rectified as on 11.03.2001

rating agencies determined by worsening of the overall economic situation caused by political instability, slower path of structural reforms and ultimate failure to achieve forecast targets.

Moody's downgraded Moldova's foreign currency long-term rating from B2 to B3 in

2000. Romania and Russia, being in the same group with Moldova in 1999, were upgraded (table 4). In the region, Moldova's rating exceeded only Ukraine's one of Caa1. FITCH-IBCA downgraded Moldova's foreign currency rating in 1999 from B to B-, but kept the rating stable in 2000.

2) significant surpass of foreign debt servicing over disbursements

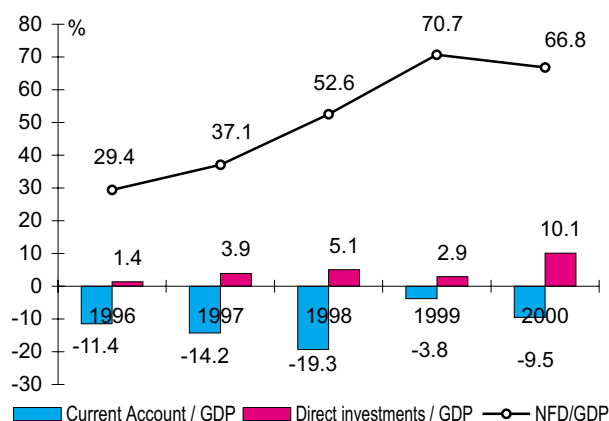
The net flow in 2000 recorded a negative value of – US\$ 41.4 millions as compared to the positive one of US\$ 13.2 millions in 1999 (chart 8). Despite the total lack of external financing over the year, the Republic of Moldova managed to stay externally solvent and be current on its debt obligations in 2000, which were much more sustainable as in 1999.

Moldova's external debt significantly fell under the level of the previous year. At the year-end, following the approval by the Parliament of the Law on privatisation of entities belonging to wine and tobacco industry, the multilateral creditors "unfroze" financing under current loans and approved additional external financing. Within this context, at the end of December 2000, the IMF Executive Board approved jointly with the World Bank a new three-year Poverty Reduction and Growth Facility package worth SDR 110.88 millions (about US\$ 142 millions). Under the new arrangement the IMF disbursed in the same month the first tranche totalling SDR 9.24 millions (about US\$ 12 millions). Following the IMF decision to resume lending, the World Bank disbursed the second tranche totalling SDR 19.2 millions within the SAC-II arrangement (Structural Adjustment Credit). In December 2000, the Republic of Moldova received about US\$ 31.1 millions under new credit arrangements. Another amount of US\$ 33 millions represented external financing under previously concluded loans within external public and publicly guaranteed debt.

3) the conversion into Government promissory notes of a part of Moldova's debt for energy resources. At the beginning of 2000 the Republic of Moldova issued Government promissory notes in favour of Russian OAO Gazprom in an amount of US\$ 90 millions. This issuance determined the considerable increase of gross external debt.

4) foreign debt indicators, such as net foreign debt to GDP (NFD/GDP), current account balance to GDP (Current Account Balance

Chart 9. External debt indicators



/ GDP) and foreign direct investments to GDP (FDI/GDP) showed no relevant trend (chart 9).

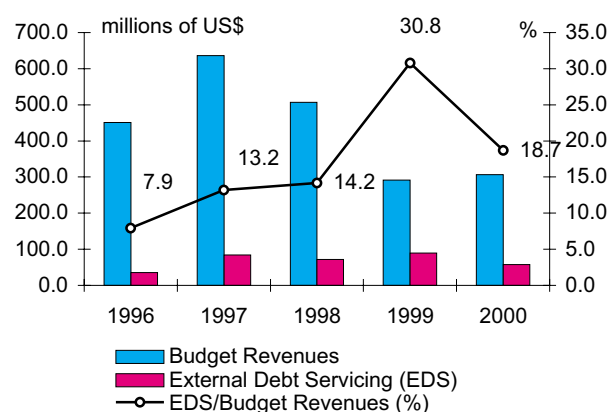
The NFD/GDP ratio registered a slight improvement as a result of larger current account deficit as against the initially expected one. This ration totalled US\$ 122.0 millions as compared to US\$ 334.6 millions in 1998.

The negative value of -9.5% of the Current Account Balance / GDP ratio in 2000 could not be compared to the ratio recorded in the previous year, as the 1999 current account deficit improved due to reduced imports determined by the 1998 regional crisis.

The debt-servicing burden in 2000 was aggravated by the total lack of external financing.

5) Budget revenues in 2000 in hard currencies slightly increased as compared to the previous year.

Chart 10. Development of budget revenues and ratio of external debt to them



The ratio External Debt Servicing / Budget Revenues significantly improved in 2000 recording 18.7% as compared to 30.8% in 1999, when that ratio reached its maximum level (chart 10).

The breakdown by maturity of Moldova's external debt showed the prevalence of long-term loans; out of these, loans with the maturity of 5 to 10 years and of 10 to 20 years held the largest weights.

The category of loans with the maturity of 5 to 10 years included loans provided by the IMF, Government of Russia, EU and notes to OAO Gazprom; loans provided by IDA and US Government were incorporated in the category of loans with the maturity of more than 20 years.

The breakdown by currencies indicated that the US\$ share remained prevailing with 61.8% of gross external debt and covered credits provided by the IBRD, Russian Federation and US Govern-

Table 5. External debt structure by date of maturity

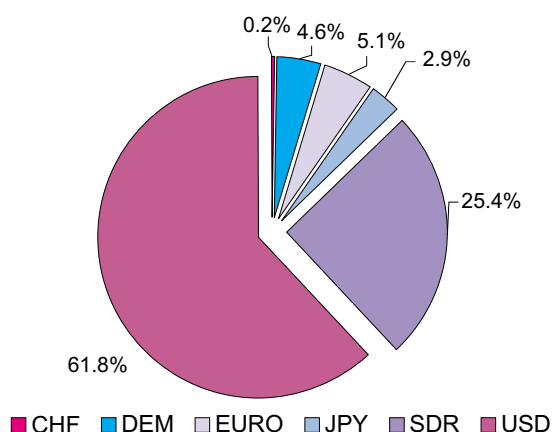
	1996		1997		1998		1999		2000	
	mil USD	%	mil USD	%	mil USD	%	mil USD	%	mil USD	%
Less than 1 year	0.1	0.0	0.1	0.0	1.1	0.1	1.2	0.1	1.2	0.1
1-5 years	60.0	7.6	113.2	11.2	84.8	8.8	77.1	8.2	76.9	7.6
5-10 years	397.5	50.1	529.4	52.5	303.1	31.2	351.6	37.4	393.2	39.0
10-20 years	273.7	34.5	268.8	26.7	481.7	49.6	372.9	39.6	370.4	36.7
More than 20 years	61.7	7.8	96.2	9.6	99.9	10.3	138.2	14.7	167.8	16.6

ment, Eurobonds and notes issued in favour of OAO Gazprom.

Further group of credits in SDR included IMF and IDA loans.

Loans denominated in EURO constituted 5.1% of external debt and covered loans from

Chart 11. Public external debt structure by currencies



EU and a part of publicly guaranteed debt. The share of other currencies was as follows: DEM - 4.6%, Japanese YEN - 2.9%, SFR - 0.2%.

Arrears of public and publicly guaranteed debt totalled to only US\$ 0.2 millions in 2000.

In 2000 Moldova held successful negotiations with a part of its creditors on rescheduling the terms of part of Moldova's debts. Within this context the Republic of Moldova signed on 18.08.2000 protocols with the German creditors AKA, KFW and Dresdner Bank AG, providing 15 years for principal repayment and 5 years as grace period for all debt owed to German creditors.

Balance of Payments

According to the evolution of the foreign sector of the Republic of Moldova and due to the open character of the national economy, the relationship with foreign countries cemented. The value of current transactions (excluding transfers) to GDP continued its increasing trend from 133.0% in 1998 to 137.05% in 1999 and 147.0% in 2000.

Table 6. Balance of payments of Moldova, (millions of US\$)

	1997	1998	1999	2000
CURRENT ACCOUNT	-274.8	-334.6	-44.6	-122.0
Trade Balance	-348.0	-388.1	-132.3	-306.5
Exports (FOB)	889.6	643.6	477.2	476.7
Imports (FOB)	-1237.6	-1031.7	-609.5	-783.2
Energy resources (exc. electricity)	-337.3	-244.6	-163.8	-192.1
Balance of Services	-28.3	-47.1	-32.1	-45.9
Export	167.8	149.7	136.8	161.3
Import	-196.1	-196.8	-168.9	-207.2
Income (net)	47.4	35.2	34.0	73.8
Including				
Compensation of employees	93.3	99.7	90.1	126.2
interest on state securities	-24.7	-27.4	-11.2	-10.8
interest on state loans	-33.6	-38.5	-40.4	-37.8
Current Transfers (net)	54.1	65.4	85.8	156.6
CAPITAL AND FINANCIAL ACCOUNT	278.5	346.3	69	115
Capital Transfers	-0.2	0.3	115.4	1.7
Direct Investments (net)	74.3	82.1	33.5	130.1
in national economy	74.7	81.4	33.6	130.2
Portfolio Investments (net)	233.6	-59.1	-139.9	91.8
Other Investments	22.9	100.3	113	-62.5
Including				
non-repatriated currency	-18.2	-52.0	-27.9	-7.6
Advances for undelivered imports	...	-38.2 [#]	-48.5	-18.4
long-term loans (net)*	9.4	0.3	84.7	123.4
Disbursed	137.5	172.4	267.0	221.5
Reimbursed	-128.1	-172.1	-182.3	-98.1
Modification of debt for energy resources**	-47.9	99.9	79.9	-82.6
Reserve Assets***	-52.1	222.6	-53.2	-46.1
ERRORS AND OMISSIONS	-3.7	-11.7	-24.4	7

* - inc. rescheduled loans,

** (+) - increase. (-) - decrease,

*** (-) - increase. (+) - decrease,

- data for QIII and QIV.

The main indicators of the balance of payments in 2000 are specified in accordance with preliminary data in table 6.

The current account balance recorded a deficit of US\$ 122.0 millions in 2000, surpassing by 2.7 times the level of 1999. The ratio of current account deficit to GDP was 9.5% as compared to 3.8% in the previous year. The deeper unbalance of foreign payments as against the previous year was due to the increase by 27.2% of goods' and services' imports. Exports exceeded the ones in 1999 by only 3.9%. The current account deficit was significantly attenuated by current transfers in form of humanitarian aid and technical assistance and compensation of Moldovan employees working abroad, the value of which increased by 82.5% and 40.0% respectively.

The capital and financial account recorded a surplus of US\$ 115 millions, exceeding by 1.7 time the value of the previous year and covering 94.3% of current account deficit. Main financial operations are characterized by large inflow of direct investments in national economy (US\$ 130.1 millions) due to privatization of energy sector, development of telecommunications and increase of regulatory capital of commercial banks (US\$ 19.3 millions).

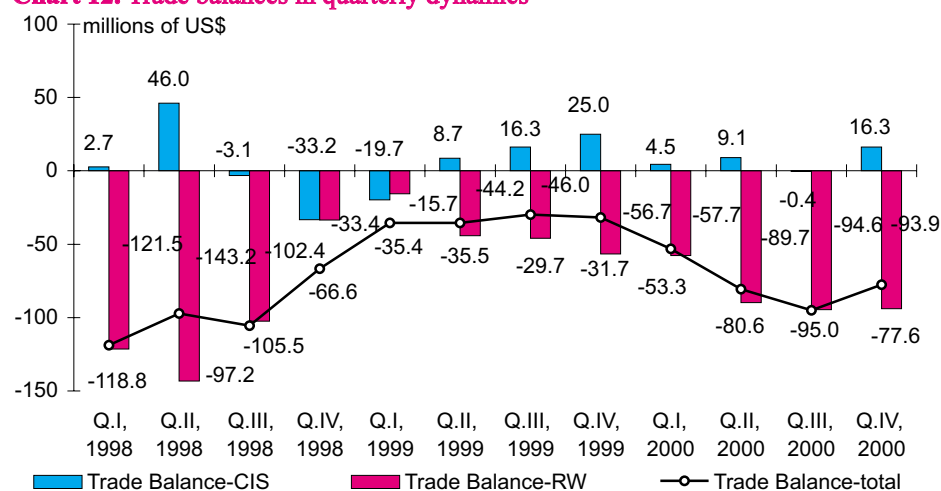
The issuance of state promissory notes in the amount of US\$ 90.0 millions in swap for the debt for gas supplied in 1996-1997 as well as Russia's loans rescheduling in the amount of US\$ 91.7 millions have dispersed in time the burden of foreign debt servicing.

The trade balance, the main component of the current account, continued to record increased deficit. The trade balance deficit exceeded by 2.3 times the level of 1999 due to larger imports of goods. The value of foreign trade amounted to US\$ 1259.9 millions; export totaled US\$ 476.7 millions and import totaled US\$ 783.2 millions. Although this value is by 15.9% larger than in 1999, it was still inferior to the one in 1998 (by 24.8%). While imports of goods increased by 28.5%, the exports value practically remained at the level of the previous year.

The increasing tempo of the value of imported goods during the first three quarters of 2000 surpassed the one of exported goods;

The increasing tempo of the value of imported goods during the first three quarters of 2000 surpassed the one of exported goods;

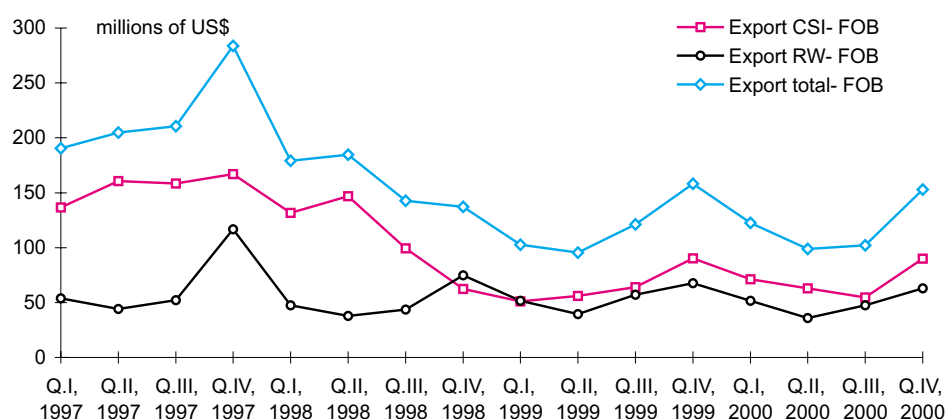
Chart 12. Trade balances in quarterly dynamics



yet, in the 4th quarter of exports growth exceeded imports one.

Geographically, Moldova developed its trade relations with the countries of the European Union: the value of exported goods commercialized on these markets totaled US\$ 102.8 millions or by 7.8% more than in 1999. The same increasing trend (by 8.7%) was recorded by trade relations with CIS states. The exports to Baltic countries increased by 7.7%, the ones to Central and East Europe reduced by 23.0%.

Chart 13. Exports of goods; quarterly developments



Exports kept their traditional structure: "food staffs" prevailed with 41.9%, "textiles" and "vegetables" kept 17.7% and 14.0% respectively.

Imports of goods increased by 28.5% in 2000 but still were lower by 24.1% than in 1998.

The share of goods imported from the countries of European Union and Central Europe increased; the one of goods from CIS and especially from Russia reduced.

Table 7. Exports by countries

	1997		1998		1999		2000	
	mln. USD	share, %	mln. USD	share, %	mln. USD	share, %	mln. USD	share, %
EUROPEAN UNION	89.4	10.2	82.4	13.0	95.4	20.6	102.8	21.8
including								
Austria	7.5	0.9	9.5	1.5	10.0	2.2	5.6	1.2
Germany	32.4	3.7	23.9	3.8	33.5	7.2	36.3	7.7
Greece	4.8	0.6	4.6	0.7	5.8	1.3	2.4	0.5
Spain	2.8	0.3	2.7	0.4	4.1	0.9	2.0	0.4
France	5.7	0.7	8.3	1.3	6.4	1.4	7.9	1.7
Italy	23.9	2.7	22.3	3.5	25.6	5.5	36.4	7.7
Netherlands	5.6	0.6	4.6	0.7	3.0	0.6	3.2	0.7
United Kingdom	1.3	0.1	2.6	0.4	3.9	0.8	5.4	1.2
CENTRAL and EASTERN EUROPE	94.2	10.8	79.8	12.6	81.9	17.6	63.1	13.4
including								
Bulgaria	10.0	1.1	2.8	0.4	5.3	1.2	3.6	0.8
Hungary	1.7	0.2	3.5	0.6	16.4	3.5	4.6	1.0
Romania	60.2	6.9	60.8	9.6	41.3	8.9	37.6	8.0
Poland	1.6	0.2	2.0	0.3	5.02	1.1	2.0	0.4
Baltic countries	20.9	2.4	7.8	1.2	9.1	2.0	9.8	2.1
CIS	608.3	69.6	428.9	67.8	253.7	54.7	275.7	58.5
including								
Russia	509.5	58.3	336.8	53.3	191.2	41.2	209.5	44.4
Ukraine	49.6	5.7	48.7	7.7	32.9	7.1	35.5	7.5
Byelorussia	35.4	4.1	31.9	5.0	21.8	4.7	21.8	4.6
OTHER COUNTRIES	82.2	9.4	41.3	6.5	33.2	7.1	29.9	6.3
including								
Canada	5.8	0.7	9.5	1.5	3.3	0.7	2.1	0.4
USA	58.2	6.7	18.1	2.9	14.5	3.1	15.6	3.3
Turkey	5.5	0.6	4.7	0.7	2.9	0.6	2.0	0.4
TOTAL	874.1	100.0	632.4	100.0	464.2	100.0	471.5	100.0

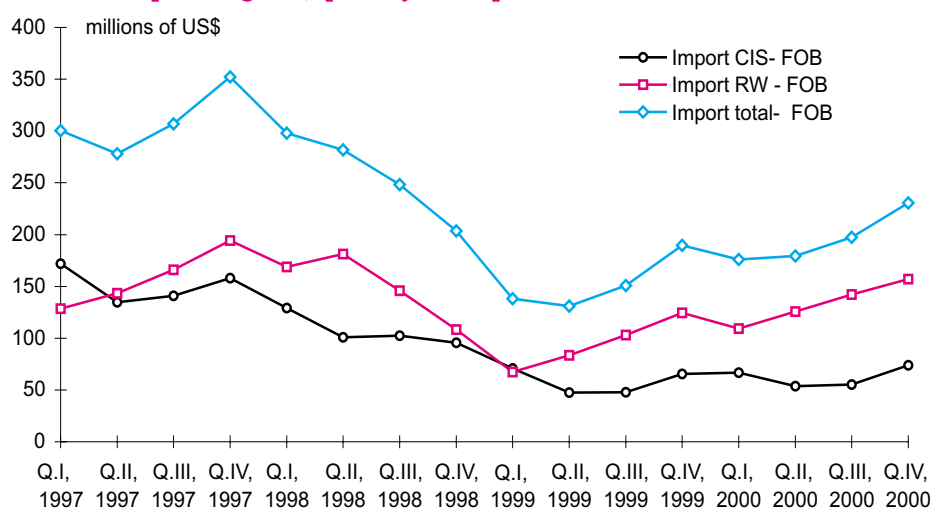
Source: SSAD (not include estimations on private exports)

Table 8. Exports by main groups of goods

	1997	1998	1999	2000	Share in total export of 2000	Year 2000 to year 1999
	mln. USD				%	
01 Livestock products	75.4	34.1	29.3	22.8	4.8	77.7
02 Vegetable products	75.3	71.7	68.0	66.0	14.0	97.0
03 Fats and oils	8.3	3.8	2.5	3.9	0.8	157.3
04 Foodstuffs	478.8	350.4	196.9	197.6	41.9	100.4
05 Mineral products	3.2	2.7	2.0	2.9	0.6	146.6
06 Chemical products	13.4	7.6	13.2	8.2	1.8	62.5
07 Plastic material	5.3	2.9	1.7	2.0	0.4	120.0
08 Raw and tanned leather	12.0	10.7	12.8	13.1	2.8	101.7
09 Wood, charcoal	0.5	0.6	0.8	0.8	0.2	102.2
10 Wood-pulp	3.5	2.5	1.8	2.0	0.4	115.0
11 Textiles	58.2	61.7	64.7	83.7	17.8	129.4
12 Footwear, hats	5.7	2.6	3.3	3.9	0.8	117.2
13 Gypsos and stone articles	12.1	9.6	10.0	14.6	3.1	147.1
14 Pearls	0.8	0.1	0.0	0.2	0.0	by 5.1 times
15 Common metals	8.6	9.2	16.5	11.7	2.5	71.0
16 Machines and equipment	45.7	41.0	27.3	24.4	5.2	89.1
17 Vehicles, air transport, transport	51.4	10.5	6.9	5.4	1.1	77.8
18 Optical tools and equipment	3.4	3.0	2.3	3.3	0.7	144.8
19 Arms and ammunition	5.3	0.0	0.8	1.4	0.3	172.0
20 Other goods and products	7.2	7.6	3.6	3.9	0.8	108.3
Total	874.1	632.4	464.2	471.5	100.0	101.6

Source: SSAD; FOB prices (not include estimations on private exports)

Chart 14. Imports of goods; quarterly developments



The main products acquired from foreign markets included: mineral products – 33.0%, equipment – 12.7%, textiles – 10.0%, chemicals – 9.6%, food staffs – 9.2%. The weight of mentioned products in total imports was 74.5%.

