National Bank of Moldova

ANNUAL REPORT

2005

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1.Economic Situation of the Republic of Moldova

World Economy in 2005

The world economy continued to expand over 2005 mainly due to the economic activity displayed by the United States of America and Asia. Although prices for energy products exhibited ascendant trends over the reported year, inflationary pressures have, in general terms, been constrained. The world economic growth in 2005 has been estimated at 4.3%.

Table no.1. **Inflation rate and GDP growth in 2005**

	Inflation (annual values), %	Gross Domestic Product, %
USA	3.4	3.5
Japan	–0.3	2.7
EU 25	2.2	1.6
Euro-zone	2.2	1.3
Germany	1.9	0.9
France	1.9	1.5
China	1.8	9.9
Romania	9.0	4.1
Russia	10.9*	6.4
Ukraine	10.3*	2.4

* end of period (Dec.2005 / Dec.2004)

Economic growth of the USA accounted for 3.5% in 2005 (as in accordance with estimated values), reducing by 0.7 percentage point from 2004. Annual average inflation rose to 3.4%, reaching the highest level over the last five years. Unemployment rate exhibited descendant trends for the second consecutive year, accounting for 5.1%.

Within Euro zone GDP growth over 2005 slowed down by 0.8 percentage point as compared to 2004 and constituted 1.3% as according to estimates. Consumer prices increased by 2.2% from the previous year and unemployment rate slightly reduced to 8.6%. The real GDP growth within the 25 EU countries augmented by 1.6% from 2004; inflation rate kept the same level of 2.2% registered in the Euro zone. Unemployment rate decreased by 0.4 percentage point down to 8.7%.

Economic performance in Japan intensified in the first half of 2005, and, as estimated, exceeded by 2.7% the results of 2004. At the same time, monetary authorities did not manage to combat the deflation phenomenon neither in 2005: consumer prices reduced by 0.3% from the previous year.

Chinese economy denoted high growth rates like in previous years: GDP rose by 9.9%, and inflation accounted for 1.8%.

Romania, according to relevant forecast, displayed an economic growth of 4.1% on the background of a 9.0% average annual inflation rate.

In Russia, GDP augmented by 6.4%. Inflation accounted for 10.9% as at year-end, which is by 0.8 percentage point less than in 2004.

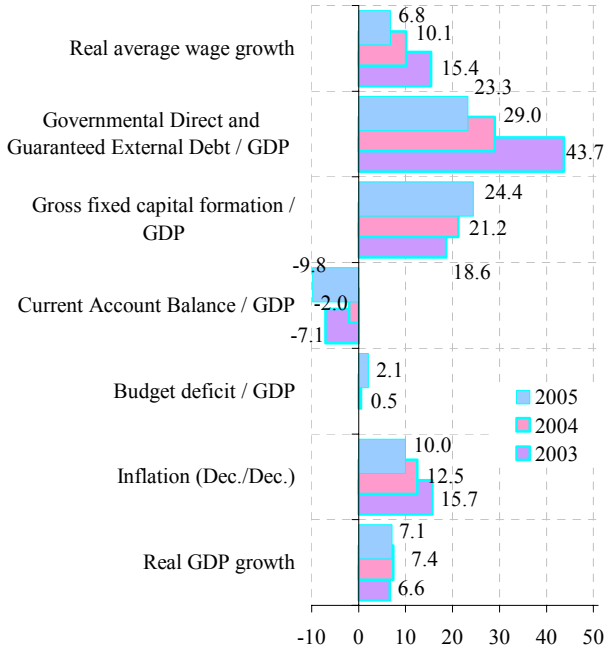
Ukrainian economy exhibited a reduction of economic growth down to 2.4% from 12.1% in 2004. Inflation accounted for 10.3%, diminishing by 2.0 percentage points from 2004.

International foreign exchange market. On the background of frequent rises of the US$ base rate and ultimate enlargement of discrepancies between base rates of other currencies in favour of US$, in 2005 US$ displayed a general appreciation trend as against other currencies. The largest US$ appreciation against Euro has been noted from May to June 2005.

Real Sector*

Economic development of the Republic of Moldova in 2005 exhibited maintained macroeconomic stability: both industrial and agricultural output registered increased values – by 6.3% and 1.0%, respectively; investments intensified; and economic growth ultimately accounted for 7.1% (*chart no. 1*).

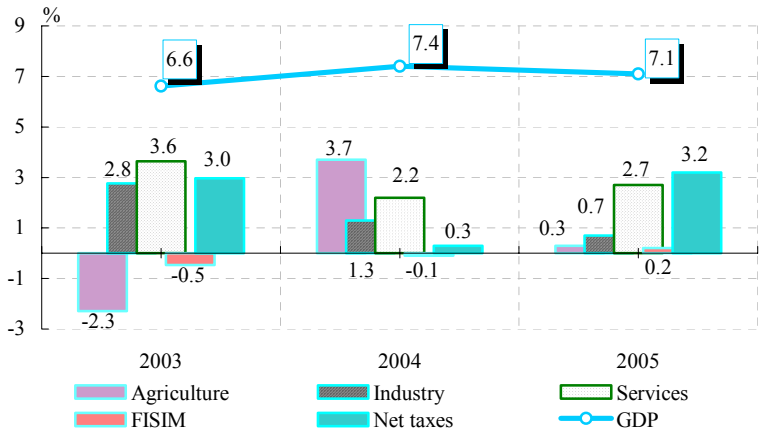
Chart no. 1. **Macroeconomic indicators** (%)



Gross Domestic Product (GDP) amounted to 36755.4 million lei in current prices in 2005. GDP per capita totalled 10225.3 lei (equivalent of around US$ 811.5), augmenting by 15.0% in nominal terms from the previous year. GDP deflator, which characterises the dynamics of general price level within economy, accounted for 7.2% (as compared to 8.0% in 2004).

According to ***GDP by resources,*** in 2005 GDP components displayed more reserved trends as compared to 2004: gross added value enlarged by 4.5% as against 8.3% in 2004, including within production of goods – by 2.9% (in industry – by 4.1% and in the agricultural sector – by 1.8%); and services – by 5.1%. Net taxes on goods and imports recorded a significant increase of 22.5% from the previous year (2.1% in 2004). Within *GDP structure*, components followed the same tendencies as over previous years: services accounted for the largest share of 54.4%; agriculture accounted for 14.2% of GDP (17.6% in 2004); industry – for 17.0%; net taxes on goods and imports – for 16.4% (14.1% in 2004); and financial intermediation services indirectly measured (FISIM) – minus 2.0%.

Chart no. 2. **Contribution to real GDP growth (by value added method)** (in % against previous year)



Within GDP real growth, the contribution of supply components was as follows: net taxes accounted for 3,2 percentage points; services – for 2.7 percentage points; and industry and agriculture – for 0.7 and 0.3 percentage point, respectively (*chart no. 2*).

* based on data of the National Bureau of Statistics of the Republic of Moldova

Chart no. 3. **Expenditure components contribution to real GDP growth (%)**

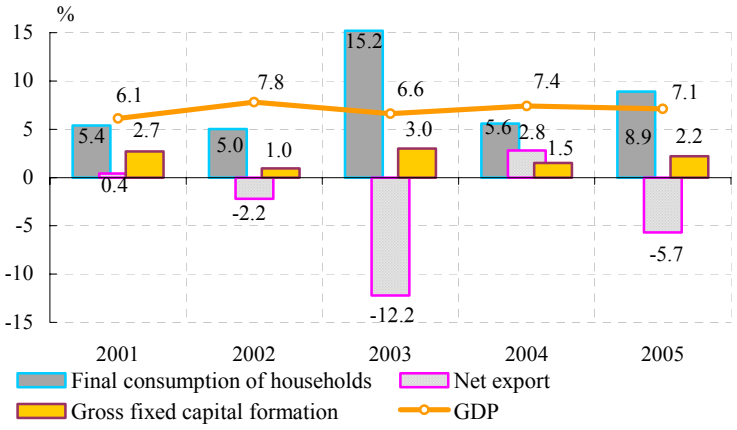


Chart no. 4. **Evolution of gross savings and investments,** (percent of GDP), %

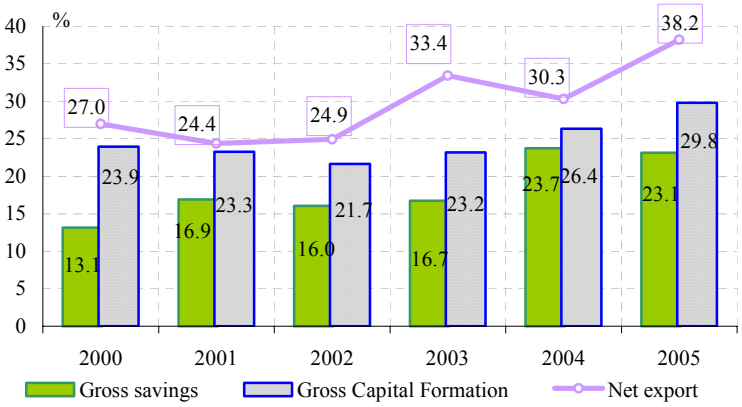
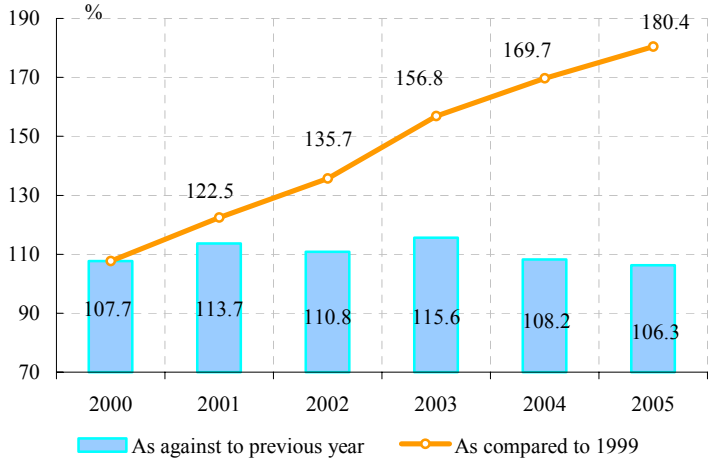


Chart no. 5. **Industrial production real growth index**



Within ***GDP breakdown by use***, the risen by 9.8% domestic aggregate demand implied the increase by 9.5% of final consumption (including by households – by 10.1%) and by 11.0% of gross capital formation (including of fixed capital gross formation – by 10.2%). Net exports of goods and services displayed a 0.5 percentage point expansion of imports' real growth over exports, thus contributing with minus 5.7 percentage points to GDP real growth (*chart no. 3*).