According to statistic data, the imports of energy resources (excluding electricity) increased by 17.3% as compared to 1999.

Natural gas still held the largest share in imported energy resources (36.9%); yet gas import reduced as compared to the previous year by 34.4%. Import of fuel and diesel from the rest of the world (Romania) increased by 2.1 times, the one from CIS reduced by 26.4%. Petrol imports from both geographical zones increased by 43.7% as compared to 1999.

The balance of services registered a deficit of US\$ 45.9 millions, which is by 43.0% more than in 1999. This deterioration was caused by the larger value of imported services (by 22.7%). The value of services rendered to non-residents increased by only 17.9%.

The income balance in 2000 recorded a surplus of US\$ 73.8 millions, which is by 2.2 times more than in 1999 due to the continuous increase of compensation of employees – Moldovan residents working abroad, estimated as US\$ 153.3 millions or by 39.6% more than in 1999. Interest to be paid to non-residents on notes previously issued by the Government of the Republic of Moldova amounted to US\$ 10.8 millions. The scheduled interest payments on external loans amounted to US\$ 37.8 millions.

Current transfers balance recorded significant inflows and closed with a surplus of US\$ 156.6 millions, which is by 1.8 times more than in the previous year. The positive balances of current transfers and income covered 65.4% of deficit registered by the balance of trade with goods and services.

Grants and technical assistance provided to Moldova by international entities and foreign governments amounted to US\$ 90.5

Table 9. Imports by countries (CIF prices)

	1997		1998		1999		2000	
	mil. USD	share, %	mil. USD	share, %	mil. USD	share, %	mil. USD	share, %
EUROPEAN UNION	230.1	19.2	268.8	26.5	157.3	26.8	220.9	28.4
including								
Belgium	9.7	0.8	5.1	0.5	4.1	0.7	6.5	0.8
Austria	14.6	1.2	33.6	3.3	5.3	0.9	7.9	1.0
Germany	95.4	7.9	91.8	9.1	67.1	11.4	95.6	12.3
Greece	8.4	0.7	6.5	0.6	7.4	1.3	12.3	1.6
Spain	14.6	1.2	18.7	1.9	1.6	0.3	4.7	0.6
France	11.5	1.0	18.9	1.9	11.4	2.0	10.1	1.3
Italy	41.8	3.5	55.7	5.5	34.0	5.8	44.1	5.7
Netherlands	12.3	1.0	13.7	1.4	11.4	1.9	10.1	1.3
United Kingdom	5.5	0.5	6.4	0.6	8.6	1.5	6.4	0.8
CENTRAL and EASTERN EUROPE	240.7	20.1	231.5	22.9	143.7	24.5	210.0	27.0
including								
Bulgaria	62.9	5.2	31.4	3.1	9.9	1.7	14.8	1.9
Hungary	22.6	1.9	39.8	3.9	10.2	1.7	16.8	2.2
Romania	109.1	9.1	119.6	11.8	90.3	15.4	134.3	17.3
Poland	15.1	1.3	11.4	1.1	8.5	1.4	11.0	1.4
Baltic countries	13.2	1.1	11.2	1.1	9.2	1.6	13.6	1.8
CIS	633.0	52.7	448.8	43.8	238.4	40.6	258.4	33.2
including								
Russia	316.8	26.4	221.8	21.9	132.9	22.7	110.4	14.2
Ukraine	249.8	20.8	168.5	16.1	82.8	14.1	112.4	14.5
Byelorussia	52.0	4.3	52.9	5.2	21.3	3.6	32.7	4.2
OTHER COUNTRIES	96.3	8.0	68.6	6.8	47.3	8.1	88.1	11.4
including								
USA	35.2	2.9	27.7	2.7	15.0	2.6	42.6	5.5
Turkey	13.3	1.1	10.6	1.1	10.5	1.8	18.9	2.4
TOTAL	1200.1	100.0	1017.7	100.0	586.7	100.0	777.4	100.0

Source: SSAD (selections made by exporter- country; excl. estimations on private imports, incl. some adjustments on imports of energy resources and of equipment)

Table 10. Imports by main groups of goods

	1997	1998	1999	2000	Share in total import of 2000	Year 2000 to year 1999
	mln. USD				%	
01 Livestock products	22.1	17.3	6.5	10.8	1.4	165.9
02 Vegetable products	37.3	16.4	11.2	25.6	3.3	229.2
03 Fat and oil	4.4	3.1	2.0	2.4	0.3	119.9
04 Foodstuffs	88.4	56.7	18.5	71.5	9.2	386.5
05 Mineral products	439.3	330.1	232.1	256.4	33.0	110.5
06 Chemical products	112.8	92.7	45.8	74.9	9.6	163.5
07 Plastic material	36.6	33.2	20.1	23.8	3.0	118.0
08 Raw and tanned leather	3.1	2.2	2.6	2.5	0.3	93.5
09 Wood, charcoal	19.7	15.3	6.1	9.9	1.3	164.2
10 Wood-pulp	48.3	46.5	21.5	27.8	3.6	129.2
11 Textiles	61.6	63.0	66.4	77.5	10.0	116.7
12 Footwear, hats	3.7	3.0	2.3	2.4	0.3	104.1
13 Gypsous and stone articles	46.2	34.7	13.4	16.7	2.1	124.6
14 Pearls	2.0	1.3	1.1	1.5	0.2	131.5
15 Common metals	51.8	41.3	24.9	31.5	4.1	126.7
16 Machines and equipment	154.1	184.5	69.3	98.6	12.7	142.1
17 Vehicles, air transport, transport	35.0	46.6	12.2	15.5	2.0	127.3
18 Optical tools and equipment	20.3	16.6	22.5	19.2	2.5	85.0
19 Arms and ammunition	5.2	2.6	0.1	0.3	0.0	188.0
20 Other goods and products	8.3	10.6	8.1	8.8	1.1	109.2
Total	1200.1	1017.7	586.7	777.4	100.0	132.5

Source: SSAD data; CIF prices (exclude estimations on private imports, incl. adjustments on imports of energy resources and of equipment)

Chart 15 . Import of main types of energy resources (FOB prices)

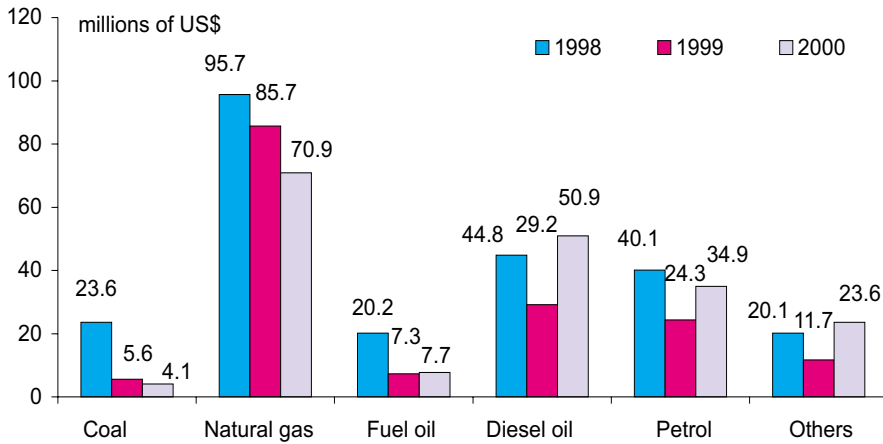


Chart 16 . Current account's yearly developments

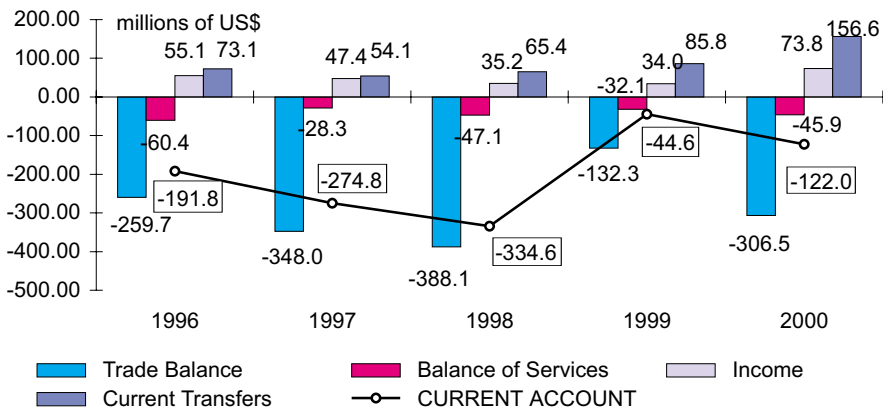
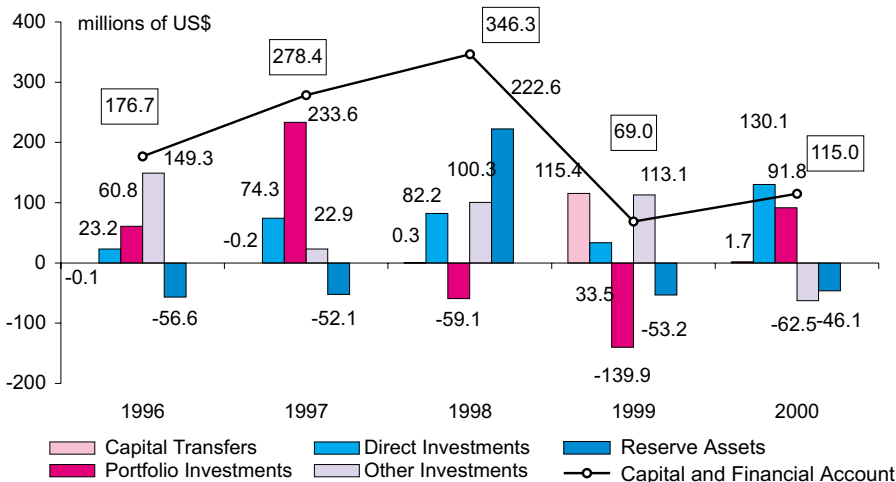


Chart 17 . Yearly developments of capital and financial account



millions. The humanitarian aid registered by customs statistics totaled US\$ 49.7 millions, which is by 54.8% more than in the previous year.

The evolution of current account components during the last five years is presented in chart 16.

The main components of the capital and financial account had a dissimilar impact on the formation of this account's excess balance in the amount of US\$ 115.0 millions.

The balance of payments in 2000 is characterized by a 3.9-time increase of direct investments in Moldova that totaled US\$ 130.1 millions.

The majority of direct investments were made into equity capital – US\$ 77.9 millions, especially in other sectors (US\$ 62.5 millions), where considerable inflows were generated by the privatization of electric networks.

Loans received by private enterprises from their foreign parent companies (investments in form of other capital) recorded significant increase from US\$ 7.7 millions in 1999 to US\$ 57.6 millions in 2000.

Portfolio investments totaled US\$ 91.8 millions in net value. The issuance by the Ministry of Finance of state promissory notes in an amount of US\$ 90.0 millions for natural gas supplied from 1996 to 1997 and their transfer to the Russian JSC Gazprom determined the net value of this item. Non-residents (that held less than 10.0% of equity capital) acquired during the year shares in a value of US\$ 5.6 millions; out of this, shares of commercial banks totaled US\$ 2.1 millions, shares of entities from other sectors totaled US\$ 3.5 millions.

The increase of residents external assets determined the negative balance of other investments in the amount of US\$ 62.5 millions; the net value of liabilities to non-residents was insignificant.

As Moldova's foreign financing by international entities was blocked almost the whole year, the net loans inflow was much lower than in 1999 (by 69.0%) and totaled US\$ 23.5 millions (without rescheduled loans).

In the governmental sector loans disbursements surpassed reimbursements by US\$ 10.5 millions (excluding rescheduled loans) due to the disbursement of US\$ 19.5 millions of the SAC Loan

Table 11. Direct investments: yearly dynamics (millions of US\$)

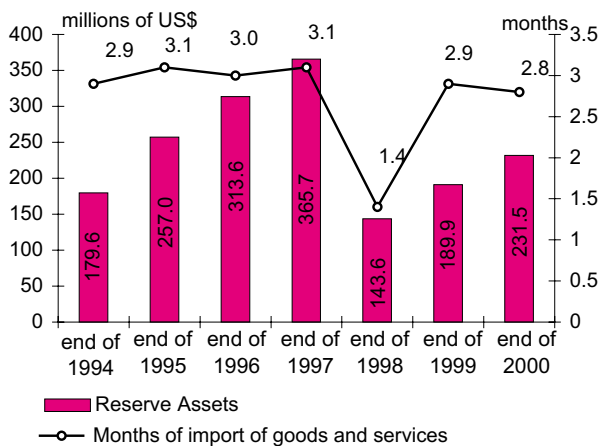
	1997			1998			1999			2000		
	inflow	outflow	net	inflow	outflow	net	inflow	outflow	Net	inflow	outflow	net
Direct Investments	75.3	-1.1	74.2	89.3	-7.2	82.1	49.0	-15.5	33.5	141.8	-11.6	130.1
<i>abroad</i>	0.0	-0.5	-0.5	1.7	-1.0	0.7	0.1	-0.2	-0.1		-0.1	-0.1
<i>in national economy, including:</i>	75.3	-0.6	74.7	87.6	-6.2	81.4	48.9	-15.3	33.6	141.8	-11.6	130.2
Equity capital	69.5		69.5	57.4	-0.8	56.6	36.8		36.8	79.8	-1.9	77.9
Banking sector	16.1		16.1	16.1	-0.6	15.5	7.0		7.0	17.2	-1.8	15.4
Other sectors	53.4		53.4	41.3	-0.2	41.1	29.8		29.8	62.6	-0.1	62.5
reinvested earnings	0.9		0.9	4.5		4.5	4.4		4.4	4.4		4.4
other capital	4.9	-0.6	4.3	25.7	-5.4	20.3	7.7	-15.3	-7.6	57.6	-9.7	47.9
banking sector							1.3	-0.1	1.2			
other sectors	4.9	-0.6	4.3	25.7	-5.4	20.3	6.4	-15.2	-8.9	57.6	-9.7	47.9

Table 12. External loans (millions of US\$)

	Disbursed	Reimbursed *	Disbursed	Reimbursed *	Disbursed	Reimbursed *	Disbursed	Reimbursed *
Loans	20.6	20.0		64.4	69.9	65.2	12.2	25.1
Governmental loans	81.5	102.2	141.3	83.5	96.8	58.4	153.9	40.9
Including								
Rescheduled	3.4	2.9	44.8	15.0			114.0	11.5
Reclassified			39.0		4.0			
Banking loans	18.2	16.6	43.2	25.4	18.7	38.8	14.5	18.0
Long term	7.9	11.5	16.3	3.8	5.5	17.4	5.8	9.6
Short term	10.3	5.1	26.8	21.6	13.2	21.4	8.7	8.4
Other sectors' loans	58.9	20.2	49.3	59.8	104.8	48.3	58.2	29.6
Long term	49.5	13.1	44.8	53.7	94.9	41.3	49.6	22.4
Including								
reclassified / rescheduled			0.6	39.3	0.5	1.4		0.8
short term	9.4	7.1	4.5	6.1	10.0	7.0	8.6	7.2
TOTAL	179.2	159.0	233.8	233.1	290.2	210.7	238.8	113.6
Without rescheduled and reclassified loans	175.8	156.1	149.4	178.8	285.7	209.3	124.8	101.3

* according to the agreement

Chart 18. Dynamics of reserve assets of Moldova



from the World Bank and the restructuring of an important part of foreign debt. The foreign debt restructuring includes the rescheduling of governmental loans in the total amount of US\$ 114.0 millions; out of this, the Russian loans restructuring totaled US\$ 91.7 millions.

The reimbursement of loans previously received by commercial banks exceeded their disbursement by US\$ 3.6 millions.

Drawings on long-term loans in other sectors with and without governmental guarantee totaled US\$ 7.5 millions and US\$ 42.1 millions respectively. New drawings in other sectors exceeded by 2 times the reimbursement of previously received loans.

Reserve assets increased by US\$ 41.6 millions in net value in 2000. Payments related to foreign debt servicing from the account of reserve assets amounted to US\$ 87.2 millions or by 43% less than in 1999. The stock of reserve assets at the end of the year (in gross value) totaled US\$ 231.5 millions and covered 2.8-month of imports of goods and services.

II. Activity of the National Bank of Moldova

Monetary Policy Implementation in 2000

Monetary Policy Objectives and Results

Monetary policy implemented in 2000 was in line with the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2000 approved by the Council of Administration of the National Bank of Moldova on 30.12.1999. This policy was coordinated with the Government economic and financial entities, taking into account national economy trends. Due to persisting difficulties in economy's real sector, the monetary policy was targeted to reduce inflation, to stabilize the foreign exchange market and to consolidate the banking system against the background of relative macroeconomic stability.

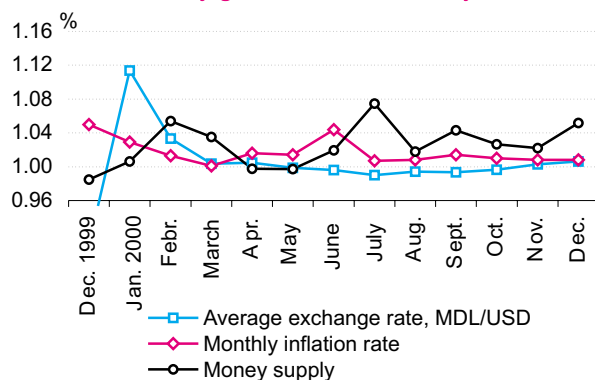
In accordance with the current legislation, the main objective of the National Bank of Moldova is to achieve and maintain the stability of the national currency by establishing monetary, credit and foreign exchange market conditions conducive to market-based principles.

The pillars of the Monetary and Foreign Exchange Policy for 2000 were the Forecast of the Government of the Republic of Moldova (GDP real growth by 2% and GDP nominal value of Lei 14900 millions), the Law on the Budget for 2000 (budget deficit of 380 millions financed from domestic and foreign loans and privatization proceeds) and the inflation forecast of 15%. The Monetary and Foreign Exchange Policy for 2000 provided a reduction of the Government debt to the National Bank of Moldova² of 188 millions, thereby directing money resources to credit commercial banks and, ultimately, the real sector of economy.

The dynamics of gross domestic product (GDP), the state of balance of payments, especially of the trade balance, the evolution of prices and the path of economic reforms in 2000 have failed to be in line with the macroeconomic forecast and have affected the implementation of the Monetary and Foreign Exchange Policy of the National Bank for 2000.

Inflation reached 18.4% in 2000, surpassing the projected level of 15%. This was due to both non-monetary factors – administrative rise of prices for services, imported inflation through increased oil prices on the world markets that affected production costs, and monetary factors – increase of reserve money, especially following the acquisition of foreign exchange by the National Bank of Moldova. There was a noticeable decrease to only 15% of the correlation between monthly inflation and exchange rate during the period of 1999 to 2000. The correlation between the monthly growth rate of money supply (M3) and inflation rate also went down to 37% considering the 2-month lag (chart 19). Moldovan Leu depreciated by

Chart 19. Monthly growth rate of monetary indicators



² Government debt to the National Bank of Moldova – payment claims of the NBM to the Government, including credits extended and SS held in the NBM portfolio, excluding Government deposits.

6.8% as against US\$ compared with the 18.4% annual inflation level, registering a considerable appreciation in real terms – 7.5%.

Net foreign assets increased considerably during the 1st half of 2000 to US\$ 37.4 millions following the purchases by NBM of foreign exchange in an amount of US\$ 28.3 millions. That determined the rise by 117 millions (7.8%) of reserve money and by Lei 284.5 millions (11.4%) of money supply. The value of credits to economy rose by Lei 160.0 millions or by 9.8%.

Reserve money, currency in circulation and respectively money supply followed an upward trend during the 2nd half of 2000. During the reported period money supply and reserve money increased by Lei 720.8 millions and Lei 330.3 millions respectively (or 25.8% and 20.4% respectively). As a result the monetisation level went up from 17.5% in June to 22.1% at the year-end. The National Bank of Moldova bought in the 2nd half of 2000 foreign exchange in an amount of US\$ 31.5 millions and issued over Lei 390 millions that lead to a considerable increase in commercial banks' excess reserves. Consequently, commercial banks increased the amounts of credits extended to economic agents and intensified their activity on state securities' primary market. Thus, the value of credits to economy in the 2nd half of 2000 rose by Lei 495.4 millions or by 27.6%. In order to absorb the liquidity excess, the National Bank performed during this period open market operations by selling state securities in an amount of Lei 129.5 millions, including Lei 71 millions during November to December.

The economy's larger demand for money determined the NBM to adjust its money supply against the initially one approved in the monetary policy. In conditions of a decrease of the annual velocity by 7.5%, the annual inflation reduced by 17.6% as compared with the previous year, thus confirming the compliance of money supply with the main target of monetary policy.

The Monetary and Foreign Exchange Policy of the National Bank for 2000 provided the reduction of Government debt to the NBM by Lei 188 millions or by 12%. Yet, the Law on Budget Rectification for 2000 of 08.12.2000 specified the non-reimbursement of credits by the Government. This lead to a change in the current situation with regard to the initially approved Monetary and Foreign Exchange Policy.

Taking into consideration the evolution of the national economy of the Republic of Moldova, the dynamics of GDP formation, the execution of the budget for 2000 and especially the non-disbursement of foreign credits in the initially provided amount in the approved monetary policy, the shortfall of privatization proceeds and the rectification of the Law on the Budget for 2000, the Council of Administration of the National Bank of Moldova revised in December 2000 the Monetary and Foreign Exchange Policy for 2000 as follows:

- money supply in the amount of Lei 3551 millions;
- reserve money in the amount of Lei 1963 millions;
- credits to economy in the amount of Lei 2304 millions (chart 20).

The disbursement of foreign loans by international financial institutions by the end of 2000 and some privatization proceeds allowed

Chart 20. Monetary policy implementation in 2000

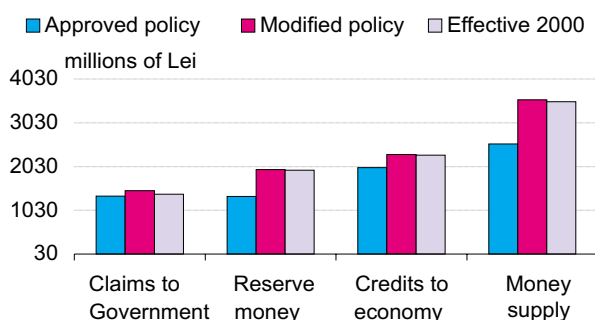


Chart 21. Evolution of Claims to Government in 2000

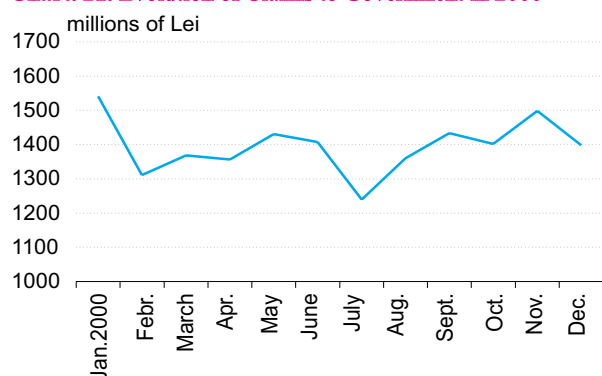


Chart 22. Dynamics of monetary indicators in 2000

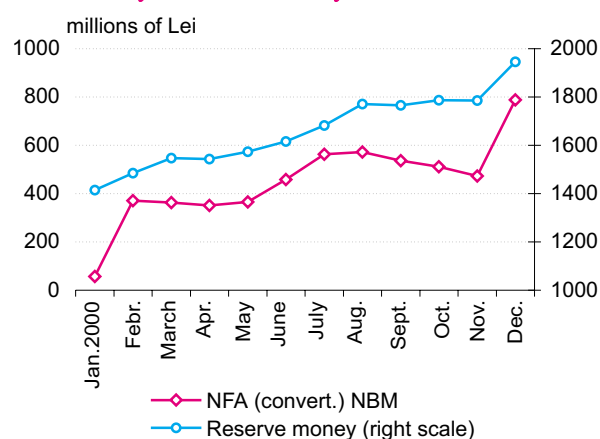
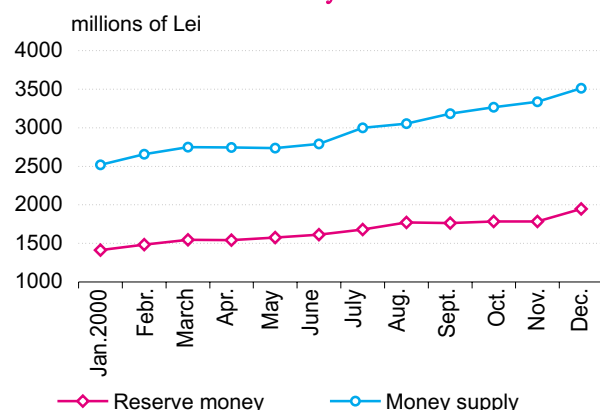


Chart 23. Evolution of monetary indicators in 2000



to service the state external debt and to keep the Claims to the Government at a relative stable level (chart 21). At the same time, the weight of the Government debt to the NBM in the net internal NBM credit exceeded the level of 80.9% provided in the initially approved Monetary and Foreign Exchange Policy for 2000. As a result, 95.7% of the NBM net domestic credit was represented by credits extended to finance the public sector.

The National Bank of Moldova has implemented its Monetary and Foreign Exchange Policy for 2000 under a free-floating exchange rate regime that allowed to achieve equilibrium of the reference rate of the national currency and created good preconditions for consolidation of foreign exchange reserves. Monetisation in 2000 went up from 20.3% in 1999 to 22.1% at the year-end and reflected the increase by Lei 1005.3 millions or by 40.1% of money supply. The increase of Net foreign assets of NBM and of commercial banks was the main factor that determined the money supply expansion. The significant inflow of foreign exchange during the year was determined by direct and portfolio investment (including in the banking sector), repatriation of export proceeds and considerable current transfers (labor income from abroad) that exceeded previous estimates. Under such circumstances, the National Bank intervened on the foreign exchange market as a buyer in order to prevent a sudden appreciation of the national currency. Following the purchases of foreign exchange on the interbank foreign exchange market in the amount of US\$ 66.6 millions, the National Bank of Moldova increased its foreign exchange reserves by US\$ 41.6 millions or by 21.9% and reached the level of US\$ 231.5 millions at the year-end. Taking into consideration that the Government and the National Bank of Moldova have integrally paid their current foreign commitments, the increase by Lei 447 millions or by 29.8% of the monetary issuance by the NBM was mainly conditioned by purchases of foreign exchange, that determined the 10-time increase of NBM net foreign assets (chart 22).

In an environment of an upward trend of the monetary multiplier of 8% determined by the reduction of the liquidity coefficient from 0.81 to 0.72 in 2000 and of banking reserves from 0.27 to 0.23, the modification of money supply was strongly correlated with the evolution of reserve money (chart 23). At the same time, in accordance with the NBM decision, commercial banks face larger liquidity following the transfer since 21 September 2000 of required reserves from NBM accounts to banks' correspondent accounts and since 1 November 2000 following the reduction of required reserves ratio from 15% to 13%.

Following the increase of reserve money that determined larger average amounts on commercial banks' correspondent accounts and with a view to reducing inflationary expectations, the National Bank of Moldova performed during the year sterilization open market operations through sales of SS and REPO-selling operations with SS in an amount of Lei 216.1 millions.

The monetary policy implemented during 2000 contributed to a gradual decrease of interest rates on the credit market from 35.3% down to 32.4% by year-end. The spread on banking intermediary operations stayed at the same high level of the previous year due

Chart 24. Dynamics of monetary indicators in 2000

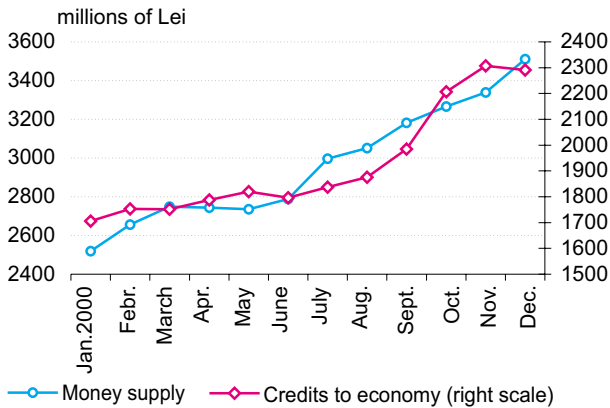
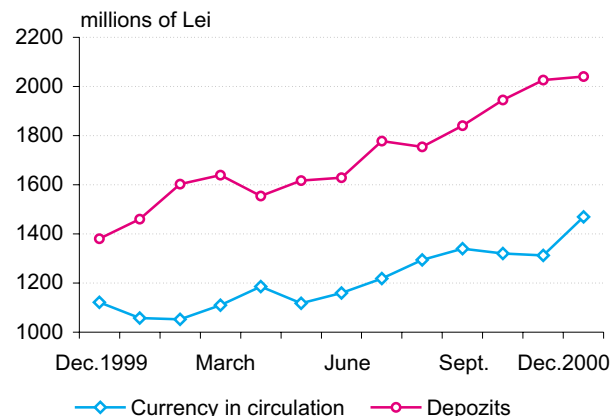


Table 13. Structure of money supply (millions of Lei)

	1999	2000	Increase %	Absolut increase
Money supply	2504.3	3509.6	40.1	1005.3
Currency in circulation*	1122.0	1469.3	31.0	347.3
Deposits	1380.2	2040.1	47.8	659.9
in MDL	687.0	1045.0	52.1	358.0
in foreign currency	693.2	995.2	43.6	302.0
Money market instruments	2.1	0.2	-90.5	-1.9

*less currency inside NBM and commercial banks vaults

Chart 25. Dynamics of Money Supply Components



to persisting crediting problems related to high risk and collateral quality.

Lower interest rates on the money and credit markets and reduced inflationary expectations indicated money sufficiency in economy, which nevertheless had not contributed to a rise of inflation level.

According to the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2000, the expected increase of credits to real sector served as precondition to re-launch the national economy. Credits to economic agents rose in 2000 by Lei 656 millions or by 40.1%, including credits in national currency – by Lei 382.5 millions of by 39.2% (chart 24).

The monetary policy implemented by NBM during the year was aimed to ensure financial stability and to create conditions for sustained economic growth. The achievement of relative financial stability in 2000 was supported by a balanced fiscal policy.

The upward trend of money demand developed against the background of the reduction of the average monthly inflation rate from 3.1% in 1999 to 1.4% in 2000. This situation determined the rise by 18.4% of money supply in real terms.

The evaluation of economic developments and results of 2000 indicates that monetary and foreign exchange indicators are, in general, in line with national economy trends and contributed to the achievement of macroeconomic stability.

Dynamics of Monetary Indicators

The implementation of Monetary and Foreign Exchange Policy for 2000 resulted in the achievement of the main objectives related to monetary indicators. Thus, the increase of reserve money and of money supply constituted 29.8% and 40.1% respectively. The GDP nominal value increased by 29.7%.

The analysis of dynamics of money supply components: currency in circulation and deposits allows to determine the main factors that conditioned the money supply changes. (table 13).

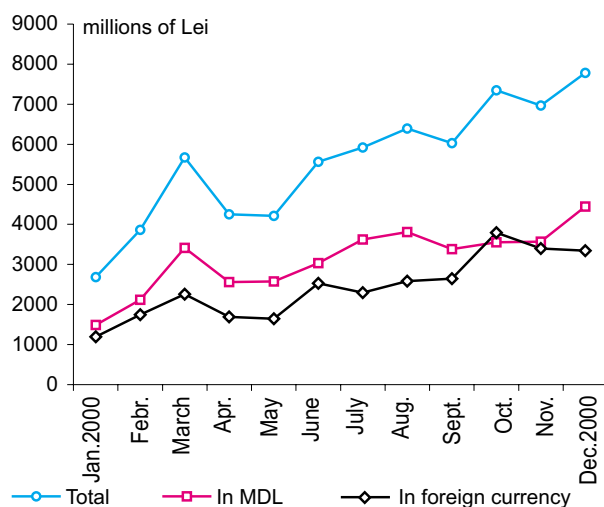
Structure of Money Supply

Money supply recorded considerable increase during the reported period – by Lei 1005.3 millions or by 40.1% and totaled Lei 3509.6 millions. As result, monetization that characterizes money sufficiency in economy increased from 20.3% in 1999 to 22.1% in 2000.

Currency in circulation increased by 31.0% and totaled Lei 1469.3 millions, while inflation was to 18.4% per year. Thus, the larger value of currency in circulation conformed to money demand and did not have any inflationary pressures. The weight of currency in circulation reduced from 44.8% to 41.9%. The liquidity ratio decreased from 0.81 down to 0.72.

Structurally, money supply kept the same tendencies: the deposits' increasing tempo was more accelerated than the dynamics of currency in circulation (chart 25). The total value of deposits increased by 47.8% (659.9 millions or 65.6% of money supply total increase)

Chart 26. Evolution of attracted deposits with commercial banks



and amounted to Lei 2040.1 millions. Structurally both deposits in lei and in foreign currency recorded increases: by 52.1% and 43.6% respectively. The increase of deposits in foreign currency was due to the larger physical value of deposits and partially due to the depreciation of the national currency. Expressed in US\$ these deposits increased by US\$ 20.6 millions or by 34.4% (chart 26).

The superior dynamics of national currency deposits compared with the one of foreign currency deposits conditioned the reduction of deposits' dollarization from 50.2% in December 1999 to 48.8% in December 2000.

The dollarization of money supply and of deposits is shown in chart 27.

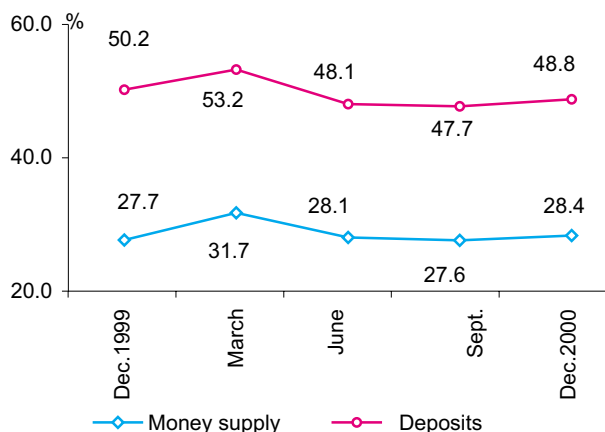
The money supply dollarization evolved from 27.7% in December 1999 to 31.7% in March 2000, decreasing by year-end and constituting 28.4% in December 2000.

The highest dollarization level of money supply and of deposits was reached in the 1st quarter (March) and constituted 31.7% and 53.2% respectively. These figures denoted the increase of foreign assets of commercial banks.

On the background of a 6.8%-depreciation of the national currency as against US\$ and of a 18.4% - annual inflation, money supply in lei (M2) increased by 38.8% compared with December 1999 and recorded a 17.2% increase in real terms.

M2 components – currency in circulation and deposits in lei increased in real terms by 10.6% and 28.5%.

Chart 27. Dollarization of money supply and deposits



Attracted Deposits and Credits to National Economy

One of the main functions of banks is the attraction of temporary available money resources from legal entities and individuals and their use to credit economy. Commercial banks attracted during the reported period deposits in a total value of Lei 2037.0 millions or by 1.8 times more than in the previous year. Such an appreciable value was due to the increase with equal tempos of both components (time deposits in national currency and in foreign currency).

The largest weight in total time deposits with commercial banks is held by deposits with 1 to 3 month term (30.4%).

In the structure of time deposits, deposits in foreign currency prevailed with 60.3%.

The total value of time deposits evolved practically similar with the one of deposits in foreign currency (chart 28). The weight of the latter in total deposits varied within 39.0% and 71.3%, except in April, when the total value of time deposits reduced by 5.7% compared with March, while the value of deposits in foreign currency increased by 46.4%. Expressed in US\$, time deposits in foreign currency increased by US\$ 33.3 millions or by 50.8% compared with 1999.

The evolution of deposits in national currency was relatively stable; larger increases were recorded in March and September (by 97.3% and 32.2% respectively) mainly on account of deposits by legal entities. The largest reduction was recorded in April (39.1%).

Chart 28. The evolution of term deposits

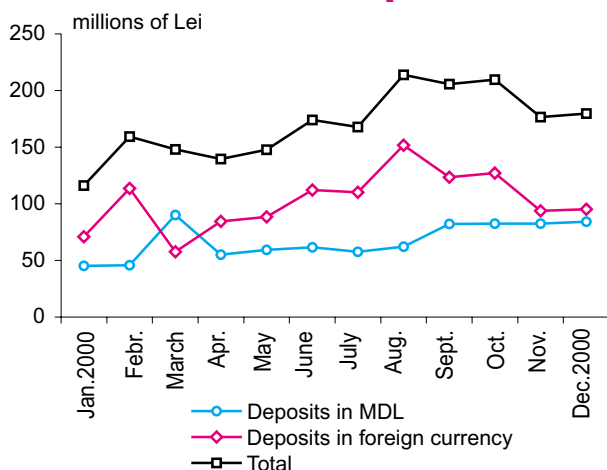
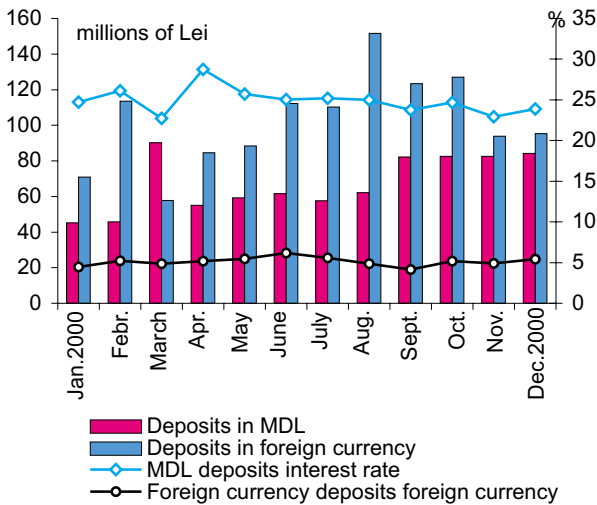


Chart 29. Dynamics of term deposits with commercial banks and interest rate



The dynamics of deposits based on interest evolution (chart 29) shows a reduced correlation between interest rate and attracted amounts. Yet, the value of deposits was highly affected by the evolution of the exchange rate of MDL as against US\$ that had a depreciation trend in the 1st quarter of 2000 and was relatively stable in the second half of the year.

The effective value of credits provided to economy by commercial banks increased by 2.2 times and amounted to Lei 2870.9 millions. The value of credits provided in lei during the reported year doubled and totaled Lei 1782.4 millions; at the same time the value of credits provided in foreign currency increased compared with 1999 by 2.5 times (expressed in US\$ - by 2.15 times) (chart 30). Although the growth rate of credits in national currency was slower, these credits held a larger weight and constituted 62.1% of total credits.

In the first half of the year when the average interest rate on credits extended in MDL was relatively stable at 34.7% on the average, the volume of credits registered a modest increase up to 626.5 millions. The second half of the year, characterized by a slight decrease of interest rates (32.5% on the average), closed with an increase of credit volume by 1.8 times as compared with the 1st half of the year that totaled Lei 1155.9 millions.

Analyzing the volume of extended credits and their maturity, credits with the term of 6 to 12 months prevailed and amounted to Lei 727.7 millions (40.8% of total credits in lei).

As a rule, commercial banks provide credits to their clients from own resources. The ratio of liquid assets to total banking assets confirms the availability of money resources in commercial banks to extend credits. This index constituted 35.5% on 29.12.2000 (compared with 39% on 31.12.1999).

Despite the large increase of newly extended credits, the stock of credits to economy increased by only 40.1%, including those in national currency – by 39.2% and in foreign currency – by 41.5% (expressed in US\$ - by 32.6%).

The analysis of economy lending by commercial banks includes also the lending structure according to sectors (table 14).

Chart 30. Credits to economy

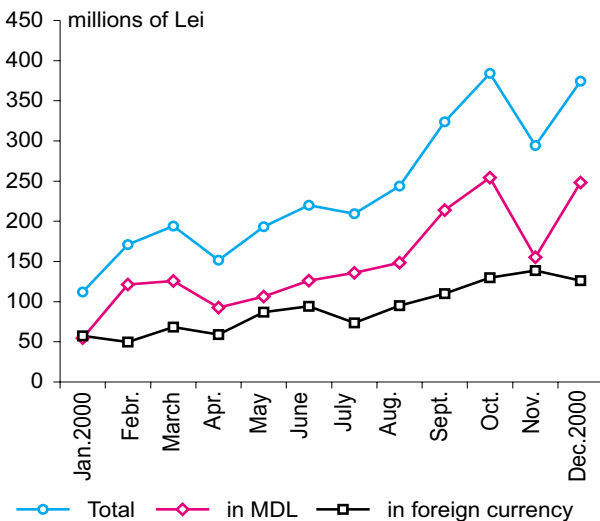


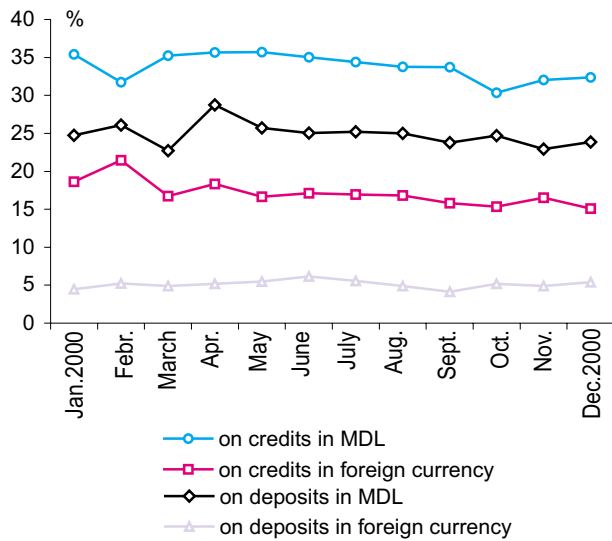
Table 14. The structure of credit portfolio and financial leasing of banking sector

	31.12.1999 (mil MDL)	Ratio in 1999 (%)	31.12.2000 (mil MDL)	Ratio in 2000 (%)
Credits to agriculture and food industry	444.3	27.8	622.8	27.1
Credits for real estate, construction	169.1	10.6	196.9	8.7
Consumer credits	66.1	4.1	80.9	3.5
Credits to energy and fuel industry	70.5	4.4	123.3	5.4
Credits to banks	24.1	1.5	21.6	0.9
Credits to Government	44.7	2.8	33.8	1.5
Credits to industry/commerce	726.9	45.5	1040.6	45.3
Credits for road construction and transportation	15.4	1.0	57.6	2.5
Other credits	36.5	2.3	117.9	5.1
Total	1597.6	100	2295.4	100

The evolution of interest rates represents another particularity of the financial market. The reduction of the inflation level compared with the previous year and the slower depreciation of the national currency had a positive impact on interest rates on credits and deposits. Thus, the interest rate on credits in MDL (chart 31) reduced and constituted 33.3% (35.5% in 1999). The average interest rate on credits in foreign currency constituted 16.7% per year (290% in 1999).