Within *GDP structure by use category*, final consumption rose by 4.5 percentage points from 2004 and accounted for 108.4%. At the same time, gross capital formation consolidated to 29.8% of GDP value, mainly supported by the growth to 23.1% of the share of gross savings (*chart no.4*).

The investment rate, determined as ratio of gross fixed capital formation to gross added value in the economy, accounted for 29.1% (as compared to 24.7% in 2004 and 21.8% in 2003)

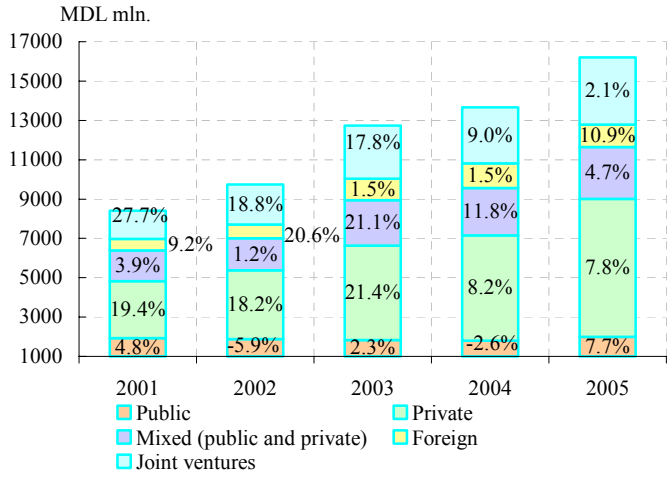
The ratio between domestic supply and domestic aggregate demand constituted 60.5%, by 5.4 percentage points less than in 2004.

In 2005 ***industrial output*** produced by enterprises of all property forms exhibited a 6.3% real increase from the previous year, amounting to 21123.5 million lei in current prices. Despite the slowing down of the growth rate over the last two years (from 15.6% in 2003 to 6.3% in 2005), the value of industrial output over 2000 to 2005 rose by 80.4% in real terms as compared to 1999.

The volume of industrial output by large and medium enterprises subject to monthly statistics recording totalled 16194.6 million lei, augmenting by 6.3% in real terms (*chart no. 5*) mainly due to the processing industry, which accounted for 4.9 percentage points of

total real growth. Both within the quarrying industry and electricity, heating, gas and water sector, the annual growth rates of 13.6% and 13.0%, respectively, displayed an almost double value of the average growth in the industrial output.

Chart no.6. **Structure of industrial output volume and growth rate by property form**

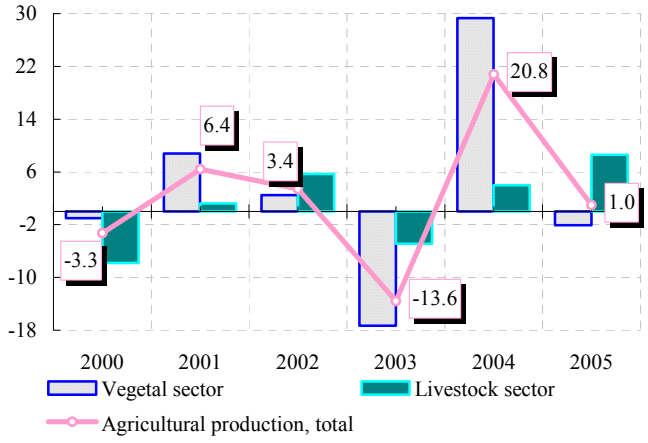


Labour productivity in the industrial sector from January to December 2005 rose by 10.6%. Within enterprises under monthly recording (679 enterprises), 44.3% registered reduced industrial output as compared to the previous year.

All forms of property booked heightened production outputs in real terms. Yet, foreign property accounted for the largest increase of 10.9% (*chart no. 6*).

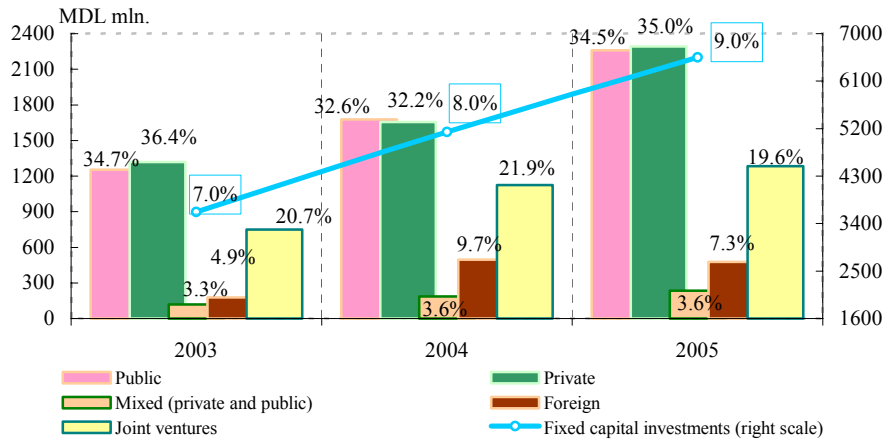
Agricultural output, as in accordance with estimates, amounted to 11937.0 million lei in 2005, enlarging by 1.0% in real terms from the previous year, and has been determined by the 8.6% increase of the livestock output and the 2.1% reduction of the vegetal output (*chart no 7*). The private sector (farms and households) accounted for the largest share of around 90.0% of livestock output value.

Chart no. 7. **Agricultural production dynamics** (against previous year, %)



Fixed capital investments into national economy amounted to 6548.3 million, surpassing by 9.0% in real terms the value of 2004 (*chart no. 8*). Investments in construction and assembly (48.5% of total investments) rose by 1.0%. Investments in equipment, tools and inventory expanded by 15.0% and totalled 3064.6 million (46.8% of total investments).

Chart no. 8. **Volume and structure of fixed capital investments by form of ownership** (MDL mln.)



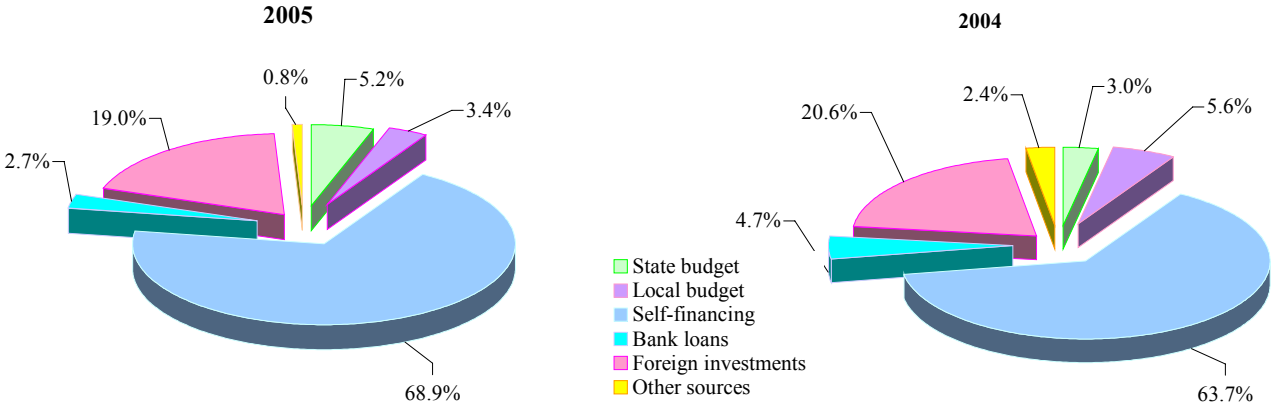
Out of total investments, the most considerable allocations have been directed towards the public

and private sectors (34.5% and 35.0%, respectively), which displayed increases of 14.0% and 21.0%.

The value of investments in the production sector accounted for 68.4% of total investments in fixed capital, keeping the level of the previous year. Investments in the non-production sector increased by 32.0% and totalled 2069.3 million lei.

By source of investments, own funds (including population means) accounted for the largest share of 68.9% of total investments, of which 35.0% has been allocated into public property and 45.9% - into private property (*chart no. 9*). Investments on account of the republican and local budget accounted for 8.6% of fixed capital investments, of which 80.2% went into the non-production sector.

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

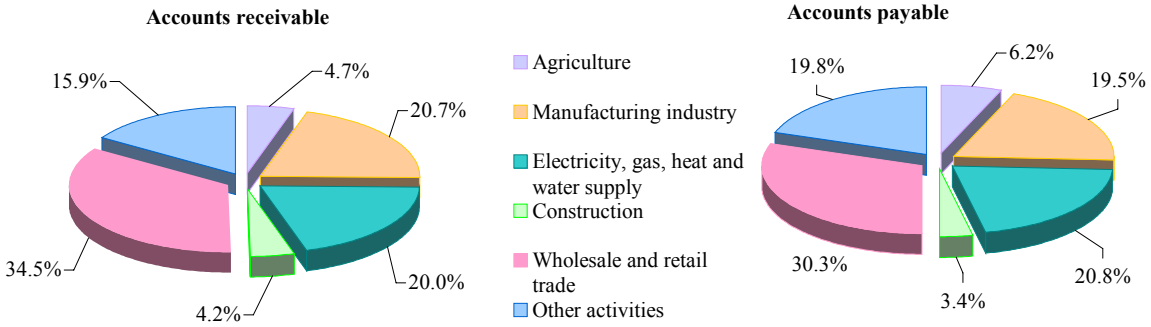


Fixed funds put into circulation in 2005 amounted to 4279.4 million lei, of which 73.1% - in the production sector.

Short-term accounts receivable totalled 22717.2 million lei as of 30 September 2005, including 20139.4 million lei (88.7%) on commercial invoices. The stock of short-term claims rose by 21.5% from the end of 2004.

Short-term accounts payable of enterprises grew by 7.6% and amounted, as of 30 September 2005, to 48368.9 million lei. Short-term accounts receivable and accounts payable of economic agents in breakdown by economic activity are shown in *chart no. 10*.

Chart no. 10. **Short-term accounts receivable and payable by main economic activity as of September 30, 2005** (%)



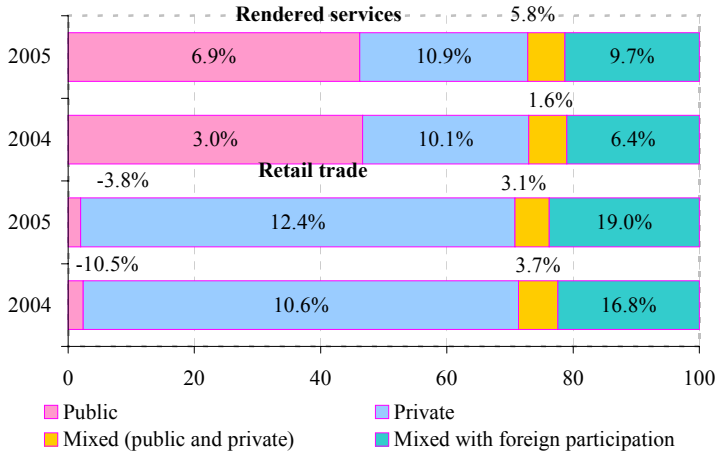
The total value of ***retail trade*** expanded by 4.7% in real terms from the previous year and totalled 19368.2 million, mainly due to the 11.6% increase of trade with non-food products (63.8% of total sales). At the same time, trading with food products reduced by 5.2%.

The 2005 value of retail trade through commercial units amounted to 10939.8 million lei, surpassing by 13.0% the value in the previous year. Reduced value (by 3.8%) of retail trade has been registered only within trade units of public property (*chart no. 11*). The largest trade turnover has been conducted through private commercial units (68.8% of total trade), within which the relevant growth accounted for 12.4%.

The value of goods traded over 2005 in domestic markets amounted to 8428.4 million lei (according to estimates), reducing by 4.4% from the previous year.

The value of ***services to the population*** rendered through the formal sector (81.0% of total services) rose by 8.5% in real terms and totalled 6635.0 million. Augmented values of rendered services have been registered in all forms of property; public units accounted for 46.2% of total services (*chart no. 11*).

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



Services rendered by individuals amounted to 1559.2 million lei, by 12.8% more than in 2004.

Economically active population (as in accordance with data of quarterly surveys covering 8208 households) totalled 1422.3 thousand persons, reducing by 0.7% from 2004. The *activity rate*[*] of persons aging 15 years old and older accounted for 49.0%. Unemployment, as in accordance with data of International Labour Office (ILO) totalled around 103.7 thousand persons (reducing by 12.8 thousand persons as compared to 2004). *Unemployment rate* accounted for 7.3% (8.1% in 2004).

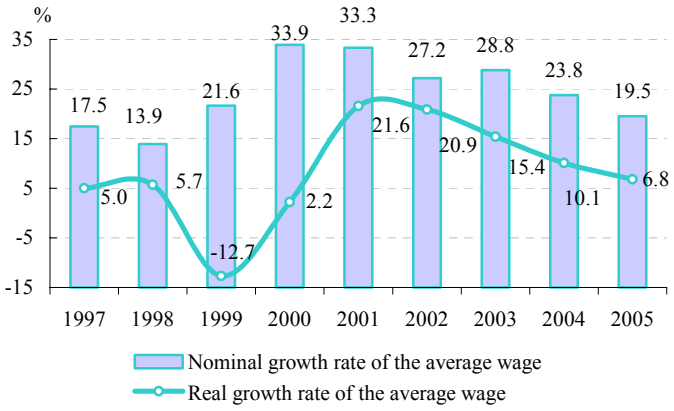
The number of employees in national economy[**] (662.8 thousand persons) diminished by 4.3 thousand persons (0.7%). The largest staff reduction over the last years has been observed in the agricultural sector (by 8.4% in 2005), which is mainly due to modified conditions in the labour market and exhibited tendencies of staff reduction. In consequence, rises have been noted in the number of persons in search for work both in the domestic and external markets. At the same time,

[*] Ratio between active population aging 15 years old and older and total number of population aging 15 years old and older
[**] within enterprises with 20 employees and more (5780 economic and social agents units)

ascendant trends have been registered within staff of the majority of economic activities.

The ***average monthly wage*** of an employee in the national economy totalled 1318.7 lei in 2005, augmenting by 6.8% in real terms from the previous year (*chart no. 12*). The wage fund amounted to 9336.4 million lei. Wage increases were noted over the year in all economic activities; the wage level has been set based on Decisions of the Government of the Republic of Moldova no. 1475 of 30 December 2004 on Minimum Wage Quantum of 200 lei in the Republic of Moldova and no. 103 of 02 February 2005 on Increase of Tariff and Position Wages of Budgetary Employees by 15.0% to 20.0%.

Chart no. 12 . **Evolution of the average annual wage (%)**



The amount of wage arrears as of 31 December 2005 amounted to 96.0 million lei, reducing by 38.9 million lei from 2004-end following measures undertaken as in accordance with the Decision of the Government of the Republic of Moldova no. 678 of 11 July 2005 on Liquidation of Wage Arrears in the Real Sector of Economy.

Evolution of Prices and Public Living Standard

The growth rate of consumer prices in 2005 followed its downward trend and accounted for 10.0% as against 12.5% in the previous year and 15.7% in 2003 (*chart no. 13*).

Prices for foodstuffs rose by 8.7%, accounting for 4.0 percentage points or 40.0% of 2005 inflation (*table no. 2*). The most significant increases in prices have been noted for fresh fruits – by 44.7%; sugar – by 31.4%; fish and fish products – by 19.4%; vegetal oil – by 18.8%; alcoholic beverages – by 16.2%; meat, meat products and

Chart no. 13. **Dynamics of CPI inflation in breakdown by component**

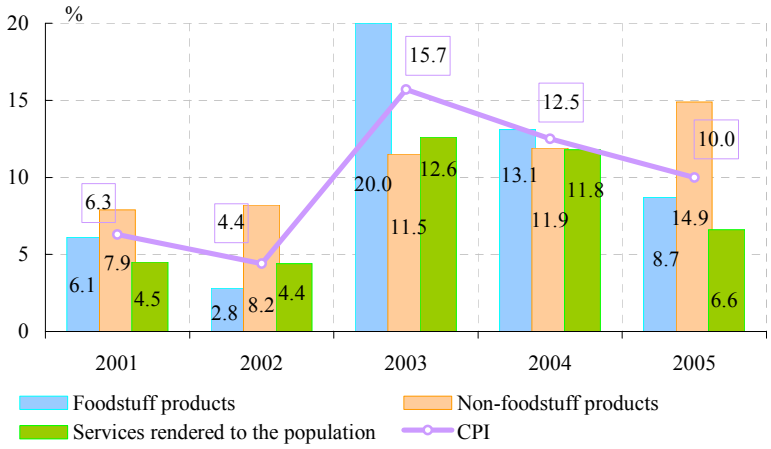


Table no. 1. **Components contribution to CPI (%)**

	2004			2005		
	price growth	contribution	contribution / CPI	price growth	contribution	contribution / CPI
CPI	**12.5**	**12.5**	**100%**	**10.0**	**10.0**	**100%**
Foodstuff products	13.1	6.1	48.8	8.7	4.0	40.0
Non-foodstuff products	11.9	3.6	28.8	14.9	4.4	44.0
Services rendered to the population	11.8	2.8	22.4	6.6	1.6	16.0

Source: NBS and NBM

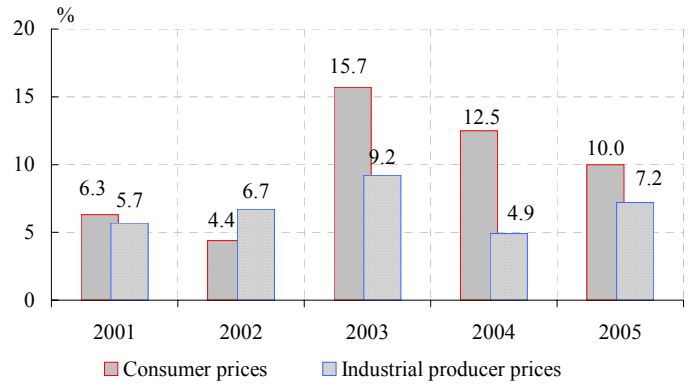
canned meat – by 14.3%; and milk and diary products – by 10.2%.

Prices for non-food products registered in 2005 the largest increase of 14.9%, accounting for 4.4 percentage points of inflation rate. Within this context, considerable price augmentations were recorded for fuel – by 35.7%; medicines – by 17.3%; construction materials – by 14.6%, ready-made cloths – by 10.8%; and footwear – by 10.8%.

Fuel prices in the European market augmented in December 2005 by 61.7% as compared to December 2004.

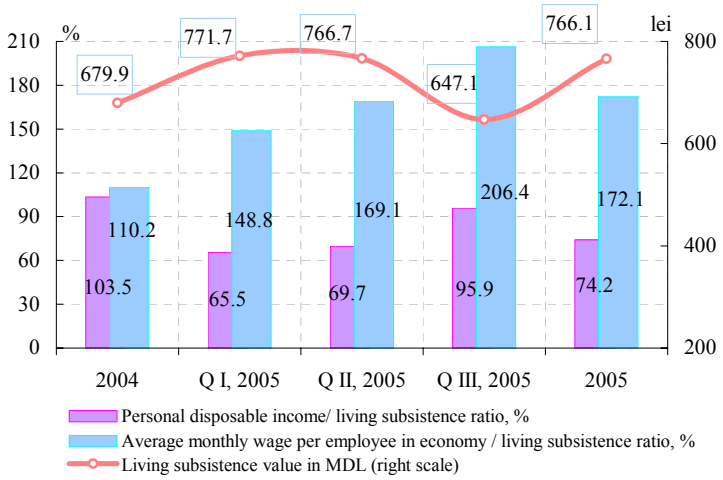
Within services rendered to the population, price and tariff increase denoted the slowest growth over the last three years – by 6.6%, accounting for 16.0% of consumer price general index increase. Within this group, the most significant price rises have been registered within dwelling reparation and maintenance – by 30.7%; public alimentation – by 27.0%; passengers' transportation – by 14.2%; and education – by 7.7%.