At the same time, the average rate on liabilities attracted in MDL reduced by 2.8 percentage points and constituted 24.6% in 2000; the interest rate on deposits attracted in foreign currency practically remained at the level of the previous year and constituted 5.1%.

Chart 31. Dynamics of average interest rates



Monetary Policy Instruments

The use by the National Bank of Moldova of monetary and credit policy instruments, including open market operations, was largely determined by the considerable amount of foreign exchange offered on the foreign exchange market, caused by:

- privatization of energy system enterprises;
- NBM requirements to increase the regulatory capital of commercial banks;
- income by residents of the Republic of Moldova abroad;
- repatriation of foreign exchange from exports.

The relatively large purchases of foreign exchange by NBM and the shortage of efficient projects suitable for lending banks' credit resources have conditioned the rise in excess reserves on commercial banks' accounts held with the NBM.

Under such circumstances, as in 1999, the National Bank of Moldova has more actively used instruments of monetary policy directed to sterilizing bank liquidity through sales of SS from its own portfolio and REPO selling operations.

Open Market Operations

During the year the NBM performed OMO at 58 auctions to sterilize excess liquidity and one auction (in April) to provide liquidity to the banking system.

The total value of liquidity sterilization operations amounted to 216.1

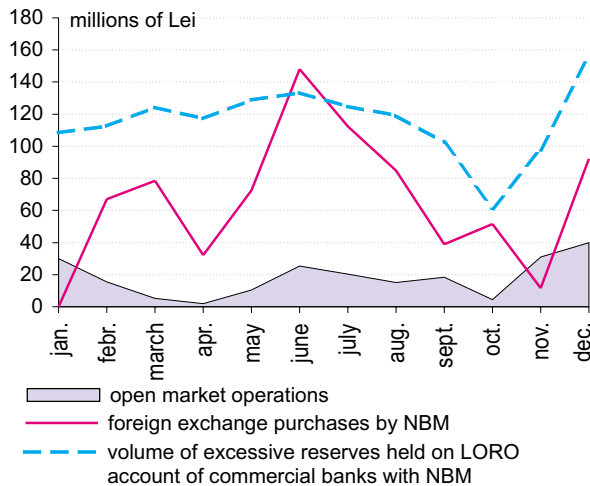
Table 15. NBM open market operations during 2000

Type of operation	Offer volume (mil MDL)	Demand volume (mil MDL)	Volume of SS sold		Range of nominal SS yields/ REPO interest rates (%)	Average weighted SS yield / Average weighted REPO interest rate (%)
			Nominal value	Market price of selling/purchase		
			(mil MDL)	(mil MDL)		
SS selling	131	146.5	81.6	79.5	16.21-29.45	19.80
REPO-selling	153	217.5	143.7	136.6	6.00-25.00	16.41
REPO-purchase	5	2.5	2.1	2.0	22.00-19.00	20.75
Total	289	366.5	227.4	218.1		

millions: including sales of state securities – Lei 79.5 millions and REPO operations – Lei 136.6 millions.

In order not to impact the interest rates on the state securities primary market, the Na-

Chart 32. Dynamics of open market operations volumes correlated with excessive reserves held on LORO accounts of commercial banks with NBM and foreign exchange purchases by NBM during 2000



tional Bank of Moldova relied on REPO operations. The REPO operations term varied from 4 to 55 days (table 15).

NBM interventions to sterilize liquidity surplus were more active during the months of May to September and November to December 2000, when the increase of excess reserves on commercial banks' accounts reached the highest levels (chart 32).

These interventions were directed to sterilize the liquidity surplus in the short run, encouraging banks to direct their available resources to the real sector of the national economy for a longer term.

Banking Sector Lending

As on December 29, 2000 commercial banks' loans outstanding to the National Bank of Moldova amounted to Lei 105.4 millions or by Lei 24.3 millions (18.7%) lower than the figures on December 31, 1999.

The lower value of credit balance is generated by the specific character of monetary policy instruments applied by NBM during the period of 1999 to 2000, especially by the substitution of direct credits to banks with open market operations.

The comparison of outstanding balances of 31.12.2000 and of 31.12.1999 (table 16) denoted a Lei 6.6 millions increase of credits extended for construction of locative cooperatives.

Credits to complete the construction of locative cooperatives extended during 2000 amounted to Lei 9.7 millions.

Credits were extended at an interest rate equivalent to the NBM base rate on long-term credits in effect on the provision date.

Credits extended to commercial banks by NBM in 2000 were secured by means on Loro accounts of commercial banks, required

Table 16. Structure of balance of commercial banks' indebtedness (millions of Lei)

Nr	Loan destination	Outstanding balance of commercial banks' indebtedness as on 31.12.1999	Weight %	Outstanding balance of commercial banks' indebtedness as on 31.12.2000	Weight %
1	Credits for CLC (construction of locative co-operatives)	91.1	70.2	97.7	92.7
2	Loans frozen in accordance with the Decision of Parliament 1403-XII of 16.12.1997	12.4	9.6	7.7	7.3
3	Loans to agricultural-industrial complex	21.0	16.2	-	-
4	Other loans	5.2	4.0	-	-
	TOTAL	129.7	100	105.4	100

Table 17. Base rates set by NBM

Month	Date when base rates come into effect (date of it publishing in the Official Monitor)	Base rate, %	
		On short- and medium-term credits (up to 5 years)	On long-term credits (over 5 years)
January	27.01.2000	32.0	18.0
February	24.02.2000	32.0	18.0
March	23.03.2000	30.0	17.0
April	20.04.2000	29.0	17.0
May	25.05.2000	30.0	17.0
June	26.06.2000	29.0	17.0
July	21.07.2000	28.9	17.0
August	24.08.2000	28.8	17.0
September	21.09.2000	28.7	17.0
October	27.10.2000	28.5	16.5
November	30.11.2000	27.5	15.0
December	21.12.2000	27.0	15.0

reserves and dematerialized state securities available in banks' own portfolios.

The collateral that secures the reimbursement by banks of credit indebtedness and accrued interests was subject to structural modification, determined by the refund during the reported year of credits collateralized with state securities and required reserves.

Thus, at the end of 2000 collateral is accepted only in form of banks' means on Loro accounts.

In accordance with the Regulation on Classification of Credits to Commercial Banks by the National Bank of Moldova and the Establishment of Credit Loss Provisions in 2000, NBM performed the classification of the portfolio of NBM credits to commercial banks. Credit loss provisions based on this classification amounted to Lei 64.7 millions at the year-end or by Lei 4.5 millions or 6.5% less than in 1999.

The value of credit loss provisions constituted at the end of 2000 61.4% of the balance of provided credits, exceeding by 7.3 percentage points the level at the end of 1999.

The National Bank of Moldova followed in 2000 its activity to set base rates on short-, medium- and long-term credits. (table 17).

Base rates were determined by the situation of the money market taking into consideration the cost of credits to economy and inflation tendencies (in the case of long-term credits considering the inflation level for a 5-year period).

Loans to the Government

In 2000 the National Bank of Moldova extended loans to the Government in accordance with the Law on the Budget for 2000 No. 918-XIV of April 11 2000, the Law on Budget Rectification for 2000 No. 1410-XIV of December 8, 2000 and the Monetary and Foreign Exchange Policy of the National Bank of Moldova.

In accordance with the stipulations of the above-mentioned laws in 2000 the NBM renewed loans provided to the state during the previous years in amount of Lei 1315.2 millions and set their maturity for 2001. Thus, the total state debt to the National Bank of Moldova in form of loans amounted to Lei 1315.2 millions on 31.12.2000.

Taking into account the required collateral for extended loans in form of negotiable state securities at market interest rate and with the view to achieving uniform income during the year, NBM renewed loans provided to the Ministry of Finance during 2000 in a total value of Lei 2123.6 millions.

Table 18. Dynamics of loans granted during 2000 to the state secured with collateral in form of SS (millions of Lei)

Loans destination	Outstanding balance as on 31.12.1999		Loans extended during 2000	Outstanding balance as on 31.12.2000 in NBM portfolio	Weight in total value (%)
	In NBM portfolio	In commercial banks portfolio			
- loans granted for financing state budget deficit during the 1996-1997 period	135.9	8.6	289.0	144.5	11.0
- loans granted for foreign debt servicing during 1998-1999	650.6	7.0	869.5	657.6	50.0
- loans granted for SS redemption during 1998	342.6	16.3	698.1	358.9	27.3
- loans granted for covering temporary cash discrepancy during 1998-1999	154.2	-	267.0	154.2	11.7
TOTAL	1283.3	31.9	2123.6	1315.2	100

The balance of loans to the Government extended by the National Bank of Moldova in the period of 1993 to 1995 and converted into state securities in 1998 was not modified and totaled Lei 360.7 millions at acquisition cost on 31.12.2000.

The total Government debt to NBM amounted to Lei 1675.9 millions on 31.12.2000, that is 94.1% of the total NBM credit portfolio.

Required Reserves

In 2000 required reserves were managed depending on the situation on the domestic financial markets.

During the period from January 1 to September 20 the rate of required reserves was set at the level of 15% of attracted resources;

not less than 13% of required reserves had to be kept on a special account with NBM and 2% - in banks' vaults (subject to 10-day reporting).

Since September 21, 2000, in accordance with the Decision of the Council of Administration of the National Bank of Moldova No 268 of September 11, 2000, NBM has modified the method of required reserves maintenance: required reserves have been transferred from the special account to Loro accounts of commercial banks with NBM. This activity does not concern banks, to which NBM had issued orders about remedy measures (that were considered not complied by banks) related to requirements on liquidity sufficiency and/or insufficient value of total regulatory capital of an A-licensed bank.

These transfers to banks' Loro accounts amounted to Lei 290.9 millions on September 21, 2000 and had a positive effect on banking capacity to efficiently manage the liquidity.

The downward trend of the inflation rate, the stability of the national currency observed during the reported year and the evolution of GDP have established good prerequisites for a decrease of required reserves ratio. Thus, following the Decision of the Council of Administration of the National Bank of Moldova No.298 of October 5, 2000, starting with November 1, 2000 the required reserves ratio was lowered from 15% to 13% of attracted resources: not less than 11% are to be maintained on Loro accounts with NBM and 2% - in banks' vaults. This decision modified also the reserve period from 10 to 15 days and established the maintenance period of required reserves at a 5-day difference from the supervision period.

Between January and October required reserves had an upward trend. Their average during the first 10 months of 2000 went up by Lei 120.2 millions or by 54.1% compared with December 1999 (from Lei 222 millions to Lei 342.2 millions).

The decrease of required reserves determined their reduction in November and December against October 2000 by Lei 40.9 millions.

In 2000 the average amount of attracted resources subject to reservation increased by Lei 838 millions (from Lei 1479.8 millions at the end of 1999 to Lei 2317.8 millions at the end of 2000) or by 56.6%. Resources attracted in MDL went up by Lei 518.6 millions (or by 71.9%), resources attracted in free convertible currency recalculated in MDL at the exchange rate on the relevant date increased by Lei 319.4 millions (or by 42.1%).

The increase of attracted resources during the reported year was due to sustained positive performance of the internal monetary market (that generated the growth of resources attracted by banks) and higher total regulatory capital of commercial banks set by the National Bank of Moldova.

During the reported year banks were paid a total income of Lei 31.7 millions for the portion of required reserves that exceeded 5% of attracted resources subject to reservation and maintenance at NBM.

Implementation of Activities as Fiscal Agent of the State

Management of the Primary Market of Dematerialized State Securities

Acting as fiscal agent of the state in performing selling, recording and redemption of state securities (SS), the National Bank of Moldova organized in 2000 244 issuances of state securities with the view to financing the budgetary deficit, contributing to the achievement of the main target of the policy of state domestic debt management – the minimization of state loans cost on the SS market.

In conditions of reduced inflationary expectations and appreciation of the national currency in real terms, state securities remained attractive during the reported year.

The primary state securities market has been registering the same trends as during its 6-year development: year-to-year increase of SS offer and demand prevalence over offer. The only one exception happened in 1998 when the depreciation of the national currency under the regional crisis impact affected Moldova’s market of state securities (chart 33).

The analysis of the primary SS market shows that in 2000 the offer, demand and selling reached the highest levels – Lei 2036.0 millions, Lei 2477.8 millions and Lei 1869.6 millions respectively. Although the value of SS demand exceeded the offer by Lei 441.8 millions, the SS placement constituted 91.83% of the offer amount.

During the reported year the demand for state securities had an uneven evolution: significant increases from month to month were followed by significant decreases (chart 34). The reduction and increase of SS demand and selling were determined by both seasonal factors and NBM activities:

- increase of required minimum amount of total regulatory capital of commercial banks;
- cancellation in February 2000 for banks of the requirement to keep 5% of total assets in liquid securities;
- decrease of required reserves on deposits and their transfer since September 2000 to Loro accounts of commercial banks with NBM.

Minimal inflationary expectations by market participants and the permanent surplus of SS demand on this segment of the monetary market determined the considerable reduction by 6.4 percentage points compared with 1999 of the nominal average yield of SS, which constituted in the reported year 22.14%.

The average weighted yield had a smooth evolution during the year varying within an interval of 8.3 percentage points compared with the fluctuations of 19.1 percentage points in 1999.

The analysis of SS average yields, according to maturity terms, indicates a compressive trend during the year that generated an evident reduction of yields’ volatility by the year-end compared with the beginning of 2000 (chart 35). Based on the improved situation of the financial market against 1998-1999, the Ministry of Finance modified its issuance policy, putting emphasis on securities with

Chart 33. Volume of demand, offer and selling of SS

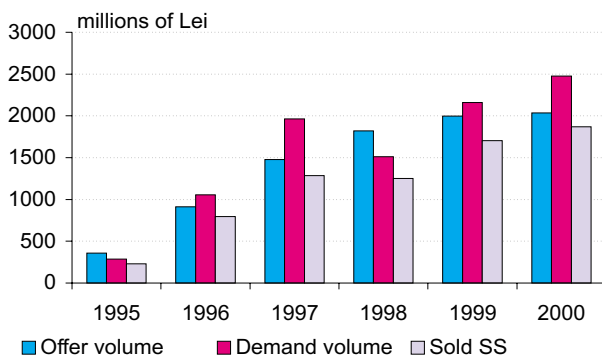


Chart 34. Dynamics of offer, demand and selling of SS during 2000

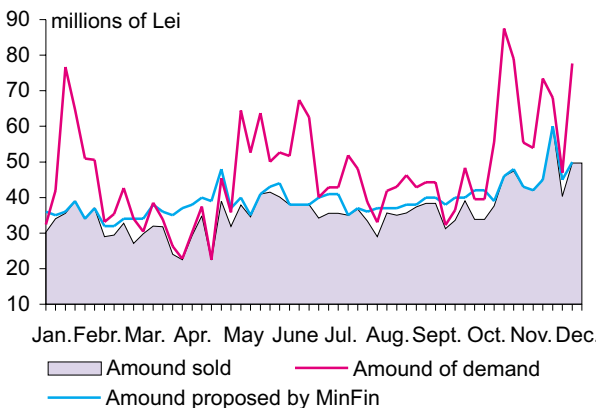
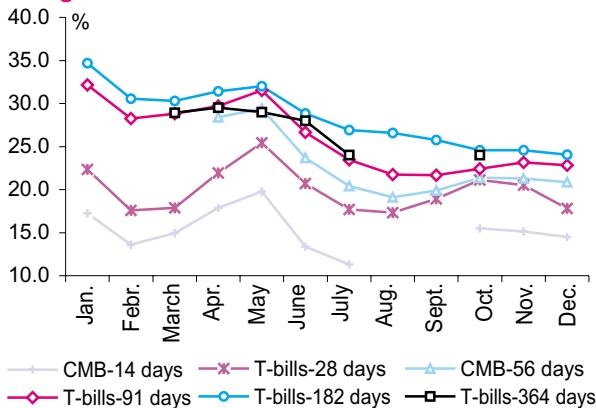


Chart 35. Dynamics of monthly average nominal yields of SS issued on the primary market through auctions during 2000

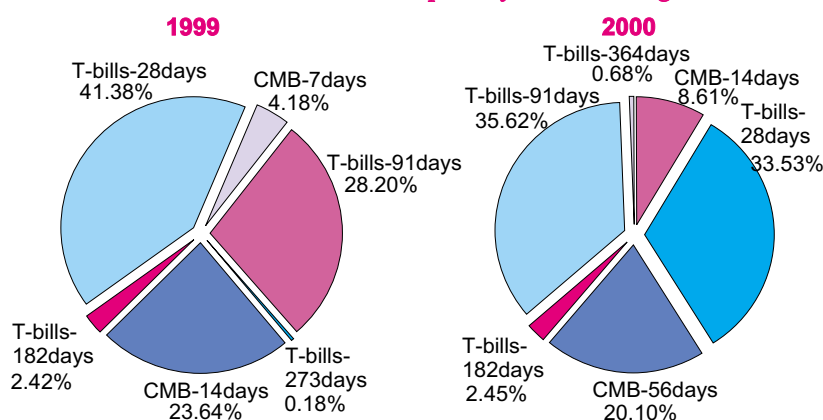


longer maturity. Thus, the average weighted term of SS placed on the primary market increased by 16 days and constituted 60 days.

For the Ministry of Finance the borrowings on the domestic market were more convenient compared with the previous year – lower rates and longer maturity terms, that ultimately conditioned the reduction of budgetary expense for domestic debt servicing.

The structure of issued SS terms registered positive modifications: there were no issuances of 7-day securities and new 56-day securities were put into circulation. The prevailing weight (55.7%) in 2000 was held by securities with the maturity term of 2 to 3 months (chart 36) against 1999, when two thirds of adjudged SS were constituted by securities with up to 1 month term.

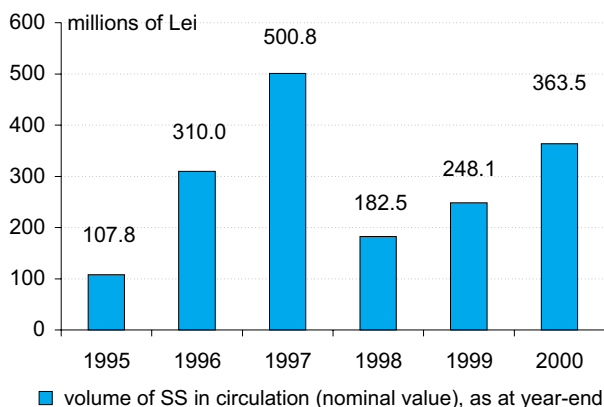
Chart 36. Structure of SS issued on the primary market through auctions



The largest majority of SS auctioned (91%) was acquired by commercial banks on their own portfolio. Despite the 2.5% increase (Lei 56.8 millions) as against in 1999, the weight of state securities purchased by investors remained relatively low – 9%.

The general deterioration of the economic environment under the impact of the regional crisis, suspended relationship with financial organizations and diminished country's risk rating by international rating agencies resulted in the absence of foreign investors on the state securities market.

Chart 37. Dynamics of volume of SS in circulation issued through auctions



Following the excess of money means revenues over redeemed SS, the value of SS in circulation issued through auction increased compared with 31.12.1999 by Lei 115.4 millions or by 46.5% and totaled on 31.12.2000 Lei 363.5 millions in nominal terms (chart 37).

Net receipts from SS commercialization at selling price increased at the year-end compared with 1999-end by Lei 111.8 millions, that was in accordance with the provision regarding the budget deficit financing from this source (Lei 112 millions) stipulated in the Law on the Budget for 2000.

SS Secondary Market

The activity of the National Bank of Moldova in 2000 was directed towards the improvement of the functioning and dynamic development conditions of the SS secondary market and the maintenance of state securities' liquidity.