Chart no. 14. **Annual growth of price level, %**



Industrial producer prices over the year rose by 7.2%, which is by 2.8 percentage points less than the consumer price level, and yet, by 2.3 percentage points more than the level in 2004 (*chart no. 14*). Within mining sector prices increased by 25.9%; in processing industry – by 7.5%; and in electricity, heating gas and water – by 5.2%. Noticeable price hikes were exhibited in the following activities: production of bricks and tiles – by 50.7%; sugar production – by 26.0%; production of plastic and rubber items – by 23.0%; wood processing and production of wooden items – by 20.4%; production of pumps, compressors and hydraulic systems – by 19.5%; and fruits and vegetables processing and preserving – by 17.0%.

Chart no. 15. **Public living standard indicators**



The average monthly ***living subsistence*** in economy in 2005 amounted to 766.1 lei per person (*chart no. 15*). As compared to the previous year, the value of living subsistence enlarged by 12.7% in nominal terms and varied depending of price seasonal fluctuations pertinent to relevant year periods.

In breakdown by category of population, the maximum value of living subsistence has been registered by economically active population

(809.2 lei), and especially by men (856.7 lei). Child support implies a monthly allocation of 715.6 lei, providing due differentiation of this indicator depending on child age. The average monthly pension totalled 383.4 lei following the 18.0% increase in nominal terms over the year of the average monthly pension (depending on rises in consumer prices and minimal wages in economy). This pension covered the living subsistence related to this category of citizens (649.1 lei) by 59.1%.

The ratio between the average wage of an employee in the national economy (1318.7 lei) and the living subsistence accounted for 172.1%. The ratio between average disposable income per capita and living subsistence constituted 74.2%.

As in accordance with households' surveys, the ***average monthly disposable income*** in 2005 per capita amounted to 568.6 lei, denoting a 3.4% increase from the previous year.

Average monthly expenditures per capita totalled 519.5 lei in 2005, reducing by 3.1% in real terms from 2004.

Public Sector Finance*

In 2005 the ***national public budget*** was projected as follows: budget revenues – 14602.2 million lei; and budget expenditures – 15029.0 million lei.

National public budget revenues, as in accordance with preliminary data, amounted to 14694.9 million lei, or 100.6% of annual projected values. As compared to the previous year, total revenues increase by 28.8%, or 3287.3 million lei. Following execution operative data, consolidated budget expenditures over the year amounted to 13937.2 million lei, or 92.7% of annual projections. The national public budget registered a surplus of 757.7 million lei.

Tax collections (82.0% of total revenues) valued 12052.9 million lei, or 100.5% of set projections. Within the structure of national public budget revenues, indirect taxes accounted for 44.1%; direct taxes – for 35.9%; and other revenues – for 20.0%.

Non-fiscal revenues totalled 2006.2 million lei, or 97.1% of set projections, accounting for 13.7% of total national public budget collected revenues. Revenues from capital transactions and grants amounted to 176.3 million lei and 459.5 million lei, respectively.

Total ***state budget*** revenues in 2005 amounted to 9053.0 million lei (100.3% of set provisions stipulated in the Law on the State Budget no. 373-XV of 11 November 2004 and further amendments of 8 December 2005 no. 312-XVI), surpassing by 2485.9 million lei (37.9%) the value registered in 2004. State budget expenditures totalled 8470.2 million lei (93.9% of annual projections), exceeding by 27.3% the value of expenditures in 2004.

The state budget was closed in 2005 with a surplus of 582.8 million lei against the value of 10.3 million lei as provided in the budget.

State budget base revenues amounted to 7794.0 million lei, surpassing by 2.5% set annual projections. *State budget base expenditures* totalled 6954.0 million lei, by 0.2% more than annual projections. The base state budget was closed with a surplus of 840.0 million lei.

Revenues accumulated in 2005 for ***budgets of territorial-administrative units*** amounted to 3785.0 million lei, or 103.3% of annual projections. Expenditures valued 3782.0 million lei, or 95.4% of set projections. Overall, budgets of territorial-administrative units registered a surplus of 3.0 million lei.

* Source: preliminary data of the Ministry of Finance of the Republic of Moldova

Domestic public debt as of 31 December 2005 totalled 3787.1 million lei and complied with the limits provided in the Law on the State Budget for 2005.

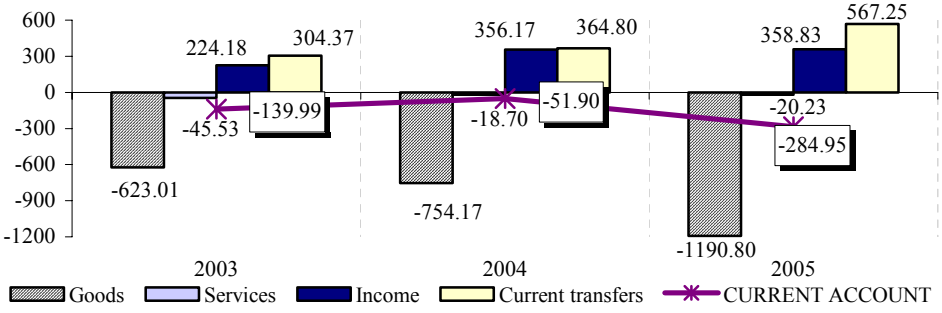
Within total domestic debt, credits of the National Bank of Moldova amounted to 2211.04 million lei and outstanding state securities – to 1576.02 million lei (including in NBM portfolio - 400.0 million lei).

Table no. 3. **Dynamics of Balance of Payments of Moldova – Main Aggregates** (US$ million)

	2003	2004	2005
CURRENT ACCOUNT	**-139.99**	**-51.90**	**-284.95**
Goods and services	**-668.54**	**-772.87**	**-1211.03**
Goods	**-623.01**	**-754.17**	**-1190.80**
exports (FOB)	805.09	994.07	1,104.36
imports (FOB), *including:*	-1,428.10	-1,748.24	-2,295.16
imports of energy resources (without electricity)	*-232.83*	*-308.57*	*-426.35*
Services	**-45.53**	**-18.70**	**-20.23**
exports	254.22	355.08	423.92
imports	-299.75	-373.78	-444.15
Income	**224.18**	**356.17**	**358.83**
inflow, *including:*	340.79	490.04	539.27
compensation of Moldovan employees	*332.00*	*480.00*	*520.00*
outflow, *including*	*-116.61*	-133.87	-180.44
income on equity#	-24.84	*-42.80*	*-76.05*
interest payable on loans and governmental bonds	*-45.89*	*-46.81*	*-57.69*
Current transf ers	**304.37**	**364.80**	**567.25**
inflow, *including*:	331.84	399.99	609.30
workers' remittances from abroad	*152.02*	*221.37*	*395.08*
outflow	-27.47	-35.19	-42.05
CAPITAL AND FINANCIAL ACCOUNT	**64.23**	**-72.58**	**92.87**
Capital transfers	**-19.01**	**-12.81**	**-3.83**
Direct investment	**78.18**	**150.68**	**225.45**
of which*: in domestic economy*	*78.29*	*153.90*	*225.29*
equity capital and reinvested earnings	60.84	154.32	156.55
loans from parent companies	17.45	-0.42	68.74
Portfolio investment	**-23.75**	**-9.77**	**-6.95**
Assets *	*0.40*	*-1.46*	*-1.19*
equity securities	-0.10	-0.16	
debt securities	0.50	-1.30	-1.19
*Liabilities***	*-24.15*	*-8.31*	*-5.76*
equity securities	0.72	-0.81	0.60
debt securities	-24.87	-7.50	-6.36
Financial derivatives – banks	**0.05**	**0.57**	**-1.59**
Other investment	**42.83**	**-53.26**	**8.41**
Assets *	*-11.30*	*-46.43*	*-103.14*
currency and deposits	23.98	-5.63	-52.50
other flows	-35.28	-40.80	-50.64
*Liabilities***	*54.13*	*-6.83*	*111.55*
long-term loans ***	-39.74	-8.74	-8.63
disbursed	*86.33*	*143.07*	*158.30*
reimbursed	*-126.07*	*-151.81*	*-166.93*
non-residents' deposits	4.60	14.73	12.64
arrears on external debt service	50.72	-36.31	29.88
modification of arrears on energy resources	-1.37	-12.66	-1.61
other flows	39.92	36.15	79.27
Reserve assets*	**-14.07**	**-147.99**	**-128.62**
Errors and omissions	75.76	124.48	192.08

* (-) - increase (+)- decrease; ** (+) - increase (-)- decrease; *** - including rescheduled loans
# dividends , reinvested earnings, undistributed branch profits

Chart no. 16. **Current account in annual dynamics** (US$ million)



Balance of Payments *

The evolution of the external sector of the national economy reflected in the balance of payments aggregates was determined by a rapid dynamics of imports in response to increased internal demand, as well as by the enlargement of final consumption.

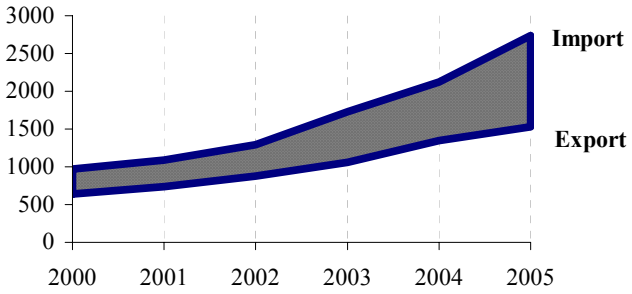
Current account of the balance of payments registered in 2005 a deficit of US$ 285.0 million, which accounted for 9.8% of GDP. The total surplus of the income and current transfers accounts covered 76.5% of the external trade with goods and services deficit (*chart no. 16*).

External trade with goods and services augmented, as compared to the previous year, by 22.9%: exports rose by 13.3%; and imports – by 29.1%. The deficit of the external trade with goods and services reveals

* preliminary data

continuous ascendant trends (*chart no. 17*), reaching a 41.5%-weight in GDP. Exports to imports of goods and services accounted for 55.8% and reduced by 7.8 percentage points from the previous year.

Chart no. 17. **External trade with goods and services**
(US$ million)



The registered discrepancy within exports and imports dynamics determined the accumulation of a US$ 1190.8 million-*deficit of the external trade with goods balance* (FOB prices), by 57.9% more than in the previous year. The trade deficit in absolute value surpassed the value of exports with goods by US$ 86.4 million. The trade balance deficit to GDP ratio rose by 11.8 percentage points and accounted for 40.8% (*table no. 4*). External trade turnover to GDP ratio exhibited a notable increase by 11.0 percentage points, denoting the amplification of national economy's dependence on external factors.

Table no. 4. **External Trade with Goods**

	UM	2003	2004	2005
Exports	US$ million	805.09	994.07	1104.36
Imports	US$ million	-1428.10	-1748.24	-2295.16
Trade balance	US$ million	-623.01	-754.17	-1190.80
External trade turnover	US$ million	2233.19	2742.31	3399.52
Exports growth (against previous year)	%	122.0	123.5	111.1
Imports growth (against previous year)	%	137.6	122.4	131.3
Exports / GDP	%	40.6	38.3	37.9
Imports/ GDP	%	-72.1	-67.3	-78.7
Trade balance / GDP	%	-31.5	-29.0	-40.8
Exports to imports ratio	%	56.4	56.9	48.1
External trade turnover / GDP	%	112.7	105.5	116.5

Table no. 5. **Trade Balance (f.o.b. – c.i.f.) with Goods by Country**

Country	2003	2004	2005	2005/2004
	US$ million			%
Ukraine	-268.99	-396.72	-434.65	109.6
Romania	-70.79	-129.48	-250.37	193.4
Germany	-80.02	-89.10	-126.40	141.9
Turkey	-32.00	-47.52	-56.72	119.4
Poland	-38.75	-43.81	-52.52	119.9
China	-6.07	-12.93	-37.25	2.9 times
Bulgaria	-34.53	-32.94	-34.26	104.0
France	-15.00	-25.92	-30.72	118.5
Hungary	-17.22	-18.28	-26.52	145.1
Austria	-6.75	-13.18	-23.84	180.9
Czech Republic	-11.13	-14.79	-21.75	147.1
Netherlands	-15.80	-18.39	-21.28	115.7
Belgium	-12.39	-11.15	-21.22	190.3
Italy	-12.65	26.87	9.01	33.5
USA	11.48	24.96	9.72	38.9
Kazakhstan	-2.73	4.93	10.43	2.1 times
Russia	90.96	109.44	43.91	40.1

Data source: NBS selections on imports (CIF) under the principle of exporting country
shuttle trade not included

The deficit of goods accounts with the rest of the world increased by 67.2% from 2004 and totalled US$ 850.6 million. The negative balance with CIS countries amounted to US$ 340.2 million, displaying a 38.6%-rise from the previous year.

The largest trade with goods deficits have been recorded in trade with Ukraine, Romania, and Germany (*table no. 5*).

Exports of goods increased by 11.1% from 2004 and constituted US$ 1104.4 million (*chart no. 18*), of which exports to CIS countries rose by US$ 561.3 million (9.5%); and to the rest of the world – by US$ 543.1 million (12.8%).

In 2005, 82.2% of exports have been directed to 9 countries: Russia (31.9%); Italy (12.2%); Romania (10.2%); Ukraine (9.1%); Belarus (6.5%); Germany (4.3%); USA (3.4%); Poland (2.3%); and Turkey (2.3%) (*table no. 6*).

As traditionally established, agricultural and food products constituted more than half of exported goods; the value of thereof in total exports of 2005 amounted to US$ 582.92 million, denoting a 10.6%-increase from the previous year.

Chart no.18. **Export of goods in annual dynamics** (US$ million)

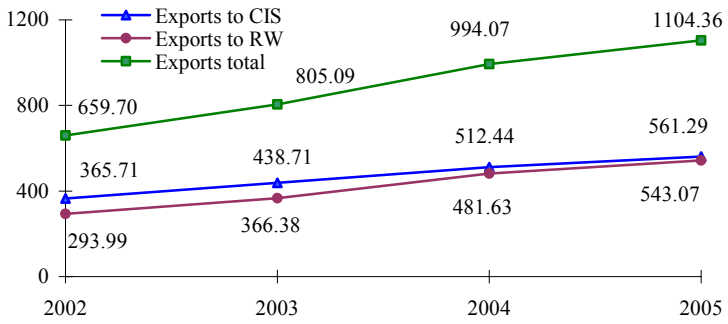


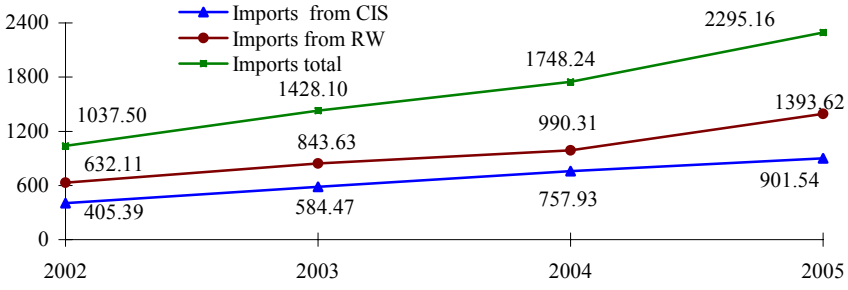
Table no.6. **Exports by Country**

	2003	2004	2005	Exports structure 2005	2005 / 2004
	US$ million			%	
Total of which:	**789.93**	**985.18**	**1091.04**	**100.0**	**110.7**
Russia	308.41	353.33	347.52	31.9	98.4
Italy	82.40	136.43	133.62	12.2	97.9
Romania	90.23	98.92	111.68	10.2	112.9
Ukraine	56.13	64.76	99.74	9.1	154.0
Belarus	41.07	58.65	71.17	6.5	121.3
Germany	56.18	71.28	47.45	4.3	66.6
USA	33.65	42.70	37.48	3.4	87.8
Poland	4.47	6.55	25.30	2.3	3.8 times
Turkey	7.24	12.27	24.69	2.3	2.0 times
Kazakhstan	9.21	15.43	17.30	1.6	112.1
France	9.34	11.31	16.49	1.5	145.8
Hungary	8.00	14.47	14.74	1.4	101.9
Slovak Republic	1.17	1.70	15.06	1.4	8.9 times
Belgium	7.26	11.78	14.56	1.3	123.6
Austria	11.33	10.03	11.70	1.1	116.7
United Kingdom	5.61	10.02	11.14	1.0	111.2

Data source: NBS (shuttle trade not included)

Imports of goods (FOB prices) over the reported period grew by 31.3% and totalled US$ 2295.2 million. Imports from CIS countries rose by 18.9% and amounted to US$ 901.6 million; imports from the rest of the world grew by 40.7% and valued US$ 1393.6 million (*chart no. 19*).

Chart no. 19. **Imports of goods in annual dynamics (FOB prices)** (US$ million)



As in accordance with data provided by the National Bureau of Statistics, 78.1% of total imports came from 9 trading partners of the Republic of Moldova: Ukraine (23.3%); Romania (15.8%); Russia (13.2%); Germany (7.6%); Italy (5.4%): Belarus (3.7%); Turkey (3.6%); Poland (3.4%); and France (2.1%) (*table no. 7*).

According to customs statistics the value of imported *energy resources* (FOB prices) in 2005, totalled US$ 426.4 million, surpassing by 38.2% the value imported in 2004. Such augmentation

was due to price increase (as against 2004, imports unit value of mineral fuel accounted for 129.0%; and of natural gas – for 117.0%).

Table no. 7. **Imports (CIF) by Country**

	2003	2004	2005	Imports structure 2005	2005 / 2004
	US$ million			%	
TOTAL, of which:	**1402.35**	**1768.52**	**2291.57**	**100.0**	**129.6**
Ukraine	325.12	461.48	534.39	23.3	115.8
Romania	161.02	228.40	362.05	15.8	158.5
Russia	217.45	243.89	303.61	13.2	124.5
Germany	136.20	160.38	173.85	7.6	108.4
Italy	95.05	109.56	124.61	5.4	113.7
Belarus	49.77	65.37	84.72	3.7	129.6
Turkey	39.24	59.79	81.41	3.6	136.2
Poland	43.22	50.36	77.82	3.4	154.5
France	24.34	37.23	47.21	2.1	126.8
Hungary	25.22	32.75	41.26	1.8	126.0
Bulgaria	40.72	38.43	41.89	1.8	109.0
China	6.14	13.02	37.87	1.7	2.9 times
Belgium	19.65	22.93	35.78	1.6	156.0
Austria	18.08	23.21	35.54	1.6	153.1
USA	22.17	17.74	27.76	1.2	156.5
Netherlands	18.70	23.91	27.81	1.2	116.3
Czech Republic	12.65	16.66	26.18	1.1	157.1

Data source: NBS selections on imports under the principle of exporting country shuttle trade not included

Table no. 8. **Balance of Services**

	2003	2004	2005	2005 / 2004
	US$ million			%
Services	**-45.53**	**-18.70**	**-20.23**	**108.2**
Credit	254.22	355.08	423.92	119.4
Debit	-299.75	-373.78	-444.15	118.8
Transportation	27.15	26.60	21.10	79.3
Credit	127.07	142.64	169.70	119.0
Debit	-99.92	-116.04	-148.60	128.1
Travel	-47.03	-21.39	-39.34	183.9
Credit	58.04	113.33	127.70	112.7
Debit	-105.07	-134.72	-167.04	124.0
Communications services	5.38	26.53	34.09	128.5
Credit	24.40	45.34	58.78	129.6
Debit	-19.02	-18.81	-24.69	131.3
Construction services	-1.56	0.90	3.56	4.0 times
Credit	0.56	4.30	6.05	140.7
Debit	-2.12	-3.40	-2.49	73.2
Computer and information services	-1.53	-3.49	-0.77	22.1
Credit	1.19	2.63	3.63	138.0
Debit	-2.72	-6.12	-4.40	71.9
Other services	-27.94	-47.85	-38.87	81.2
Credit	42.96	46.84	58.06	124.0
Debit	-70.90	-94.69	-96.93	102.4

The value of *external trade with services* rose in 2005 by 19.1%. Exports grew by US$ 68.8 million, or 19.4%, mainly due to increase in communications – by US$ 13.4 million; travel – by US$ 14.4 million; and transportation – by US$ 27.1 million. Imports augmented by US$ 70.4 million (18.8%), especially following rises in travel – by US$ 32.3 million and transportation – by US$ 32.6 million (*table no. 8*).