The total value of selling-buying transactions on the secondary market of state securities during the reported year amounted to Lei 447.5 millions, which is by around two times or Lei 207.9 millions more than in the previous year.

In the 3d quarter of 2000 the quarterly value of the secondary market reached its highest level – Lei 165.7 millions (chart 38).

The development of selling-buying operations in 2000 is characterized by almost identical weights in the total value of secondary market transactions of interbank transactions and transactions with banks' clients – 50.2% and 49.8% respectively.

Chart 38. Dynamics of volume of SS transactions on the secondary market

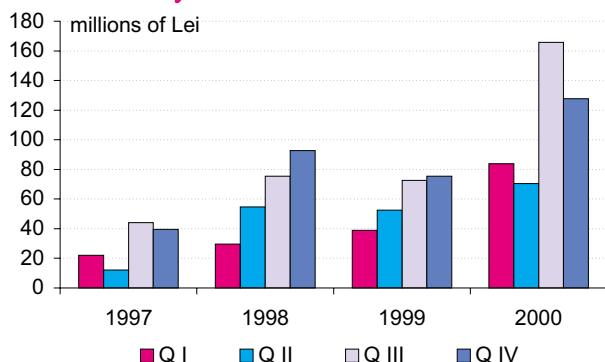
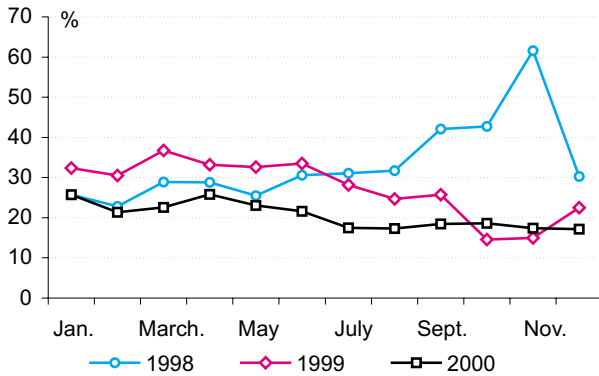


Chart 39. Dynamics of nominal average weighted yield of SS commercialized on the secondary market during 1998-2000



Market participants emphasized SS with the maturity of 28 to 91 days that held a significant share in the structure of commercialized SS. Their weight in total selling-buying transactions went up from 36.5% in 1999 to 50.6% in 2000.

Interbank REPO transactions totaled Lei 249.0 millions, exceeding by 11.4 times the level of 1999; this made special contribution to the SS secondary market in 2000.

The dynamics of average weighted nominal yields of SS sold on the secondary market denotes the continuous downward trend of the average yield noted in the previous year. Yet, in 2000 there were no excessive fluctuations of interest rates that had been observed during the previous years and especially in 1998 (chart 39).

Recording of State Securities in the Electronic Book-Entry System (BES)

The total value of state securities recorded in the electronic book-entry system at the end of 2000 amounted to Lei 2127.0 millions at nominal value, including:

- Lei 363.5 millions or 17.1% - SS issued through auctions on the primary market;
- Lei 1378.6 millions or 64.8% - SS issued and delivered to the National Bank of Moldova as collateral for credits to Government;
- Lei 384.9 millions or 18.1% - SS received by the National Bank in exchange for SS previously issued through conversion into SS of internal state debt contracted by the Ministry of Finance with NBM during the period of 1993 to 1995.

The value of SS recorded in BES reduced compared with 31.12.1999 by Lei 56.8 millions or by 2.6%.

The total value of SS registered in BES at nominal value is divided between owners as follows:

Commercial banks:

- on 31.12.2000 – Lei 378.5 millions;
- on 31.12.1999 – Lei 267.3 millions;

Other investors:

- on 31.12.2000 – Lei 29.4 millions;
- on 31.12.1999 – Lei 22.4 millions;

Ministry of Finance (SS pledged with NBM as collateral for extended credits):

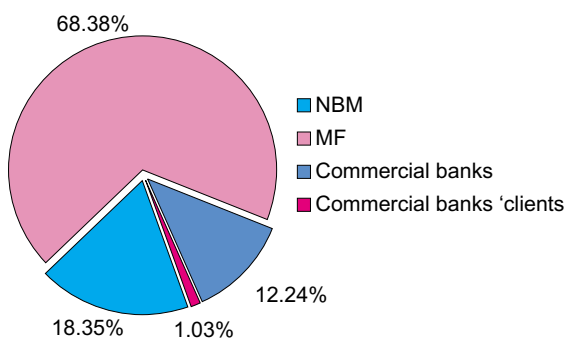
- on 31.12.2000 – Lei 1378.6 millions;
- on 31.12.1999 – Lei 1493.3 millions;

National Bank of Moldova:

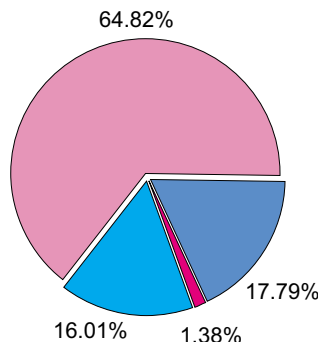
- on 31.12.2000 – Lei 340.5 millions;
- on 31.12.1999 – Lei 400.8 millions.

Chart 40 shows the structure of SS registered in BES on 31.12.1999 and 31.12.2000.

Chart 40. Structure of SS recorded in the Electronic Book-Entry System (BES) by holders 31.12.1999



31.12.2000



Evolution of Foreign Exchange Market

During 2000 the evolution of foreign exchange market was relatively stable, thus the fluctuations of the exchange rates were insignificant as compared to 1999. Consequently, the National Bank of Moldova has achieved its main objective, by maintaining the stability of the national currency. In order to accomplish this goal, the National Bank established and maintained monetary and foreign exchange policy adequate to the market infrastructure.

During 2000 the nominal depreciation of MDL totaled 6.84% (direct quotation) or 6.4% (indirect quotation) as compared to 39.26% (direct quotation) and 28.19% (indirect quotation) in 1999

The foreign exchange market was influenced by both structural and market conditions factors. Structural factors – competitiveness of national products on foreign markets, balance of payments, fiscal policy, dynamics of inflation and interest rates – conditioned the depreciation of the national currency. Meantime market condition the cyclicity of economy, the political situation, expectations, forecasts, speculative transactions, etc. – supported sudden short-term fluctuations of the exchange rate.

On the other hand, seasonal trends characterized by the increase of demand for MDL and respective appreciation of the national

currency by the end of the year as well as stabilisation or slight appreciation of MDL during the period of currency repatriation from export (usually during August – September) were recorded in the reported year as well.

Chart 41 shows exchange rate instability with a clear depreciation trend in the 1st quarter. The increase in demand for foreign exchange (a seasonal tendency characteristic for the beginning of the year) had determined the maximum depreciation in this period - 9.56%. During the 2nd and the 3rd quarters of the year the exchange rate developments determined national currency stability by recording insignificant fluctuations of the nominal exchange rate with appreciation trends. Therefore, the nominal exchange rate appreciated by 2.7% during the 2nd and the 3rd quarters. In February – September the exchange rate was characterized by a durable appreciation trend based on ex-

Chart 41. Exchange rate evolution in 2000 (MDL/USD).



port earnings, privatization and increase of commercial banks' regulatory capital. Additional shares issuance by commercial banks constituted 68% of their annual value of Lei 258.7 mil. lei. Attracted funds included both gross profit of Lei 41.2 millions for 1998 and 1999 and additional funds totaling Lei 217.5 millions, including Lei 205.7 millions (Lei 17.5 millions) from foreign investors.

In the 4th quarter the official exchange rate recorded a slow depreciation trend – 1.30% due to NBM interventions on the foreign exchange market aimed to prevent MDL from over-appreciation at the end of relevant period as a result of foreign exchange net flow increase. At the end of the year the foreign financing was re-newed. IMF transferred to the account of the National Bank of Moldova the first US\$ 12.1 millions-tranche of the three-year loan under PRGF. The World Bank provided the second US\$ 19.2 millions-tranche within Structural Adjustmens Loan and the US\$ 10.0 millions-grant from the Government of Netherlands.

The experience of 1999-2000 proved that the actual regime of freely floating exchange rate is optimal for the Republic of Moldova. The MDL exchange rate fixing through market mechanism favored the consolidation of foreign exchange reserves, import and export self-regulation and the enhancement of confidence in the national currency. At the same time, the regime of freely floating exchange rate had a positive effect on domestic interest rates, global demand, inflation and economic growth.

The situation of foreign exchange market allowed NBM to intervene on the market as purchaser of hard currency and to increase its official reserves by 21.9% from US\$ 189.9 millions at the beginning of 2000, to US\$ 231.5 millions on December 31st, 2000, that covered 2.8 months of import.

In 2000 foreign exchange market developments were determined by the following monetary factors: (I) dynamics of money supply, domestic loan and inflation (II) economy dollarization, (III) foreign exchange inflow and outflow.

(i) Correlation between money supply, domestic loan and nominal exchange rate

The correlation is less conspicuous in 2000, as the nominal exchange rate was less responsive to the variation of money supply and currency in circulation but it was affected by the significant currency inflow from foreign investors. In 2000 money supply increased by 40.1% due to the increase by 31.0% of currency in circulation, by 52.1% of MDL deposits and by 43.6% of foreign currency deposits. The monetary and foreign exchange policy determined the attenuation of inflationary expectations and the reduction of attractiveness of foreign currency deposits.

(ii) Dollarization Index

Deposits dollarization index decreased from 0.502 in December 1999 to 0.488 in December 2000.

(iii) Foreign exchange net flow from non-residents

The foreign exchange inflow from export, foreign loans, direct portfolio investments and privatization of the public patrimony increased

Chart 42. Exchange rate evolution in 1999-2000 (percentage changes on month earlier)

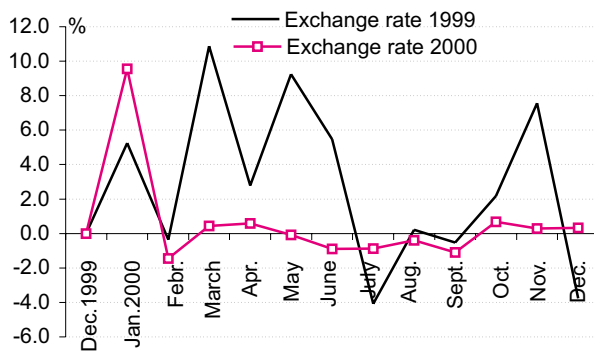
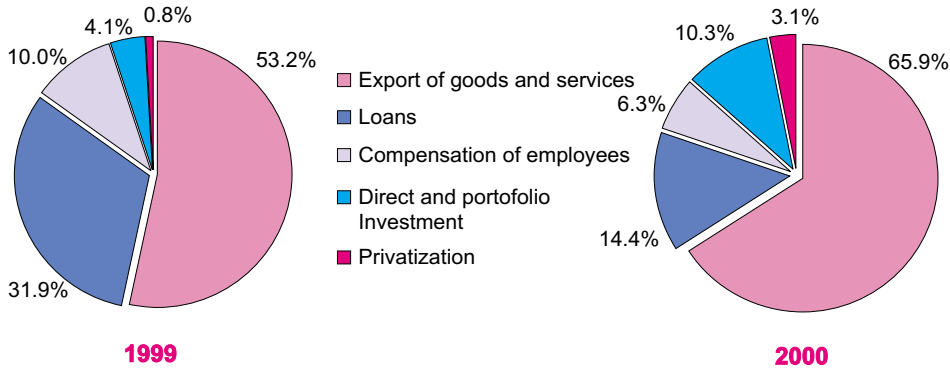


Chart 43. Structure of foreign exchange inflow



by 5.7% as compared to 1999; the outflow determined by foreign debt servicing and payments related to the trade balance, increased by 9.6 percent.

By excluding public sector net flow that affected mainly the foreign exchange reserves, the foreign exchange positive net flow in the private sector allowed financing the trade balance deficit and the formation of foreign exchange surplus that

amounted to US\$ 34.8 millions, and increased by US\$ 6.8 millions as compared to 1999.

Turnover of the foreign exchange market

In 2000 the total turnover of operations on the foreign exchange market (purchases/sales against MDL) amounted to US\$ 2474.6 millions, purchases totaled US\$ 1264.2 millions, sales – US\$ 1210.4 millions.

The total turnover of operations on the domestic foreign exchange market recorded a general tendency of activation. Thus, the turnover’s share in the 4th quarter (41.2%) doubled as compared to the 1st quarter (17.3%) as opposite to 1999, when the market stagnation in the 1st quarter determined by the 1998 financial sector crisis was followed by more active transactions in the 2nd quarter.

During 2000 the evolution of domestic foreign exchange market recorded seasonal trends – the increase in market operations at the end of each quarter. Chart 44 shows the correlation between foreign currency purchases by economic entities, payments related to import of goods and services and to foreign debt servicing. Export earnings of economic agents via commercial banks increased by 31.0% as compared to 1999 and amounted to US\$ 574.4 millions. These receipts constituted 45.5% of total sales on foreign exchange market.

Hard currency share in export earnings was to 72.8% and decreased by 10.5 percentage points as compared to 1999. Export earnings in soft currencies amounted to 154.8 mil. US\$ (26.9%), while in MDL totaled 17.9 mil MDL (US\$ 1.4 millions or 0.25%).

The favorable situation of foreign exchange market determined NBM to intervene on the market as purchaser of hard currency and to acquire from commercial banks around US\$ 66.6 millions, consequently providing foreign debt servicing in an amount of US\$ 25.0 millions without any foreign financing.

Accordingly, foreign exchange reserves had increased by US\$ 41.6 millions: from US\$ 189.9 millions (01.01.2000) to US\$ 231.5 millions (01.01.2001).

The structure of total turnover on domestic foreign exchange market pointed out that the majority of currency transactions were conducted in hard currency.

Chart 44. Purchases against MDL, Import of goods and services, External debt servicing.

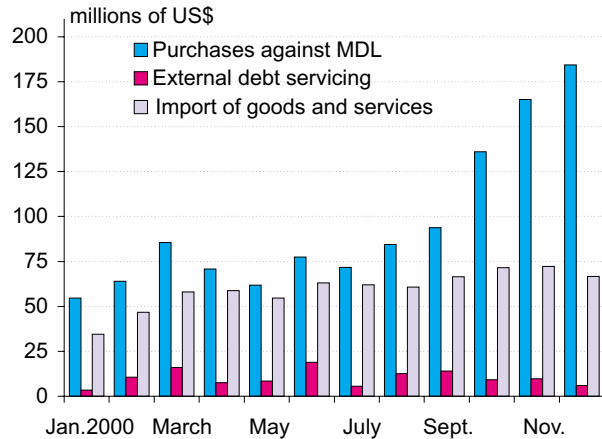


Chart 45. Sales against MDL, Exports of goods and services, External debt drawings.

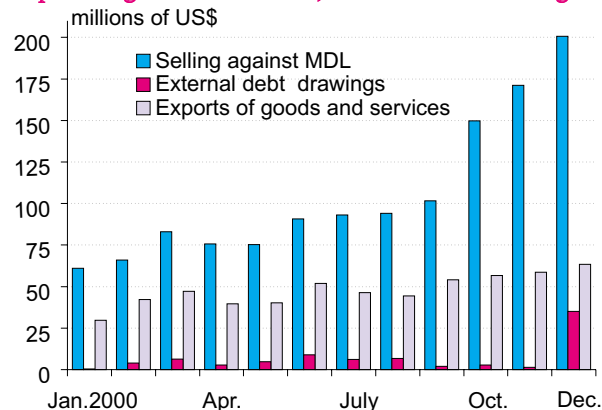
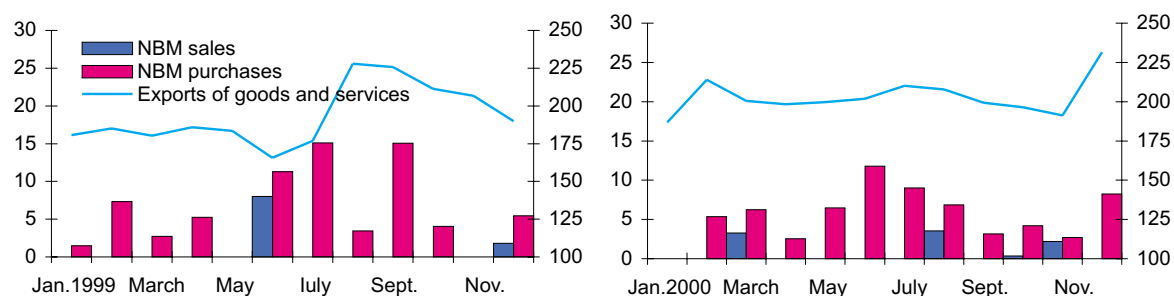
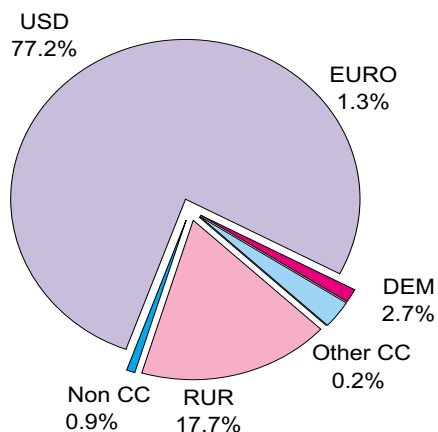


Chart 46. Foreign Exchange Reserves, National Bank of Moldova purchases/sales in the Foreign exchange market (millions of US\$)



Hard currency constituted 81.4% in total turnover, RUR – 17.7%, other soft currencies – 0.9% (chart 47). Businesses, individuals and commercial

Chart 47. Structure of foreign currencies transactions in 2000.



banks from Moldova were the main sources of foreign exchange inflow on the domestic market (42.9%, 20.4% and 15.8% respectively). As compared to the previous year, purchases against MDL from businesses increased by US\$ 85.9 millions and from individuals – by US\$ 127.3 millions. The increase of currency purchases as compared to 1999 was determined by the following market players: foreign banks – 29.5%, individuals – 29.0%, businesses – 19.6%.

The structure of currency sales was as follows: businesses – 45.8%, commercial banks from Moldova – 18.8%, foreign banks – 13.0% and individuals – 10.9%. As compared to the same period of the previous year, the share of foreign banks increased by 10.5 percentage points and the one of businesses decreased by 8.7 percentage points.

The foreign exchange surplus acquired by commercial banks from other participants of the foreign exchange market in total value of US\$ 137.8 millions was partially sold to NBM and businesses, etc. (106.9 millions). The net positive balance of foreign exchange operations against MDL in the value of US\$ 30.8 millions represented partially the surplus of foreign exchange receipts from non-residents. Banks' net acquisitions from individuals recorded a three-time value of the previous year due to the significant inflow of labor incomes from abroad.

International cooperation of the Republic of Moldova

The Republic of Moldova maintained collaboration relationship with the following international financial institutions: International Monetary Fund, World Bank, European Bank for Reconstruction and Development, European Union.

International Monetary Fund (IMF)

The Republic of Moldova has been member of IMF since August 12th, 1992.

On June 30th, 1995 Moldova accepted the obligations of Article VIII Sections 2, 3 and 4 of the International Monetary Fund Articles of Agreement. That allowed the liberalization of current foreign exchange operations or, de facto, convertibility of the national currency – Moldovan Leu (MDL). Thus, economic agents have the right to freely acquire and sell foreign currency for all current international transactions and for some capital operations.

The IMF financial support to the Republic of Moldova amounted up to now to SDR 251.6 millions (US\$ 366.8 millions). On December

21st, 2000 the IMF Board of Directors approved a new Program for Economic Growth Support and Poverty Reduction promoted in common with the World Bank in a total value of SDR 110.9 millions (US\$ 142 millions) for a 3-year period. On December 29th, 2000 NBM received the first tranche of this new program in the amount of SDR 9.2 millions (US\$ 12.1 millions).

In February 1998 the Republic of Moldova joined the General Data Distribution System (GDDS). Now, the National Bank of Moldova, in collaboration with the Ministry of Finance and the Department of Statistics works out the description of the methodology to calculate indices included in this system.

The International Monetary Fund performs annual consultations in the field of economic and financial policy of the Republic of Moldova in accordance with the obligations of Article IV of IMF Articles of Agreement that stipulate cooperation relationship between IMF and member countries. Thus, IMF missions visited Moldova during the reported year on a quarterly basis.

IMF technical assistance to the banking sector of the Republic of Moldova had as target the training of the NBM staff and the staff of commercial banks.

World Bank

In accordance with the Decision of the Parliament of July 28th, 1992, the Republic of Moldova joined the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the International Development Association (IDA) and the Multilateral Investment Guarantee Agency (MIGA).

IBRD granted to the Republic of Moldova financial assistance in the total value of US\$ 272.8 millions.

IFC disbursed a loan in the value of DEM 12 millions for the restructuring, post-privatization and enlargement of three fruits and vegetables processing factories within the INCON Corporation. A US\$ 40 millions - loan was provided to the JSV Voxel for the financing of mobile telephone network project.

The Republic of Moldova joined the Convention on Interstate Investment Litigation Settlement (CIILS).

European Bank for Reconstruction and Development (EBRD)

The Republic of Moldova became member of the European Bank for Reconstruction and Development following the acceptance on May 5th, 1992 of provisions of Resolution no. 21 of the EBRD Board of Governors.