The deficit of the balance of services grew by 8.2% from 2004 and totalled US$ 20.2 million. Services rendered to CIS countries rose by 17.1%; and to the rest of the world – by 20.3%; imports from CIS countries increased by 23.2%; and from the rest of the world – by 17.4%.

Net *income* account within the reported period amounted to

US$ 358.8 million (*table no. 9*).

Income of residents working abroad constituted an important source of foreign exchange inflows into the Republic of Moldova. In 2005 this income was estimated at US$ 520.0 million.

Table 9. **Income Balance**

	2003	2004	2005	2005 / 2004
	US$ million			%
Income	**224.18**	**356.17**	**358.83**	**100.7**
Credit	340.79	490.04	539.27	110.0
Debit	-116.61	-133.87	-180.44	134.8
Compensation of employees	**289.02**	**438.94**	**476.83**	**108.6**
Credit	332.00	480.00	520.00	108.3
Debit	-42.98	-41.06	-43.17	105.1
Investment income	**-64.84**	**-82.77**	**-118.00**	**142.6**
Credit	8.79	10.04	19.27	191.9
Debit	-73.63	-92.81	-137.27	147.9
Income on direct investment - debit	*-31.26*	*-49.92*	*-94.39*	189.1
Income on equity - debit	-24.84	-42.80	-76.05	177.7
Dividends and distributed branch profits - debit	-3.66	-2.60	-4.01	154.2
Reinvested earnings and undistributed branch profits - debit	-21.18	-40.20	-72.04	179.2
Income on debt (interest) - debit	-6.42	-7.12	-18.34	2.6 times
Income on portfolio investment	*0.00*	*0.12*	*2.73*	*22.8 times*
Credit	2.83	2.37	5.12	216.0
Debit	-2.83	-2.25	-2.39	106.2
Dividends	-0.59	-0.24		
Credit	0.05			
Debit	-0.64	-0.24		
Interest	0.59	0.36	2.73	7.6 times
Credit	2.78	2.37	5.12	2.2 times
Debit	-2.19	-2.01	-2.39	118.9
Income on other investment	*-33.58*	*-32.97*	*-26.34*	*79.9*
Credit	5.96	7.67	14.15	184.5
Debit	-39.54	-40.64	-40.49	99.6

Table no. 10. **Current Transfers**

	2003	2004	2005	2005 / 2004
	US$ million			%
Current transfers	**304.37**	**364.80**	**567.25**	155.5
Credit	331.84	399.99	609.30	152.3
Debit	-27.47	-35.19	-42.05	119.5
grants and technical assistance	117.33	115.39	132.25	114.6
Credit	119.80	117.67	133.32	113.3
Debit	-2.47	-2.28	-1.07	46.9
education and staff training	10.32	8.16	8.50	104.2
Credit	10.95	8.62	9.10	105.6
Debit	-0.63	-0.46	-0.60	130.4
humanitarian aid	22.88	17.64	9.86	55.9
Credit	22.91	17.67	9.99	56.5
Debit	-0.03	-0.03	-0.13	4.3 times
fees to international organizations	-4.71	-4.71	-4.68	99.4
Credit	0.02			
Debit	-4.73	-4.71	-4.68	99.4
workers' remittances	151.19	220.60	391.98	177.7
Credit	152.02	221.37	395.08	178.5
Debit	-0.83	-0.77	-3.10	4.0 times
other current transfers	7.36	7.72	29.34	3.8 times
Credit	26.14	34.66	61.81	178.3
Debit	-18.78	-26.94	-32.47	120.5

Income on investment recorded a negative balance of US$ 118.0 million determined by scheduled interest payments on governmental bonds (US$ 2.3 million), and loans: on IMF loans (US$ 2.7 million); governmental loans (US$ 20.0 million); commercial banks' loans (US$ 2.3 million); and other sectors' loans (US$ 30.5 million), including interest service on loans received from parent companies (US$ 16.2 million).

Reinvested earnings and non-distributed branch profits have been estimated at US$ 72.0 million.

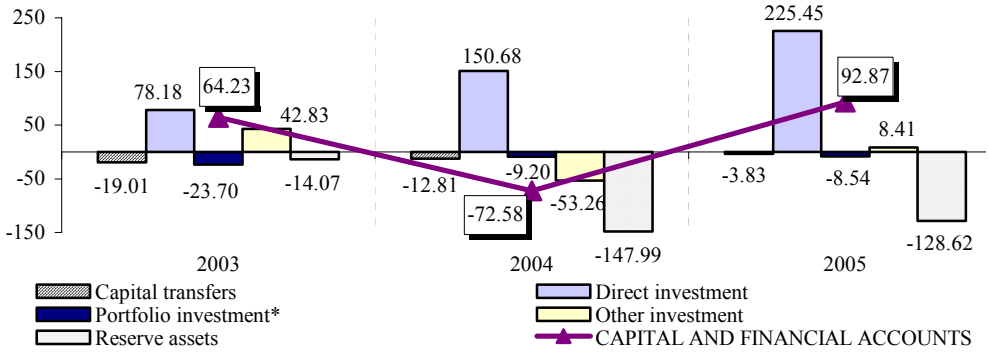
In 2005 the surplus of *current transfers* account registered US$ 567.3 million: inflows rose by 52.3% as against 2004; and outflows – by 19.5% (*table no.10*). The value of grants and technical assistance extended to

the Republic of Moldova by international organizations and foreign governments (according to estimations) totalled US$ 133.3 million.

Inflows of humanitarian aid registered within customs statistics amounted to US$ 10.0 million. Fees paid by the Republic of Moldova to international organisations over 2005 totalled US$ 4.7 million.

According to estimations working remittances from abroad totalled US$ 395.1 million and held the largest weight of 64.8% in total current transfers inflows from abroad.

Chart no. 20. **Capital and Financial Account** (US$ mln.)



*including financial derivatives

Table no. 11. **Direct Investment** (US$ million)

	2003			2004			2005		
	inflow	outflow	balance	inflow	outflow	balance	inflow	outflow	balance
Direct investment	**102.88**	**24.70**	**78.18**	**246.74**	**96.06**	**150.68**	**296.43**	**70.98**	**225.45**
abroad		0.11	-0.11	1.81	5.03	-3.22	1.60	1.44	0.16
in the national economy	102.88	24.59	78.29	244.93	91.03	153.90	294.83	69.54	225.29
Including:									
equity capital	*47.42*	*7.76*	*39.66*	*128.82*	*12.33*	*116.49*	*100.24*	*15.73*	*84.51*
banks	3.67	2.05	1.62	8.68	1.22	7.46	2.22	4.42	-2.20
other sectors	43.75	5.71	38.04	120.14	11.11	109.03	98.02	11.31	86.71
reinvested earnings	*21.18*		*21.18*	*40.20*	*2.37*	*37.83*	*72.04*		*72.04*
banks	6.08		6.08	6.56	2.37	4.19	8.24		8.24
other sectors	15.10		15.10	33.64		33.64	63.80		63.80
other capital (other sectors)	*34.28*	*16.83*	*17.45*	*75.91*	*76.33*	*-0.42*	*122.55*	*53.81*	*68.74*
Structure of direct investment flows									
by sector (%)	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*
banks	*9.5*	*8.3*	*9.8*	*6.2*	*3.9*	*7.6*	*3.5*	*6.4*	*2.7*
other sectors	*90.5*	*91.7*	*90.2*	*93.8*	*96.1*	*92.4*	*96.5*	*93.6*	*97.3*

The *capital and financial account* of the balance of payments recorded net inflows of US$ 92.9 million (*chart no. 20*), determined, among others, by transactions under the Investment Agreement on Giurgiulesti Free International Port.

Capital transfers exhibited net outflows of US$ 3.8 million. Transfers of migrants leaving / arriving for permanent living from / into the country denoted net outflows of US$ 16.9 million and determined the capital transfers' negative balance. Partial forgiveness of certain governmental external debt generated capital transfers inflows in an amount of US$ 13.04 million.

Direct investments recorded net capital inflows of US$ 225.5 million (*table no. 11*). Direct investment into the national economy came from the USA, the Netherlands; Great Britain; Russia; Azerbaijan; etc., and have been directed mainly into the energy sector; transportation; communications and food industry. Equity capital and

reinvested earnings amounted to US$ 156.6 million, of which investments in the form of goods totalled US$ 8.8 million.

Table no. 12. **Portfolio Investment** (US$ million)

	2003	2004	2005
Portfolio investment (net)	**-23.75**	**-9.77**	**-6.95**
Assets	***0.40***	***-1.46***	***-1.19***
Equity securities – *other sectors*	-0.10	-0.16	
Debt securities	0.50	-1.30	-1.19
banks	*0.50*	*-1.30*	*-1.19*
other sectors			
Liabilities	***-24.15***	***-8.31***	***-5.76***
Equity securities	0.72	-0.81	0.60
banks	*-0.25*	*-0.60*	*0.56*
equity securities sold to non-residents	0.35	1.75	2.47
equity securities repurchased from non-residents	-0.60	-2.35	-1.91
other sectors	*0.97*	*-0.21*	*0.04*
equity securities sold to non-residents	1.96	0.99	0.20
equity securities repurchased from non-residents	-0.99	-1.20	-0.16
Debt securities – bonds and notes - *general government*	*-24.87*	*-7.50*	*-6.36*

Other capital inflows (external loans from parent companies) recorded US$ 122.6 million, growing by 61.4% from the previous year. Scheduled principal reimbursements totalled US$ 53.8 million; effective payments constituted US$ 43.4 million. The remaining value passed to arrears.

The stock of direct investment accumulated within the national economy at the end of 2005 has been estimated at US$ 1128.7 million, of which: equity capital and reinvested earnings amounted to US$ 894.4 million; and other capital – to US$ 234.3 million. Thus, direct foreign investment per capita totalled US$ 333.0.