The EBRD assistance to the Republic of Moldova was directed towards the implementation of economic structural and sector reforms, including de-monopolization, de-centralization and privatization. EBRD activities included development of required infrastructure for private sector support, restructuring of financial institutions, etc. Up to now EBRD approved 20 projects in the total value of Euro 151.7 millions. EBRD investments in the Re-

public of Moldova in 2000 reached a substantial portfolio diversification: 28% - in the portfolio of the financial sector, 38% - in infrastructure, 34% - in the commercial sector. Moldova benefited from 27 projects in the field of technical cooperation in the total value of Euro 7.3 millions.

European Union (EU)

The relationship between the Republic of Moldova and the European Union and its member countries are formally based on the Partnership and Cooperation Agreement signed on November 28th, 1994 and brought into effect on July 1st, 1998. The Agreement provides, inter alia, the collaboration in the financial and banking sectors, aimed to facilitate integration of the Republic of Moldova into internationally accepted mutual settlement systems.

The European Union provided assistance to the Republic of Moldova via three available instruments: long-term financing of the balance of payments, TACIS program, and medium-term loans for supply of food products and medicine supply.

With the view to supporting the Republic of Moldova in the process of reforms, the TACIS program provided assistance within the National Program in three basic directions: agriculture, support to enterprises, human resources development.

Starting with 1991 the TACIS program disbursed about 68 mil Euro through National Programs for the Republic of Moldova.

World Trade Organization

The Republic of Moldova joined the World Trade Organization (WTO). The National Bank of Moldova has actively participated at the elaboration of the List of Specific Commitments in banking and other financial services (excluding insurance services); within this context Moldova concluded negotiations with the WTO member countries and secretariat.

Cooperation within the Black Sea Area (BSTDB)

On November 28th, 1995 the Parliament of the Republic of Moldova adopted the Decision on Rectification of Agreement on Constitution of Black Sea Trade and Development Bank, which is the main mechanism to accumulate financial resources and to finance and implement joint regional projects.

Cooperation with Central Banks of Other States

The National Bank of Moldova maintains collaboration relationship with many central banks, including Federal Reserve Bank (USA), Banque de France (France), Deutsche Bundesbank (Germany), de Nederlandsche Bank N.V. (Netherlands), Bank of England (Great Britain), Oesterreichische Nationalbank (Austria), Banca d'Italia, Bank of Japan, National Bank of Romania, National Bank of the Czech Republic, National Bank of Poland, central banks of Baltic countries, central banks of CIS countries, etc.

Banking Activity Supervision and Regulation

As on December 31, 2000 there were 20 commercial banks, including 4 branches of foreign banks operating on the territory of the Republic of Moldova and registered in the Register of the National Bank of Moldova. The total number of commercial banks' institutions in the republic was 572, including 146 branches, 176 representative offices and 250 agencies.

In May 2000 the National Bank of Moldova authorized the establishment of the JS Commercial Bank "BTR Moldova". In November 2000 NBM withdrew the license to perform financial activities from the JSCB Oguzbank and appointed a Receiver.

The number of employees of commercial banks totaled 5594 persons on 31.12.2000, which is by 249 persons more than on 31.12.1999.

New Prudential Regulations

With the view to consolidating the banking sector, the National Bank of Moldova undertook in 2000 a number of measures aimed to further develop the mechanism of banking supervision, to increase the efficiency of supervising instruments in the process of controlling negative occurrences in banking practice, to protect depositors' interests, to keep deposit secrecy, to avoid excessive risk in the financial system, to promote a strong and competitive financial sector, to facilitate the use of market forces in the process of rendering financial services.

In order to consolidate banking stability in the country, the National Bank of Moldova set higher requirements for the regulated capital of commercial banks. Thus, starting with 30.06.2000 commercial banks were provided to have and maintain the regulated capital in the amount of 24 millions and starting with 31.12.2000 – in the amount of Lei 32 millions.

The consolidation of the banking system is highly important for its stable operation. To achieve this goal, NBM set rules and procedures applicable for commercial banks in process of association or merger. The National Bank also restricted the dominant position on the banking market of total assets and deposits by individuals of successor bank that should not exceed 30% of banking sector's total assets and deposits by individuals. The purpose of these measures was not to allow domination on the financial market of one financial institution during its activity or following the merger or association of two or more economic entities.

A better market discipline and the ultimate stronger banking sector were achieved following the promotion of banking transparency and lower exposure to risk. Within this context NBM set criteria and methods for disclosure of fair and comprehensive information on banking financial activities. The larger information volume to be disclosed to the public with the view to enlarging public abilities of financial analysis and evaluation represents an important factor for strengthening public credibility in the banking sector.

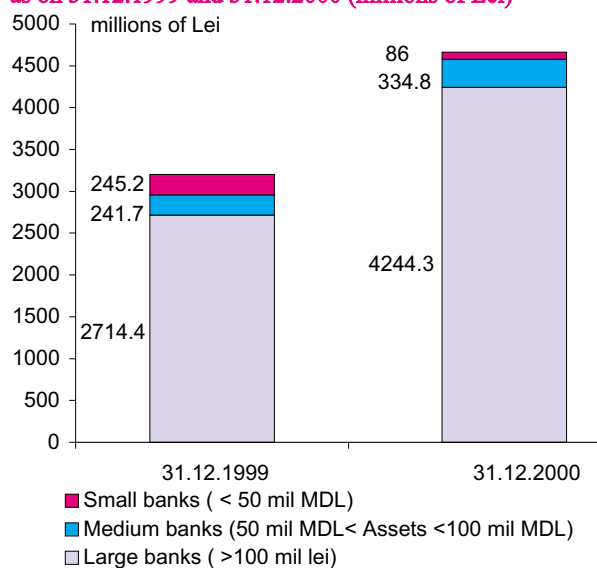
With the view to non-admitting excessive banking risks, the National Bank introduced the monitoring of risks associated with off-

balance sheet additional categories. Thus, banking control included also the supervision of data reflected in conditional accounts of the chart of accounts, which are provided to record commitments not included in the balance sheet.

The efficiency of bank's activity largely depends on the quality of its management. Within this context, administrators were approved based on their experience. Taking into account the risky character of the banking activity and with the view to operatively preventing possible difficulties during the process of nominating candidates for the position of administrator, NBM stipulated concrete grounds for their removal. Set criteria allowed the selection of persons that had, following own decisions, significantly affected the banks' financial situation with the view to their further non-admittance to the process of banking management.

With the view to avoiding over-evaluation of assets and incomes by the National Bank of Moldova, new requirements towards assets acquired in exchange of credit reimbursement were set. According to these new rules, bookkeeping records register the lowest value – credit amount or market value of assets acquired in exchange of credit reimbursement. In case these assets failed to be commercialized during one year, their value is transferred to losses. At the same time, the same value is reflected in the memorandum account for assets' recording and further commercialization.

Chart 48. Dynamics of banking system assets concentration as according to groups of banks as on 31.12.1999 and 31.12.2000 (millions of Lei)



Assets of Commercial Banks

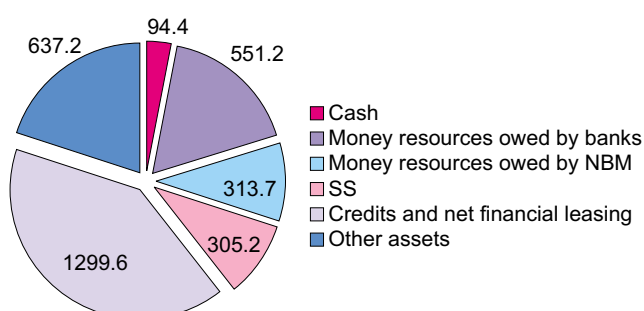
Assets of commercial banks amounted to Lei 4665.1 millions on 31.12.2000 or by Lei 1463.8 millions or by 45.7% more than on 31.12.1999

Assets of large banks (13 banks) recorded significant increases during the year by 56.4%; assets of medium banks (4 banks) increased by 38.5%. At the same time, assets of small banks (3 banks) reduced by 64.9% (chart 48).

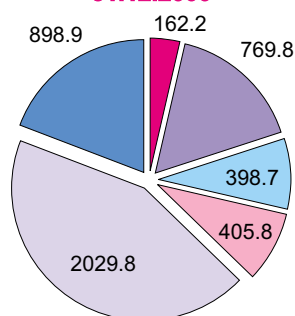
The weight of large banks' assets constituted 91.0% and increased during the year by 6.2 percentage points on the account of lower weight of assets held by small and medium banks (by 5.9 and 0.3 percentage points) that constituted as on 31.12.2000 1.8% and 7.2% of total assets.

The structure of banking assets recorded increasing trends by all articles (chart 49).

Chart 49. Dynamics of banking system assets structure (millions of Lei) 31.12.1999



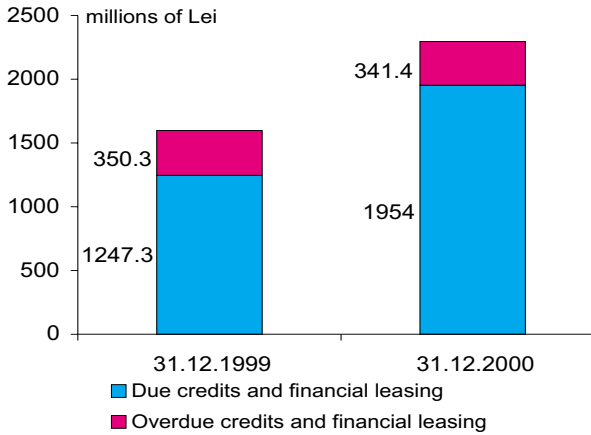
31.12.2000



The largest weight in total assets as on 31.12.2000 is held by credits and net financial leasing – 43.5%, securities held 8.7%, money resources owed by banks – 16.5%, money resources owed by NBM – 8.5%, cash – 3.5% and other assets – 19.3%.

There were no significant modifications in the structure of assets as compared to the previous year.

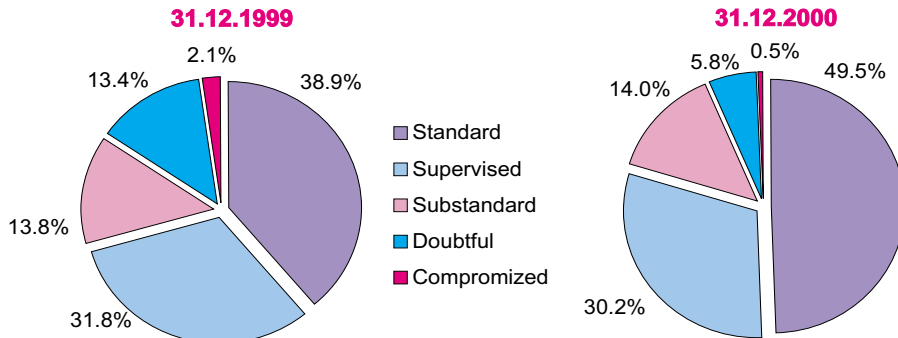
Chart 50. Dynamics of credit and financial leasing portfolio structure, according to credits reimbursement solvency as on 31.12.1999 and 31.12.2000 (millions of Lei)



The total value of credits and financial leasing (differs from credits and net financial leasing due to inclusion of credit loss provisions) as on 31.12.2000 amounted to Lei 2295.4 millions, which is by Lei 697.8 millions or by 43.7% more than as on 31.12.1999. At the same time overdue credits and non-interest bearing credits reduced as compared to the beginning of the year by Lei 8.9 millions or by 2.5% and amounted as on 31.12.2000 to Lei 341.4 millions or 14.9% of total credit portfolio (chart 50).

Qualitative modifications were recorded in the structure of credit portfolio and financial leasing of commercial banks. Thus, the weight of doubtful credits reduced by 7.6 percentage points, the one of supervised credits – by 1.6 percentage points and of compromised credits – by 1.6 percentage points. At the same time, the weight of standard credits increased by 10.7 percentage points and of sub-standard credits – by 0.1 percentage points (chart 51).

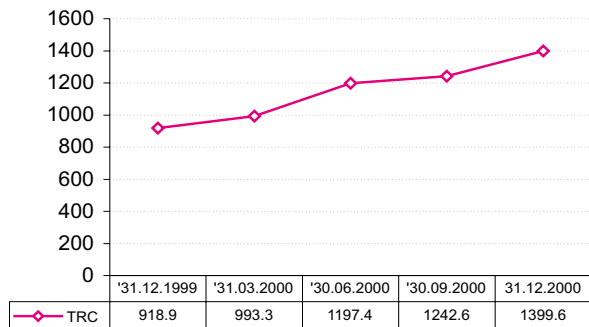
Chart 51. Dynamics of credit and financial leasing portfolio structure



The quality of the credit portfolio slightly improved due to the reduction by 7.1 percentage points as compared with 31.12.1999 of the weight of credit loss provisions in total credits and financial leasing that constituted 11.6% on 31.12.2000. Simultaneously, credit loss provisions decreased by Lei 32.4 millions (10.9%) and amounted to Lei 265.6 millions on 31.12.2000.

Total Regulatory Capital

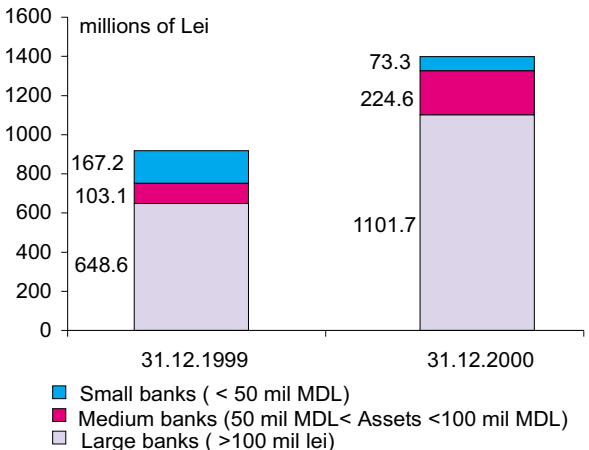
Chart 52. Dynamics of total regulatory capital (millions of Lei)



The total regulatory capital of the banking system amounted as on 31.12.2000 to Lei 1399.6 millions and increased as compared with 31.12.1999 by Lei 480.7 millions or by 52.3% (chart 52).

The total regulatory capital had increasing tendencies during the whole year; the largest increase was recorded in the 2nd quarter due to additional shares issuances by commercial banks in the total value of Lei 258.7 millions and the net income in the value of Lei 297.9 millions in 2000.

Chart 53. Dynamics of total regulatory capital concentration



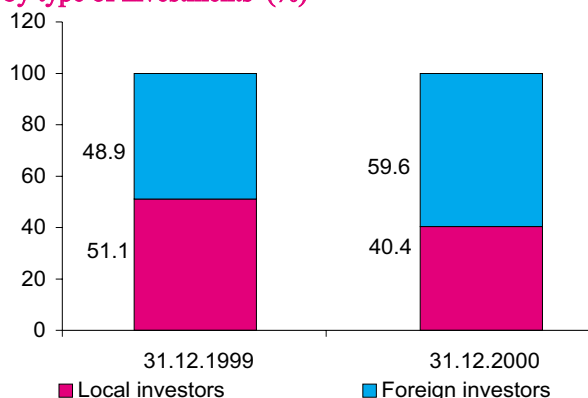
The average risk-weighted capital adequacy (ratio of total regulatory capital to total risk weighted assets) on 31.12.2000 was 48.5% against the minimum level of 12%. The capital adequacy high value was due to the large weight of share capital in total assets (30.6%) and of liquid assets with low risk level.

The total regulatory capital of large banks significantly increased by 69.9% and of medium banks – by 2.2 times. The total regulatory capital of small banks simultaneously reduced by 56.2% (chart 53).

The weight of total regulatory capital of large banks in total banking regulatory capital constituted 78.7%, of medium banks – 16.1%. These figures exceeded by 8.1 and 4.9 percentage points the level at the year beginning due to the reduction by 13.0 percentage points of the total regulatory capital held by small banks that constituted 5.2% on 31.12.2000.

The total regulatory capital of commercial banks from the Republic of Moldova is formed of means placed by local and foreign investors.

Chart 54. Banking system's capital structure by type of investments (%)



The foreign share in banking capital increased by 10.7 percentage points and totaled Lei 851.3 millions or 59.6% on 31.12.2000 (chart 54).

Foreign investors participating in the capital of Moldovan banks included: the European Bank for Reconstruction and Development, commercial banks from Greece, Romania, corporative investors from the USA, Russia, Great Britain, Germany, Israel, Belgium, Switzerland, other counties.

At the year-end, 6 banks of the Republic of Moldova had 100% foreign capital, 12 banks had joint capital and 2 banks – 100% local capital.

Liabilities of Commercial Banks

Liabilities of commercial banks totaled Lei 3236.9 millions on 31.12.2000 and increased as compared with the year-beginning by Lei 960.9 millions or by 42.2%.

All articles associated with liabilities recorded increasing trends during the year, except "other loans" that reduced by Lei 58.0 millions or by 10.5%. Thus, deposits by individuals increased by Lei 348.1 millions (56.4%), deposits by legal persons – by Lei 448.6 millions (48.2%), means owed to banks – by Lei 103.8 millions (263.3%), other liabilities – by Lei 118.2 millions (88.1%).

Chart 55. Dynamics of banking system's liabilities structure (millions of Lei)

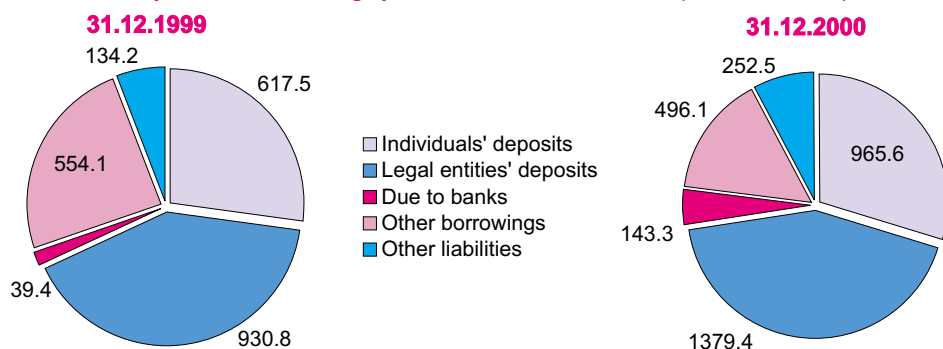
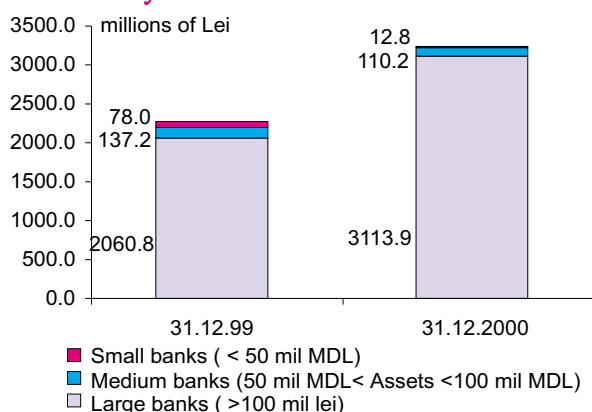


Chart 56. Dynamics of liabilities concentration



Liabilities held by large banks increased by 51%. At the same time liabilities held by small banks reduced by 83.6% and of medium banks – by 19.7% (chart 56).

Assets and liabilities in foreign exchange

Assets in foreign exchange increased by Lei 658.4 millions or by 36.9%; liabilities – by Lei 482.2 millions or by 28.6% (chart 57).

The weight of assets in foreign exchange in total banking assets constituted 52.3% as on 31.12.2000 and exceeded the weight of liabilities in foreign exchange in total banking assets by 5.8 percentage points.

Liquidity of Commercial Banks

Liquid assets of commercial banks amounted to Lei 1654.7 millions on 31.12.2000 and exceeded the value recorded at the beginning of the year by Lei 407.3 millions or by 32.6% due to the larger value of cash (by Lei 67.7 millions or 71.7%), of deposits with NBM (by Lei 85.0 millions or 27.1%), of liquid securities (by Lei 109.6 millions or 41.6%) and of net interbank credits (by Lei 145.0 millions or 25.2%).

Net interbank credits with the term of 1 month till maturity held the largest weight in liquid assets (43.6%) as on 31.12.2000. Liquid securities (state securities) constituted 22.5%, deposits with NBM – 24.1% and cash – 9.8%.

Chart 57. Evolution of assets and liabilities in foreign currency

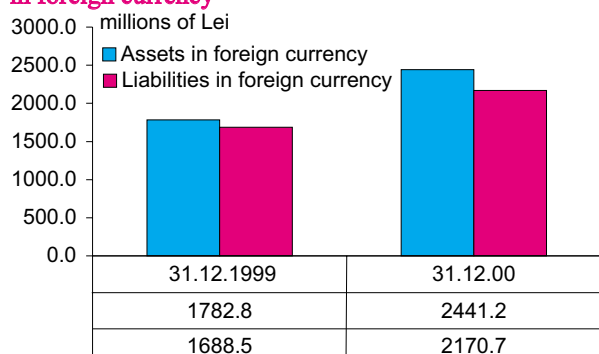
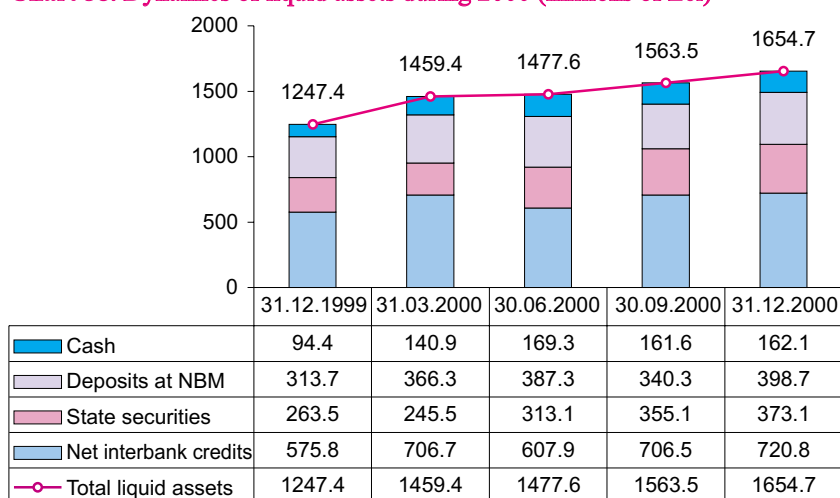


Chart 58. Dynamics of liquid assets during 2000 (millions of Lei)



The 1st liquidity principle (assets with the term > 2 years / financial resources > 2 years ≤ 1) was 0.4 on 31.12.2000.

The weight of liquid assets in total assets (the 2nd liquidity principle ≥ 20%) was 35.5%.

Income and Expense of Commercial Banks

The net income of commercial banks totaled Lei 297.9 millions in 2000, which is by Lei 156.4 millions or 110.6% more than in 1999. The interest income that amounted to Lei 587.0 millions or 60.7% of total banking income (including interest income and credit provisions – Lei 444.2 millions or 46.0% of total income) constituted the main source of net income formation. Non-interest income totaled Lei 379.4 millions or 39.3% of total income.

Total expense amounted to Lei 646.0 millions; out of this interest expense totaled Lei 202.4 millions (31.3%), non-interest expense totaled Lei 428.1 millions (66.3%) and payments related to credit loss provisions (provisions fund) totaled Lei 15.6 millions (2.4%).

Assets profitability (ratio of net income to total assets) was 6.4% on 31.12.2000, which is by 2.0 percentage points more than in 1999. The profitability of share capital (ratio of net income to total share capital) increased by 5.6 percentage points and constituted 20.9% (chart 60).

Net income margin (ratio of net interest income to income-bearing assets) was 11.5%.

Income margin in the banking system (ratio between net income and total income) was 30.8%, which is by 12.9 percentage points more than on 31.12.1999.

Chart 59. Dynamics of income and expense structure

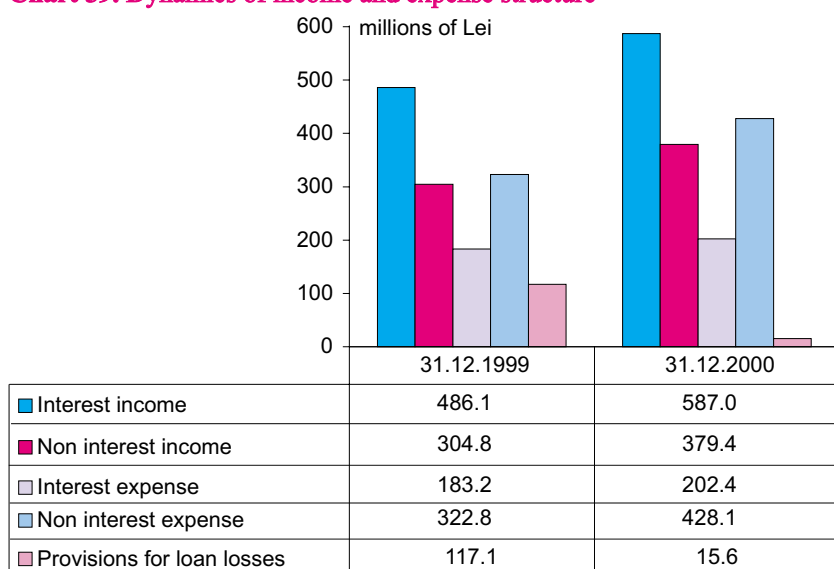
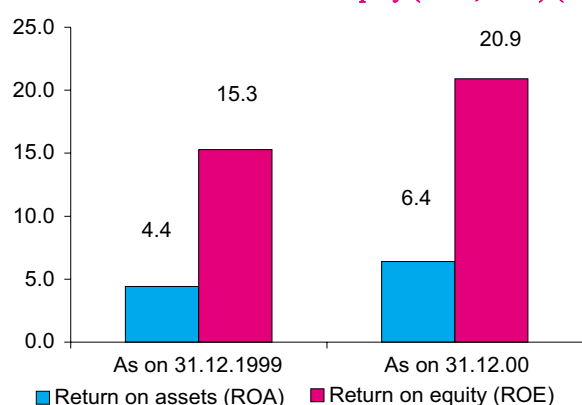


Chart 60. Return on Assets and Equity (ROA, ROE) (%)



Functioning and Development of the Payments System

The National Bank of Moldova facilitated the efficient functioning of the interbank system of payments in the context of performing the basic functions stipulated in Art. 5 of the Law on the National Bank of Moldova no. 548-XIII of July 21, 1995.

According to generalized indices, settlements performed through the interbank system of payments of the National Bank of Moldova constituted 151.7 % in value terms as compared with 1999 and the number of settlement documents – 143.9%. The interbank system of payments of the National Bank of Moldova operated on a regular basis. There were no delays of payments recorded by any bank participating at the interbank electronic transfer system of the National Bank of Moldova, which includes all the financial institutions authorized by NBM. The interbank electronic transfer system processed and executed 99.6% of payment documents or 92.6% in value terms of all interbank settlements.

The ratio of interbank payments to GDP constituted 2.06. Although this index is still inferior to the one of a normal economy, it exceeded the value in 1999 (1.65).

With the view to facilitating the process of nominative compensation payments, NBM adopted the provision on settlement check completion via IT.

With the view to developing the NBM interbank system of payments, the National Bank of Moldova performed in 2000 large activities to implement a modern updated interbank system of data transportation that is expected to be put into operation in May 2001.

The interbank retail payment systems recorded significant development during the reported year, especially in the field of banking card issuance and use. The number of cards in circulation increased by 2.61 times (from 5196 in 1999 to 13573 in 2000). The value of transactions by cards issued by resident banks increased by 2.96 times in value terms and by 4.22 times in numerical terms. The weight of non-cash payments by cards issued in Moldova in total retail selling and public paid services constituted 0.6%.

Transactions in Moldova with cards issued abroad totaled 34609 operations, which is by 1.76 times more than in 1999. The value of transactions with foreign cards amounted to Lei 91.5 millions or by 1.63 times more than in 1999.

Foreign currency inflow following transactions with cards totaled Lei 64 millions; thus the value of transactions performed in the Republic of Moldova with cards issued abroad prevailed over the value of transactions performed abroad with cards issued in the Republic of Moldova (Lei 27.5 millions).

A competitive market of payment services by card was set during the reported year: 7 banks joined the international system of payments via Europay International cards and 3 banks remained on the market of local system of payments using the microprocessing cards Moldcardsystem. Moldova's network of electronic terminals accepting banking cards as method of payment at commercial-

ization places numbered 200 devices. The network of automated devices of cash release by card numbered 14 bancomats.

With the view to establishing all conditions to largely apply non-cash payment instruments directly at commercialization places, the Government of the Republic of Moldova has, with the participation of the National Bank of Moldova, approved in the 4th quarter the decision on Large Implementation of Non-Cash Payment Instruments.

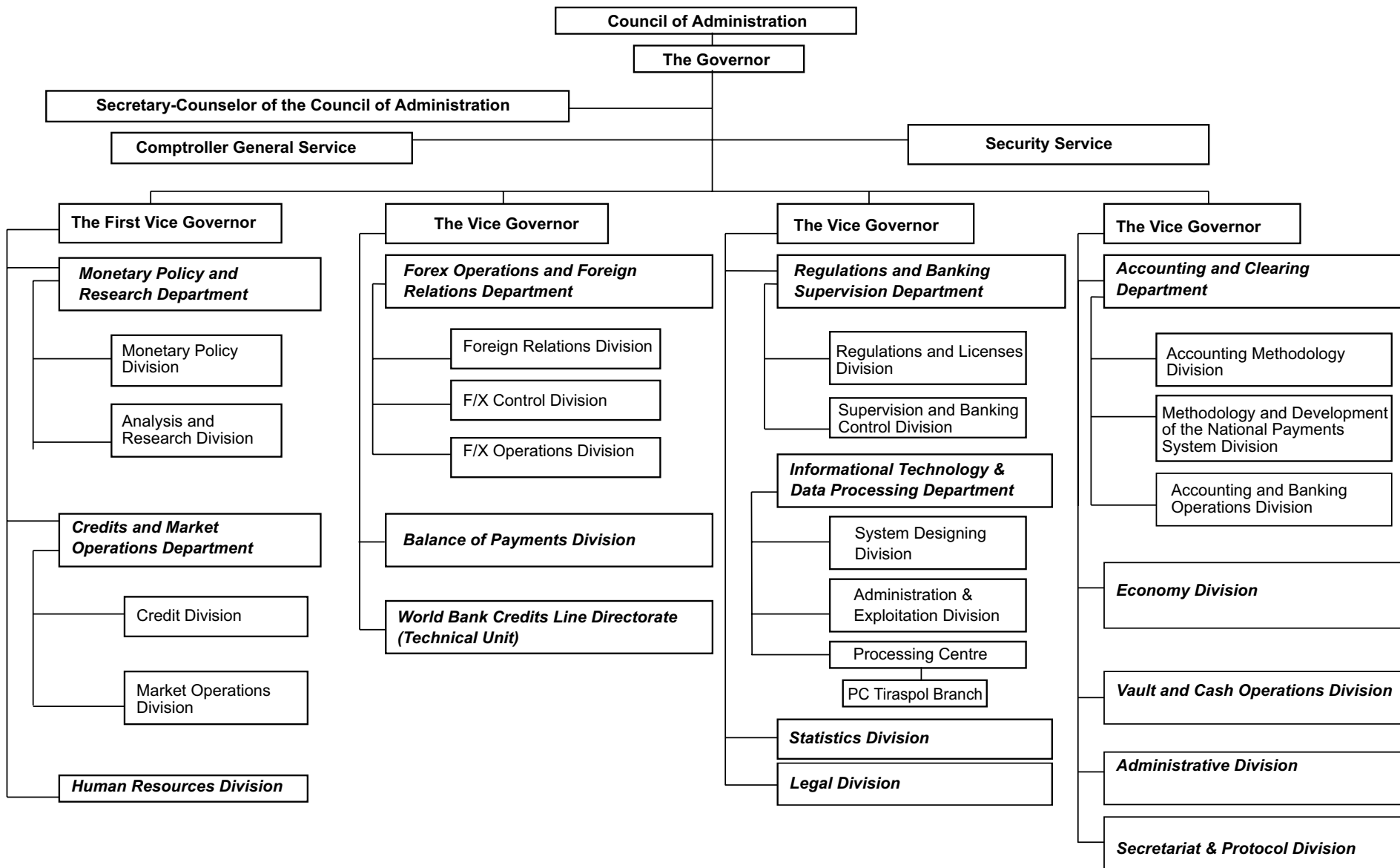
NBM Staff and Professional Training

On January 1st, 2000 the NBM staff amounted to 495 persons (out of total of 508). Out of total 495 employees, 349 persons (70.51%) have high school degrees, 54 persons (10.91%) – incomplete high education and specialized studies. There are 10 doctors in economics and technical sciences employed at the National Bank.

66 employees of NBM were promoted during the reported year; more than 50% of these are under 30. Young people constitute the basis of NBM staff: 297 employees (60%) are under 40, including 138 employees (37.88%) under 30; 125 employees (25.25%) are in their 40s, 69 employees (13.94%) are in their 50s and 4 employees (0.81%) are older than 60. The average age of the banks' employees is 38 years old.

217 employees of the National Bank participated at training courses during the year. 120 courses were specialized in economics, 2 – in legal aspects and 9 – in engineering. 115 employees took part at training courses abroad. The participation of around 44% of staff at different seminars and training events largely contributed to the efficiency of the NBM activity.

THE BANK'S ORGANISATION CHART



III. Financial Statement of the National Bank of Moldova

ADVICE

Of the Comptroller General Service On the Financial Statement of the National Bank of Moldova for 2000

The Service of Comptroller General of the National Bank of Moldova has, on the basis of the Law on the National Bank of Moldova, Art. 69(1) and the Regulation of Comptroller General Service, verified the balance sheet, the income and expense account, the modifications in the Bank's capital and provisions fund and the establishment of special reserve from the evaluation of foreign exchange position for the financial year ended on December 31st, 2000.

Following this verification and the controls performed during the reported year, the Comptroller General Service states as follows.

- the balance sheet amounts as of December 31, 2000 to Lei 6717733.6 thousands;
- operational income (including unrealized income from fluctuations of exchange rate) and expense amount to 699965.3 thousands lei and Lei 221717.0 thousands respectively and conform to accounting bookkeeping;
- the Bank's capital increased in accordance with Law no. 1338-XIV of 27.10.2000 on Modification of Art. 19 of the Law on the National Bank of Moldova by Lei 25000.0 thousands and totaled Lei 75000.0 thousands;
- payments to provisions fund in the amount of Lei 50000.0 thousands were performed in accordance with Art. 20(1)c) of the Law on the National Bank of Moldova; the balance of this fund on December 31st, 2000 was two times of the Bank's capital;
- transfers to special reserve following the evaluation of the foreign exchange position amounted to Lei 30295 thousands, which represent non-distributed income from fluctuations of the exchange rate;
- net income amounted to Lei 372953.3 thousands.

Based on above-stated, the Controller General Service confirms the authenticity of the balance sheet, of the income and expense account, of modifications to the Bank's capital and the provisions fund and the establishment of special reserve following the result of foreign exchange position evaluation for the financial year ended on December 31st, 2000.

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

We have audited the accompanying balance sheet of the National Bank of Moldova ("the Central Bank") as at 31 December 2000, and the related statement of income, cashflows and changes in paid up capital and reserves for the year then ended. These financial statements are the responsibility of the Central Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank as at 31 December 2000 and the results of its operations for the year then ended in accordance with International Accounting Standards.

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

PricewaterhouseCoopers

Kishinev, Republic of Moldova
16 February 2001

NATIONAL BANK OF MOLDOVA

BALANCE SHEET

AS ON 31 DECEMBER 2000

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

	<u>Note</u>	<u>31 December 2000</u>	<u>31 December 1999</u>
Assets			
Cash and short term funds	3	2,327,247	1,256,031
Assets with international organisations	4	1,991,972	1,961,343
Securities issued by non-residents	5	576,754	981,379
Due from the Government	6	1,730,789	1,733,582
Credits granted to banks and other individuals	7	47,524	67,134
Other assets	8	4,394	3,131
Tangible and intangible assets	9	<u>39,054</u>	<u>41,278</u>
Total assets		<u>6,717,734</u>	<u>6,043,878</u>
Liabilities			
Money issued into circulation		1,567,948	1,202,788
Due to Government and banks	10	807,124	533,872
Liabilities towards international organisations	4	3,913,449	4,006,474
Other liabilities	11	<u>166,877</u>	<u>143,703</u>
Total liabilities		<u>6,455,398</u>	<u>5,886,837</u>
Capital and reserves			
Statutory fund		75,000	50,000
Reserve fund		150,000	100,000
Other reserves		<u>37,336</u>	<u>7,041</u>
Total capital and reserves	12	<u>262,336</u>	<u>157,041</u>
Total liabilities, capital and reserves		<u>6,717,734</u>	<u>6,043,878</u>

Approved on 16 February 2001, Kishinev, Republic of Moldova.

NATIONAL BANK OF MOLDOVA

INCOME STATEMENT

FOR THE ENDED 31 DECEMBER 2000

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

	<u>Note</u>	<u>31 December 2000</u>	<u>31 December 1999</u>
Interest income	13	605,870	532,204
Interest expense	14	<u>(136,433)</u>	<u>(94,055)</u>
Net interest income		469,437	438,149
Other income/(expense)	15	<u>32,632</u>	<u>(13,114)</u>
Operating income		502,069	425,035
Operating expenses	16	(54,115)	(55,168)
Gains /(losses) from foreign exchange position	17	<u>30,295</u>	<u>(33,424)</u>
Profit before allocation		<u>478,249</u>	<u>336,443</u>
Profit allocation			
Statutory fund		(25,000)	-
Reserve fund		(50,000)	(63,620)
Foreign exchange position reserve		(30,295)	-
Repatriation to the State budget		(372,954)	(272,823)

Approved on 16 February 2001, Kishinev, Republic of Moldova.

NATIONAL BANK OF MOLDOVA

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2000

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

	<u>31 December 2000</u>		
Profit before allocation			478,249
Adjustments for:			
Provisions			(3,943)
Depreciation			<u>11,771</u>
Profit before changes in assets and liabilities			<u>486,077</u>
Assets with international organisations			(30,629)
Securities issued by non-residents			404,625
Due from Government			2,793
Credits granted to banks and other individuals			23,582
Other assets			<u>(1,049)</u>
(Increase)/decrease in current assets			<u>399,323</u>
Money issued into circulation			365,160
Due to Government and banks			273,252
Liabilities towards international organisations			(93,025)
Other liabilities			<u>37,507</u>
Increase/(decrease) in current liabilities			<u>582,894</u>
Operational cash flow			<u>1,468,293</u>
Fixed assets acquisitions			(13,349)
Disposals of fixed assets			<u>2,947</u>
Cash flow from investments			<u>(10,402)</u>
Profit payments to the State			<u>(387,286)</u>
Increase/(decrease) in cash and short term fund			<u>1,070,605</u>
Cash and short term funds as at 31 December 1999			1,256,642
Cash and short term funds as at 31 December 2000			2,327,247
Analysis of cash and short term funds			
	<u>31 December 2000</u>	<u>31 December 1999</u>	<u>Differences</u>
Cash in MDL	32,134	36,155	(4,021)
Cash in foreign currency	23,917	25,965	(2,048)
NOSTRO accounts in foreign currency	17,558	16,839	719
Deposits in foreign currency	2,227,429	1,123,148	1,104,282
Restricted deposits in foreign currency	23,749	50,981	(27,232)
Interest accrued in foreign currency	2,459	3,554	(1,095)
Cash and short term funds			
- gross	2,327,247	1,256,642	1,070,605
Provisions	-	(611)	611
Cash and short term funds			
- net	2,327,247	1,256,031	1,071,216

NATIONAL BANK OF MOLDOVA

STATEMENT OF CHANGES IN PAID UP CAPITAL AND RESERVES

FOR THE YEAR ENDED 31 DECEMBER 2000

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

	<u>Statutory fund</u>	<u>Reserve fund</u>	<u>Other reserves</u>	<u>Profit</u>	<u>Total capital and reserves</u>
Balance as at 1 January 1999	20,000	40,000	115,292	-	175,292
Profit of the year 1999	-	-	-	336,443	336,443
Increase in the statutory fund	3,620	(3,620)	-	-	-
Increase in the statutory fund	26,380	-	(26,380)	-	-
Increase in the reserve fund	-	63,620	-	(63,620)	-
Profit allocated to the State budget	-	-	-	(272,823)	(272,823)
Other reserves used	-	-	(81,871)	-	(81,871)
Balance as at 31 December 1999	<u>50,000</u>	<u>100,000</u>	<u>7,041</u>	<u>-</u>	<u>157,041</u>
Balance as at 1 January 2000	50,000	100,000	7,041	-	157,041
Profit of the year 2000	-	-	-	478,249	478,249
Increase in the statutory fund	25,000	-	-	(25,000)	-
Increase in the reserve fund	-	50,000	-	(50,000)	-
Set up of reserves from the profit from the foreign exchange position	-	-	30,295	(30,295)	-
Profit allocated to the State budget	-	-	-	(372,954)	(372,954)
Balance as at 31 December 2000	<u>75,000</u>	<u>150,000</u>	<u>37,336</u>	<u>-</u>	<u>262,336</u>

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

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

1 BASIS OF PRESENTATION

Currency of presentation

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

Basis of accounting

The National Bank of Moldova maintains its accounting records and prepares its statutory financial statements in accordance with the State Law on the National Bank of Moldova (“NBM Law”) and International Accounting Standards (“IAS”). These financial statements are based on statutory records and have been adjusted in order to conform in all material respects with International Accounting Standards issued by the International Accounting Standards Committee.

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

Article 54 of the NBM law requires net unrealised foreign exchange losses to be recorded in an Asset Revaluation Reserve, as part of the Bank’s equity, guaranteed by negotiable Government debt securities issued by the Government of the Republic of Moldova. This is inconsistent with the requirements of IAS, which requires these amounts to be recorded in the Statement of Operations. In view of the legal requirements, for the purpose of these financial statements, Management of the Bank have recorded an amount of MDL 30,295 thousands in the Asset Revaluation Reserve. Management of the Bank are currently reviewing the Law to eliminate such inconsistencies with IAS.