Portfolio investments over 2005 were insignificant: net outflows totalled about US$ 7.0 million, determined by servicing of Eurobonds (*table no. 12*).

Foreign exchange swaps effected by commercial banks over 2005 determined outflows of US$ 1.6 million. Thus, within the stock of *financial derivatives* – assets amounted to US$ 2.1 million at the end of 2005; and liabilities – to US$ 1.2 million.

The balance of *other investment* registered net capital inflows of US$ 8.4 million: external assets rose by US$ 103.1 million; and liabilities to non-residents – by US$ 111.6 million.

Table no. 13. **External Loans** (US$ million)

	2003		2004		2005	
	dis-bursed	reim-bursed	dis-bursed	reim-bursed	dis-bursed	reim-bursed
Monetary authorities (IMF loans)		**22.26**		**21.61**		**21.41**
Governmental loans	**25.36**	**47.98**	**40.41**	**59.46**	**25.91**	**40.70**
including: rescheduled	*2.48*		*17.73*	*15.42*		
Banking loans	**16.05**	**6.61**	**22.89**	**21.13**	**13.97**	**14.29**
long-term	7.45	6.61	19.89	12.03	13.87	12.19
short-term	8.60		3.00	9.10	0.10	2.10
Other sectors' loans	**58.30**	**50.00**	**90.51**	**60.81**	**128.22**	**101.47**
long-term	53.52	49.22	82.77	58.71	118.52	92.63
including: rescheduled					*2.51*	*10.50*
short-term	4.78	0.78	7.74	2.10	9.70	8.84
TOTAL	**99.71**	**126.85**	**153.81**	**163.01**	**168.10**	**177.87**
TOTAL except for rescheduled	***97.23***	***126.85***	***136.08***	***147.59***	***165.59***	***167.37***

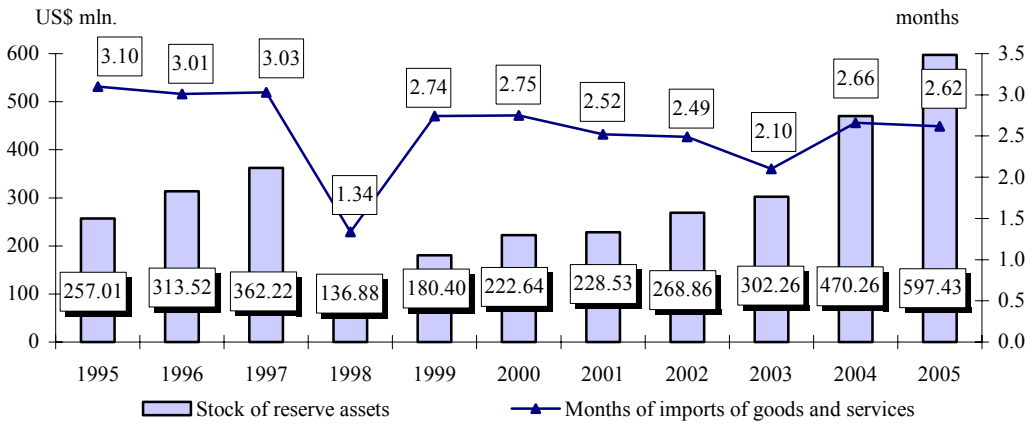
The value of external loans borrowed by economic agents within other sectors augmented, as compared to 2004, by 38.9%, totalling US$ 125.7 million (excluding rescheduled loans). Overall, scheduled

principal repayments (US$ 167.4 million) surpassed disbursements (US$ 165.6 million).

Other liabilities in the form of governmental external arrears increased by US$ 16.9 million in net value; and external arrears of other sectors – by US$ 11.4 million. Thus, as of 2005-end, the stock of governmental arrears totalled US$ 36.8 million; and the stock of other sectors' arrears – US$ 397.7 million.

State *reserve assets* increased over 2005 by US$ 128.6 million in net terms (*chart no. 21*). Out of reserves an amount of US$ 76.4 million was used for external debt service, US$ 10.0 million - for maintenance of embassies, US$ 4.0 million - for payments of fees to international organizations. The domestic foreign exchange market, where NBM bought foreign currencies in an amount of US$ 174.8 million, still remained the main source of reserves replenishment. The reserve assets' stock as of 2005-end totalled US$ 597.4 million. The level of reserve assets as of 31 December 2005 was sufficient to cover current imports of goods and services for 2.6 months.

Chart no 21. **Reserve assets of the Republic of Moldova 1995 – 2005**



External Debt of the Republic of Moldova

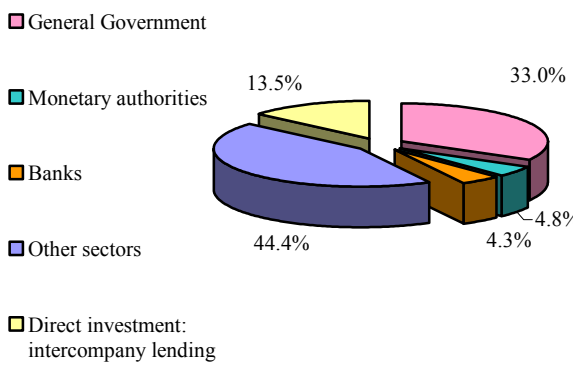
The gross external debt of Moldova at the end of 2005 amounted to US$1991.0 million, 37.7% of which were short-term liabilities (*table no. 14*).

Table no. 14. **Gross External Debt - by Sector** (US$ million)

	end of 2003	end of 2004*	end of 2005
General Government	**808.46**	**699.18**	**657.57**
Short-term	***70.43***	***21.10***	***36.75***
Other debt liabilities	70.43	21.10	36.75
Arrears	70.43	21.10	36.75
Long-term	***738.03***	***678.08***	***620.82***
Bonds and notes	94.31	31.76	25.40
Loans	643.72	646.32	595.42
Monetary Authorities	**142.05**	**125.94**	**95.44**
Long-term	***142.05***	***125.94***	***95.44***
Loans	142.05	125.94	95.44
Banks	**57.59**	**74.31**	**85.10**
Short-term	***33.17***	***42.05***	***51.45***
Loans	8.60	2.50	0.50
Currency and deposits	24.57	39.55	50.95
Long-term	***24.42***	***32.26***	***33.65***
Loans	24.42	32.26	33.65
Other Sectors	**720.50**	**779.20**	**883.51**
Short-term	***508.68***	***546.15***	***626.96***
Loans	4.77	8.92	9.43
Trade credits	137.50	174.85	254.83
Other debt liabilities	366.41	362.38	362.70
Arrears	42.39	49.11	51.27
Other	324.02	313.27	311.43
of which debt for energy resources	300.02	287.06	288.58
Long-term	***211.82***	***233.05***	***256.55***
Loans	211.82	233.05	256.55
Direct Investment: Intercompany Lending	**196.43**	**195.38**	**269.34**
Debt liabilities to direct investors	196.43	195.38	269.34
of which arrears	27.33	25.05	35.01
TOTAL	**1925.03**	**1874.01**	**1990.96**

* revised data

Chart no. 22. **Structure of external debt by sector in 2005**



Other sectors and the governmental sector have furtheron accounted for the largest shares in external liabilities – 44.4% and 33.0%, respectively (*chart no. 22*).

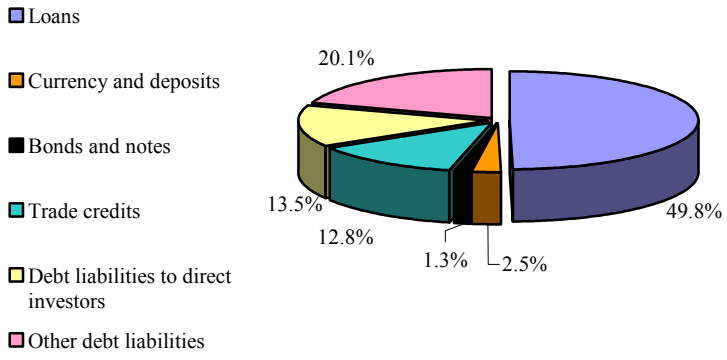
The public and publicly guaranteed debt amounted to US$773.7 million, reducing by 12.0% from the previous year *(table no. 15)*. External private non-guaranteed debt totalled US$1217.3 million, enlarging by 22.4% from the end of 2004, mainly due to drawings on new external loans from affiliated companies and accumulation of trade credits provided by non-residents.

The structure of external debt in breakdown by type of liabilities denotes the further prevalence of loans (49.8% of total debt), as well as of other liabilities, which include arrears on external debt service and debt for energy resources (20.1% of total debt) (*chart no. 23*).

Table no. 15. **External Public and Publicly Guaranteed Debt and Nonguaranteed Private Sector Debt** *(US$ million)*

	end of 2003	end of 2004	end of 2005
Public and Publicly Guaranteed Debt	**1008.43**	**879.51**	**773.70**
Short-term	***77.35***	***30.72***	***36.75***
Other debt liabilities	77.35	30.72	36.75
Arrears (on principal and interest)	77.35	30.72	36.75
Long-term	***923.26***	***840.69***	***736.95***
Bonds and notes	94.31	31.76	25.40
Loans	828.95	808.93	711.55
Direct Investment: Intercompany Lending	***7.82***	***8.10***	
Debt liabilities to direct investors	7.82	8.10	
Arrears		8.10	
Other	7.82		
Nonguaranteed Private Debt	**916.60**	**994.50**	**1217.26**
Short-term	***534.94***	***578.58***	***678.41***
Loans	13.37	11.42	9.93
Currency and deposits	24.57	39.55	50.95
Trade credits	137.50	174.85	254.83
Other debt liabilities	359.50	352.76	362.70
Arrears (on principal and interest)	35.48	39.49	51.27
Other	324.02	313.27	311.43
Long-term	***193.06***	***228.64***	***269.51***
Loans	193.06	228.64	269.51
Direct Investment: Intercompany Lending	***188.60***	***187.28***	***269.34***
Debt liabilities to direct investors	188.60	187.28	269.34
of which arrears	27.33	16.95	35.01
Total	**1925.03**	**1874.01**	**1990.96**

Chart no. 23. **Structure of external debt by type of liability in 2005**



Liabilities in the form of loans and debt securities including arrears on them amounted to US$ 1373.8 million, accounting for 69.0% of total external liabilities (*table no. 16*).