For the year 2000, the official inflation rate, determined by NBM, was 18.4% whereas for the year 1999, the inflation rate was 43.8%.

Use of estimates

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

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

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

1 BASIS OF PRESENTATION (CONTINUED)

Reclassification of comparative amounts

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

2 SIGNIFICANT ACCOUNTING POLICIES

Cash and short term funds

For the purpose of the cash flow statement, cash and short term funds include cash in hand and correspondent accounts, including overnight deposits and short term placements with other banks.

Assets with international organisations

The amounts recorded in the balance sheet of NBM as assets with international organisations represent mainly the participation of the Republic of Moldova in the International Monetary Fund (IMF). This amount is disbursed in Special Drawing Rights (SDR) but is administered in MDL. In the balance sheet as at 31 December 2000, the participation of the Republic of Moldova in the IMF is disclosed as the Moldovan leu equivalent of the agreed SDR amount.

Securities issued by non-residents

Securities issued by non-residents and held by NBM are highly liquid and low risk assets.

Those securities are disclosed in the balance sheet at fair market value and include the interest accrued until the end of the year and not matured. In the notes to the financial statements, these instruments are presented at their nominal value adjusted to the market value whereas the interest is disclosed separately.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due from the Government of the Republic of Moldova

Securities issued by the Government of the Republic of Moldova

These securities are tradable but, due to the fact their trading volume is rather low (approximately 81% of the total of the securities issued by the Government are held in the portfolio of NBM), they cannot be valued at market value. In the balance sheet, the securities are disclosed at nominal value adjusted with the unamortised discount.

Loans granted to the Government of the Republic of Moldova

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

REPO operations

Securities sold by the NBM under sale and repurchase (“REPO”) agreements are included in assets under the heading “Securities issued by the Government”.

In the liabilities section of the balance sheet, these operations are included in “Other liabilities” at the security selling value.

Credits granted to banks and other individuals

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

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

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

Premises and equipment

Premises and equipment are stated at cost or revalued amount adjusted with the accumulated depreciation.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	<u>Percentage per annum</u>
Premises	3 %
Equipment	30 %
Computer hardware	30 %
Other fixed assets	20 %
Motor vehicles - cars	20 %
Motor vehicles – heavy vehicles	10 %

Money issued in circulation

This is represented by the national currency in circulation. In the balance sheet this is disclosed at nominal value. Beginning with the 2000 the costs of production of the money issued in circulation are amortised from the moment the money is actually issued into circulation.

Due to Government and banks

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

Unlike previous years when these mandatory reserves were accounted for in a separate account, mandatory reserves were determined during the year 2000 based on averages cash balances of the banks with the NBM.

Capital and reserves

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

NATIONAL BANK OF MOLDOVA

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

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

Interest income and expense

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

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

Revaluation of foreign currency assets and liabilities

The NBM revalues on a daily basis the assets and liabilities held in foreign currency. At year-end, the net result of this revaluation is transferred to the reserves, when favourable, and affects the net result to be allocated to the State, when unfavourable.

Pension obligations

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

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value of financial instruments

The Central Bank's short term funds are carried on the financial statements at cost which approximates their fair value because these instruments have short maturity terms and are convertible into cash and are settled without significant transaction costs. The Central Bank's loans and advances are reported at cost less an estimate for diminution.

These items have predominantly short repricing terms and carry interest rates which reflect current market conditions. A market does not presently exist for these financial instruments which would facilitate obtaining prices for comparative instruments and if sold or settled prior to their stated maturity dates, these instruments would bear transaction costs in the form of fees or discounts. Fair value has not been computed for these instruments because of the impracticability of determining fair value with sufficient reliability.

1 CASH AND SHORT TERM FUNDS

	<u>31 December 2000</u>	<u>31 December 1999</u>
Cash in MDL	32,134	36,155
Cash in foreign currency	<u>23,917</u>	<u>25,965</u>
	<u>56,051</u>	<u>62,120</u>
NOSTRO accounts	17,559	16,839
Deposits	2,227,429	1,123,148
Restricted deposits (A.I.P.)	23,749	50,981
Interest accrued	2,459	3,554
Provisions	<u>-</u>	<u>(611)</u>
	<u>2,271,196</u>	<u>1,193,911</u>
	 <u>2,327,247</u>	 <u>1,256,031</u>
	 <u>31 December 2000</u>	 <u>31 December 1999</u>
Provisions at the beginning of the year	(611)	(611)
Provisions for the year	-	-
Income from provisions release during the year	611	-
Provisions at the year-end	-	(611)

NATIONAL BANK OF MOLDOVA

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4 ASSETS/LIABILITIES TOWARDS INTERNATIONAL ORGANISATIONS

	<u>31 December 2000</u>	<u>31 December 1999</u>
Assets		
Quota of the Republic of Moldova with IMF	1,987,745	1,957,591
Current account with IMF	4,180	3,732
Interest accrued	<u>47</u>	<u>20</u>
	<u>1,991,972</u>	<u>1,961,343</u>
Liabilities		
Cash deposit of the IMF	1,987,745	1,957,591
Due to other international organisations	67	200
Credits granted by IMF to NBM	1,908,662	2,032,591
Interest accrued on credits granted by IMF to NBM	<u>16,975</u>	<u>16,092</u>
	<u>3,913,449</u>	<u>4,006,474</u>

The cash deposit of the IMF represents the Account 1 and 2 and the Account for Securities issued by the Ministry of Finance of Moldova. These amounts represent the quota of the Republic of Moldova with the IMF.

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

- the deposit of IMF in cash (MDL) (account 1 and account 2) with NBM and in securities issued by the Ministry of Finance in favour of IMF in relation to the participation of the Republic of Moldova in IMF;
- the credits received by the NBM from the IMF. Due to the fact that these credits are denominated in SDR, they are disclosed in the balance sheet as the Moldovan leu equivalent at year-end.

Most credit granted by the IMF to the NBM are secured by bills of exchange issued by the NBM.

NATIONAL BANK OF MOLDOVA

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5 SECURITIES ISSUED BY NON-RESIDENTS

	<u>31 December 2000</u>	<u>31 December 1999</u>
Securities issued by non-residents	569,701	973,660
Interest accrued	<u>7,053</u>	<u>7,719</u>
	<u>576,754</u>	<u>981,379</u>

The securities issued by non-residents represent mainly securities issued by entities from the United States of America. Those securities are active, are very liquid and have a low risk rating.

6 DUE FROM THE GOVERNMENT

	<u>31 December 2000</u>	<u>31 December 1999</u>
Securities issued by the Government	374,860	351,962
Loans granted to the Government	1,315,208	1,283,326
Interest on securities issued by the Government	-	218
Interest on loans granted to the Government	40,721	98,076
Provisions	<u>-</u>	<u>-</u>
	<u>1,730,789</u>	<u>1,733,582</u>

	<u>31 December 2000</u>	<u>31 December 1999</u>
Provisions at the beginning of the year	-	-
Provisions during the year	(21,570)	-
Income on provisions during the year	21,570	-
Provisions at the year-end	-	-

The securities issued by the Government are disclosed at their nominal value adjusted with the unamortised discount.

The credits are guaranteed by securities issued by the Government of the Republic of Moldova.

The securities issued by the Government of the Republic of Moldova have a low trading volume. As at 31 December 2000, about 81% of these securities were held in the portfolio of the NBM.

NATIONAL BANK OF MOLDOVA

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7 CREDITS GRANTED TO BANKS AND OTHER INDIVIDUALS

	<u>31 December 2000</u>	<u>31 December 1999</u>
Credits granted to banks	105,442	129,744
Credits granted to other individuals	7,284	6,033
Interest accrued	-	531
Provisions	<u>(65,202)</u>	<u>(69,174)</u>
	<u>47,524</u>	<u>67,134</u>
	<u>31 December 2000</u>	<u>31 December 1999</u>
Provisions at the beginning of the year	(69,174)	(67,940)
Provisions during the year	(1,189)	(28,610)
Income from release of provisions during the year	5,162	27,376
Provisions at the year-end	(65,202)	(69,174)

The interest rates on the credits granted to banks varied between 10% and 32% in 2000.

8 OTHER ASSETS

	<u>31 December 2000</u>	<u>31 December 1999</u>
Prepayments	2,330	55
Other receivables	369	2,284
Inventories	3,902	2,359
Provisions for other receivables	(307)	(288)
Provisions for inventories	<u>(1,900)</u>	<u>(1,279)</u>
	<u>4,394</u>	<u>3,131</u>
	<u>31 December 2000</u>	<u>31 December 1999</u>
Provisions at the beginning of the year	(1,567)	(1,757)
Provisions during the year	(1,102)	-
Income from release of provisions during the year	480	190
Revaluation differences	(18)	-
Provisions at year-end	(2,207)	(1,567)

Prepayments mainly represent the cost of production of silver commemorative coins produced during the year 2000.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

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9 TANGIBLE AND INTANGIBLE ASSETS

	<u>Buildings</u>	<u>Equipment</u>	<u>Investments</u>	<u>Total tangible assets</u>	<u>Intangible assets</u>	<u>Total tangible and intangible assets</u>
Gross Book Value						
As at 31 December 1999	27,420	60,516	660	88,596	4,365	92,961
Additions	-	5,355	6,726	12,081	1,267	13,348
Set ups	3,235	1,088	(4,323)	-	-	-
Reclassifications	-	(855)	-	(855)	-	(855)
Disposals	<u>-</u>	<u>(8,738)</u>	<u>-</u>	<u>(8,738)</u>	<u>(3)</u>	<u>(8,741)</u>
Balance as at 31 December 2000	30,655	57,366	3,063	91,084	5,629	96,713
Accumulated depreciation						
As at 31 December 1999	(10,817)	(38,312)	-	(49,129)	(2,554)	(51,683)
Depreciation charge	(878)	(9,692)	-	(10,570)	(1,200)	(11,771)
Disposals	-	5,791	-	5,791	3	5,794
Balance as at 31 December 2000	<u>(11,695)</u>	<u>(42,213)</u>	<u>-</u>	<u>(53,908)</u>	<u>(3,751)</u>	<u>(57,659)</u>
Net Book Value						
as at 31 December 1999	<u>16,603</u>	<u>22,204</u>	<u>660</u>	<u>39,467</u>	<u>1,811</u>	<u>41,278</u>
Net Book Value as at 31 December 2000	<u>18,960</u>	<u>15,153</u>	<u>3,063</u>	<u>37,176</u>	<u>1,878</u>	<u>39,054</u>

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10 DUE TO GOVERNMENT AND BANKS

	<u>31 December 2000</u>	<u>31 December 1999</u>
Due to Government	397,180	199,205
Due to banks	409,924	332,087
Other	<u>20</u>	<u>2,580</u>
	<u>807,124</u>	<u>533,872</u>

Due to banks mainly represents the minimum reserves requirements to be held in the accounts with the NBM, in order to comply with the prudential requirements of the Central Bank.

Until 2000, these mandatory reserves were accounted for in a separate account. Starting with the year 2000, they are held in the cash accounts with the NBM and are determined based on averages daily balances of the cash accounts.

11 OTHER LIABILITIES

	<u>31 December 2000</u>	<u>31 December 1999</u>
Due to the State of Moldova	111,827	126,159
REPO operations	42,999	8,000
Interest on REPO operations	190	-
Credits for investments (see note 21)	7,691	7,198
Interest and commissions on credits for investments	274	210
Other liabilities	<u>3,896</u>	<u>2,136</u>
	<u>166,877</u>	<u>143,703</u>

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

REPO operations are represented by the selling price of the securities sold by NBM through these agreements.

NATIONAL BANK OF MOLDOVA

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12 CAPITAL AND RESERVES

	<u>31 December 2000</u>	<u>31 December 1999</u>
Statutory fund	75,000	50,000
Reserve fund	150,000	100,000
Other reserves	<u>37,336</u>	<u>7,041</u>
	<u>262,336</u>	<u>157,041</u>

In accordance with the Parliament of the Republic of Moldova's decision, the Statutory Fund of the NBM was increased from MDL 50 million to MDL 75 million at 31 December 2000. This increase was made through profit allocation.

Under the Article 20 of the NBM Law, 20 % of the net income must be distributed to the Statutory Reserve up to twice the amount of capital. At 31 December 2000 an amount of MDL 50 million was transferred to the Statutory Reserve to bring the reserve up to the statutory level of MDL 150 million.

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

13 INTEREST INCOME

	<u>31 December 2000</u>	<u>31 December 1999</u>
Interest from loans granted to the Government	352,518	331,871
Interest from securities of the Government	91,181	79,999
Interest from securities issued by non-residents	74,156	41,981
Interest from credits granted to banks	18,323	28,358
Interest from deposits and cash	69,648	49,958
Other interest	<u>44</u>	<u>37</u>
	<u>605,870</u>	<u>532,204</u>

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14 INTEREST EXPENSE

	<u>31 December 2000</u>	<u>31 December 1999</u>
Credits received from the National Bank of Moldova	(103,227)	(81,575)
Deposits from banks	(31,736)	(12,157)
REPO operations	<u>(1,470)</u>	<u>(323)</u>
	<u>(136,433)</u>	<u>(94,055)</u>

15 OTHER INCOME/(EXPENSE)

	<u>31 December 2000</u>	<u>31 December 1999</u>
Dealing operations	5,742	10,611
Revaluation of securities	26,400	(32,598)
Other income	<u>490</u>	<u>8,873</u>
	<u>32,632</u>	<u>(13,114)</u>

16 OPERATING EXPENSES

	<u>31 December 2000</u>	<u>31 December 1999</u>
Provisions	3,961	(1,234)
Cost of production of money	(2,957)	(5,617)
Staff costs	(20,439)	(13,996)
Depreciation	(11,770)	(9,147)
Other operating expenses	<u>(22,910)</u>	<u>(25,174)</u>
	<u>(54,115)</u>	<u>(55,168)</u>

Staff costs also include social security contributions, which represent 31% of salaries.

17 GAINS/(LOSSES) FROM FOREIGN EXCHANGE POSITION

Gain/(loss) on foreign exchange position represents the daily revaluation of the foreign currency denominated assets and liabilities held by the NBM.

In accordance with the NBM Law, these revaluation differences are transferred to the reserves, when favourable, and affect the profit and loss account, when unfavourable.

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18 CURRENCY RISK

Assets and liabilities expressed in MDL and other currencies

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

As at 31 December 2000, NBM held the following foreign exchange positions:

	<u>MDL</u>	<u>USD</u>	<u>Convertible currencies</u>	<u>Non convertible currencies</u>	<u>SDR</u>	<u>Total</u>
Assets						
Cash and						
short term funds	32,134	1,601,292	693,763	58	-	2,327,247
Assets with international						
organisations	1,987,745	-	-	-	4,227	1,991,972
Securities						
of non residents	-	541,532	35,222	-	-	576,754
Due from						
the Government	1,730,789	-	-	-	-	1,730,789
Credits granted to banks						
and other individuals	47,524	-	-	-	-	47,524
Other assets	4,364	30	-	-	-	4,394
Fixed and						
intangible assets	<u>39,054</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,054</u>
Total assets	3,841,610	2,142,854	728,985	58	4,227	6,717,734
Liabilities						
Money in circulation	1,567,948	-	-	-	-	1,567,948
Cash of						
Government and banks	421,374	360,312	25,438	-	-	807,124
Due to international						
financial organisations	1,988,575	-	-	-	1,924,875	3,913,449
Other liabilities	<u>157,990</u>	<u>8,887</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>166,877</u>
Total liabilities	4,135,886	369,199	25,438	-	1,924,875	6,455,398
Net position	<u>(294,276)</u>	<u>1,773,655</u>	<u>703,546</u>	<u>58</u>	<u>(1,920,648)</u>	<u>262,336</u>

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19 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The following methods and assumptions were used to estimate the fair value of the Bank's other financial instruments.

Financial assets

For monetary assets, excluding loans and amounts due from other banks, fair value approximates the carrying value; balances denominated in foreign currencies have been converted using the exchange rate prevailing at year end.

Financial liabilities

For monetary liabilities fair value approximates the carrying value; balances denominated in foreign currencies have been converted using the exchange rate prevailing at year end.

The fair value of deposit liabilities without a stated maturity is assumed to be the carrying amount (nominal amount).

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20 RISK MANAGEMENT

Interest rate risk

The Bank is exposed to interest rate price risk in domestic and foreign markets, principally as a result of investing international foreign exchange reserves, lending to customers and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates.

In practice, interest rates that are contractually fixed on both assets and liabilities are often renegotiated to reflect current market conditions. Furthermore as the Central Bank's main objective is to reach monetary stability, it may happen that the return on interest represents no priority of the monetary policies. Management does not believe it is practicable, therefore, to present reliable quantitative information on interest rate risk

Liquidity risk

Liquidity risk is defined as risk when maturity of assets and liabilities does not match. The table below shows assets and liabilities as at 31 December 2000 grouped by remaining contractual maturity.

Securities issued by Government of the Republic of Moldova and held in the NBM's portfolio have a contractual maturity not longer than 180 days. However, at maturity, those securities are rolled over, being repurchased by the Government and new securities are issued and purchased by the NBM.

Loans granted to Government which also have a contractual maturity not longer than 180 days are also frequently renewed and accordingly can have a longer term duration. At maturity, interest accrued is however paid to the National Bank of Moldova.

Currency risk

The Central Bank operates in a developing economy. Moldovan experiences fairly high rates of inflation and is exposed to currency devaluation. There is a consequent risk of loss in value in respect of net monetary assets held in Moldovan lei. To hedge its currency risk, the Central Bank's policy is to maintain a long position (ie assets exceeding liabilities) in hard currencies, with the exception of SDR, which represents credits received from the IMF but for which the currency of reference is the US Dollar.

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20 RISK MANAGEMENT (CONTINUED)

NBM liquidity as at 31 December 2000 is as follows:

	<u>Less than 3 months</u>	<u>Between 3 and 6 months</u>	<u>Between 6 and 12 months</u>	<u>More than 1 year</u>	<u>Undefined maturity</u>	<u>Total</u>
Assets						
Cash and short term funds	2,327,247	-	-	-	-	2,327,247
Assets with international financial organisations	4,227	-	-	-	1,987,745	1,991,972
Securities of non-residents	152,896	389,293	34,565	-	-	576,754
Due from Government	1,730,789	-	-	-	-	1,730,789
Credits granted to banks and other individuals	7,414	19,675	6,495	13,940	-	47,524
Other assets	1,161	1,230	-	-	2,002	4,394
Fixed and intangible assets	-	-	-	-	39,054	39,054
Total assets	4,223,734	410,198	41,061	13,940	2,028,802	6,717,734
Liabilities						
Money in circulation	1,567,948	-	-	-	-	1,567,948
Cash of Government and banks	419,743	360,312	25,438	1,631	-	807,124
Due to international financial organisations	62,353	45,378	90,755	1,727,151	1,987,812	3,913,449
Other liabilities	158,966	162	-	7,749	-	166,877
Total liabilities	2,209,009	405,851	116,194	1,736,531	1,987,812	6,455,398
Net liquidity surplus/(deficit)	<u>2,014,725</u>	<u>4,347</u>	<u>(75,133)</u>	<u>(1,722,592)</u>	<u>40,989</u>	<u>262,336</u>
Cumulated net liquidity surplus/(deficit)	<u>2,014,725</u>	<u>2,019,072</u>	<u>1,943,939</u>	<u>221,347</u>	<u>262,336</u>	<u>-</u>

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20 RISK MANAGEMENT (CONTINUED)

Credit risk

The Bank's maximum exposure to credit risk, excluding the value of collateral, is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Market risk

Moldovan economy is at an early stage of development and there is a considerable degree of uncertainty surrounding the likely future direction of domestic economic policy and political development. Management are unable to predict what changes in condition will take place in Moldova and what effect there might have on the financial position and the results of operations and cash flows of the Central Bank.

21 COMMITMENTS AND CONTINGENCIES

General claims

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

Legal proceedings

As at 31 December 2000, the Bank was engaged in no material litigation proceedings.

Capital commitments

As at 31 December 2000 the Bank had capital commitments in respect of investments amounting to approximately MDL 7.691 million (see Note 11). The Central Bank's Management believes that future net revenues and funding will be sufficient to cover these commitments and any similar commitments.

Credit related commitments

As at 31 December 2000, there were no outstanding credit related commitments

Derivatives

As at 31 December 2000, the Bank had no derivatives.

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21 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Fiduciary assets

These assets are not included in the Central Bank's balance sheet as they are not assets of the Central Bank.

22 RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

During 2000, banking transactions were entered into with related parties, namely the Government of the Republic of Moldova, in the normal course of business. These included settlements, loans, deposit taking, and foreign currency transactions in accordance with the NBM Law. All related party transactions have been fully disclosed in the financial statements.

23 EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

As at 16 February 2001, the official exchange rate of USD computed by NBM was of 1 USD=12.6120 MDL as compared to 1 USD =12.3833 MDL as at 31 December 2000 (1USD =11.5902 MDL as at 31 December 1999).