Table no. 16. **Stock of External Liabilities in the Form of Loans and Debt Securities*** (US$ million)

	end of 2003	end of 2004	end of 2005
Monetary authorities	**142.05**	**125.94**	**95.44**
Loans (from the IMF)	142.05	125.94	95.44
Direct governmental debt	**779.98**	**670.75**	**633.42**
Loans	617.15	620.80	574.89
Arrears on loans	14.63	18.19	33.13
Debt securities	94.31	31.76	25.40
Arrears on debt securities	53.89		
Private debt guaranteed by the government **	**86.40**	**82.82**	**44.84**
Banks	0.80		
Loans	0.80		
Other sectors	85.60	82.82	44.84
Loans	76.77	62.19	41.22
Arrears on loans	8.83	20.63	3.62
Private debt nonguaranteed by the government	**430.51**	**466.83**	**600.05**
Banks	32.22	34.76	34.15
Loans	32.22	34.76	34.15
Other sectors	398.29	432.07	565.90
Loans	335.49	375.63	479.62
Arrears on loans	62.80	56.44	86.28
TOTAL	**1438.94**	**1346.34**	**1373.75**

* including arrears on principal and interest
** loans under the guarantee of the government serviced by the economic agents and by the government

The breakdown by creditor of external debt in the form of loans and debt securities reveals that international organizations remained the main creditors of the Republic of Moldova (42.5%) (*table no. 17*).

Table no.17. **External Debt in the Form of Loans and Debt Securities by Creditors*** (US$ million)

	end of 2003	end of 2004	end of 2005
Monetary authorities	**142.05**	**125.94**	**95.44**
IMF	142.05	125.94	95.44
Direct governmental debt	**779.98**	**670.75**	**633.42**
Multilateral creditors	***405.00***	***413.26***	***387.78***
IBRD and IDA	364.73	385.76	370.59
EBRD	7.32	6.35	5.37
EU	27.50	13.61	3.55
IFAD	5.45	7.54	8.27
Bilateral creditors	***216.54***	***225.73***	***220.24***
USA	57.27	57.27	57.27
Japan	25.96	27.31	24.06
Russia	95.02	98.30	98.30
other	38.29	42.85	40.61
Other creditors	***10.24***		
Debt securities	***148.20***	***31.76***	***25.40***
Private debt guaranteed by the government**	**86.40**	**82.82**	**44.84**
Multilateral creditors	***60.86***	***54.69***	***20.88***
EBRD	*60.86*	*54.69*	*20.88*
Other creditors	***25.54***	***28.13***	***23.96***
Private debt nonguaranteed by the government	**430.51**	**466.83**	**600.05**
Multilateral creditors	***84.34***	***91.18***	***80.03***
Other creditors	***346.17***	***375.65***	***520.02***
TOTAL	**1438.94**	**1346.34**	**1373.75**

*including arrears on principal and on interest
**including loans serviced by the debtor and loans serviced by the guarantor

The stock of NBM liabilities to IMF diminished by 24.2%. Reimbursements on IMF loans amounted to US$ 21.4 million.

Direct governmental debt reduced by 5.6%. The governmental sector benefited from new borrowings in an amount of US$ 25.9 million, of which US$ 23.6 million were received from IDA within previously initiated projects. The actual payments on principal of loans and securities constituted US$ 29.4 million against scheduled principal payments in the amount of US$ 45.2 million. Arrears on principal on bilateral credits amounted to US$ 15.8 million.

Private external liabilities under government guarantee reduced by 45.9%. Real principal payments totalled US$ 10.4 million.

The private sector benefited over the reported year from new external loans in the amount of US$ 249.4 million. US$ 235.5 million were received by enterprises from other sector (of which US$ 109.8 million - from parent companies); other funds - by the commercial banks. The real principal payments of the private sector totalled US$ 134.9 million.

The dynamics of relevant indicators revealing the state of national economy indebtedness is shown in *table no.18*.

Table no. 18. **Macroeconomic Indices of External Indebtedness of Moldova**

	UM	2003	2004	2005
External debt at end of the period	US$ mil.	1925.03	1874.01	1990.96
External debt / GDP	%	97.2	72.1	68.3
External debt in the form of loans and debt securities	US$ mil.	1438.94	1346.34	1373.75
Public external debt service* (schedule)	US$ mil.	129.62	111.48	99.55
Public external debt service * (effective)	US$ mil.	89.40	136.52	87.15
Governmental external debt service** (effective)	US$ mil.	52.44	104.20	52.41
Public external debt service * (schedule) / Exports of goods and services	%	*12.2*	*8.3*	*6.5*
Public external debt service * (effective) /Exports of goods and services	%	*8.4*	*10.1*	*5.7*
Governmental external debt service** (effective)/income of consolidated budget	%	*11.0*	*16.9*	*7.3*

* debt in the form of loans and debt securities, including loans guaranteed by the government
**including payments by the government on guaranteed loans

2. Activity of the National Bank of Moldova

Monetary and Foreign Exchange Policy Implementation in 2005

Monetary Policy Objectives and Results

The establishment and promotion of the monetary and foreign exchange policy under the scope of the economic policy of the State represent one of the basic attributions of the National Bank of Moldova. The monetary and foreign exchange policy is defined as a set of measures undertaken by the National Bank of Moldova for purposes of establishing adequate monetary conditions favourable for the maintenance of macroeconomic stability and supporting of sustained economic growth.

The main objective of the National Bank implies the achievement and maintenance of the stability of the national currency. To reach this target, the National Bank establishes and maintains monetary, credit and foreign exchange market conditions conducive to the orderly and balanced economic development of the State and especially, of the market-based financial and foreign exchange system.

The monetary and foreign exchange policy for 2005 has been formulated based on provisions of the Law on the National Bank of Moldova and was subject to coordination with relevant economic and financial authorities of the State and approved by the Council of Administration of the National Bank of Moldova on 14 December 2004.

The macroeconomic framework applied for the elaboration of the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2005 included the Economic Development Scenarios of the Republic of Moldova under the Medium-Term Expenditure Framework for the years 2005 – 2007 (Decision of the Government of the Republic of Moldova no. 639 of 08 June 2004). The basic indicators of the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2005 provided as follows:

- inflation rate within 8% to 10%;
- real GDP growth by 6.0%.

The monetary program for 2005 provided as follows:

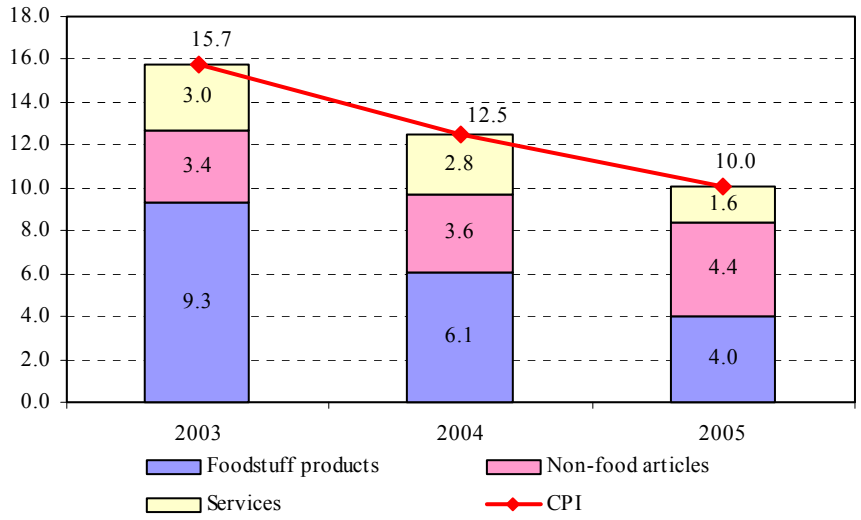
- increase of broad money M2 by 45.0%;

- increase of reserve money by 41.0% as compared to 2004-end.

GDP growth in 2005 accounted for 7.1% in real terms. As in accordance with preliminary data, the value of external trade with goods and services over 2005 enlarged by 22.9% as compared to the previous year; exports rose by 13.3%; and imports – by 29.1%.

The positive dynamics of macroeconomic indicators, intensification of sterilisation operations by the National Bank of Moldova, as well as the tempering of non-monetary factors' impact over 2005 permitted to enframe the inflation rate within set provisions of the Monetary and Foreign Exchange Policy for 2005.

Chart no. 24. **Components contribution to CPI in 2003-2005 (%)**



Within this context, the growth rate of consumer prices over 2005 followed the previously noted descendant trend and accounted, as of 2005-end, for 10.0%, including of foodstuffs – for 8.7%; non-food products – for 14.9%; and services – for 6.6%. Inflation rate in 2005 has been mainly affected by the consolidation of domestic demand following remittances' inflow; augmentation of wage incomes of the population; as well as rises in fuel prices in the international market, which led to the increase of domestic prices for fuel by 35.7% and, ultimately, for passengers' transportation by 14.2%.

To attenuate excessive fluctuations of the official exchange rate of the national currency against US$, the National Bank of Moldova intervened in the domestic forex market using US$ buying / selling operations and reverse swap (selling) transactions. Following interventions in the domestic forex market through acquisition of foreign currency surplus, NBM consolidated its international reserves and conducted national currency issuance.

Thus, NBM acquisitions of foreign currency over 2005 totalled US$ 174.8 million in net values, which determined international reserves' enhancement by US$ 127.1 million (27.0%) up to US$ 597.4 million.

At the same time, to attenuate relevant pressures of money issuance on price level following foreign currency acquisition, the National Bank intensified its sterilisation operations, which totalled US$ 8641.6 million in 2005.

As result, reserve money expanded by 31.8% from 31 December 2004 and stayed in line with the limits stipulated in the Monetary and Foreign Exchange Policy of the National Bank for 2005. The balance of currency in circulation increased by 871.3 million lei (23.5%); and overall banks' reserves – by 819.2 million lei (50.8%).

Broad money M2 (broad money in Moldovan Lei) consolidated by 36.7% in 2005, including deposits in national currency – by 47.7%. Deposits in foreign currency expressed in US$ rose by 27.4% (as against 31.7% in 2004).

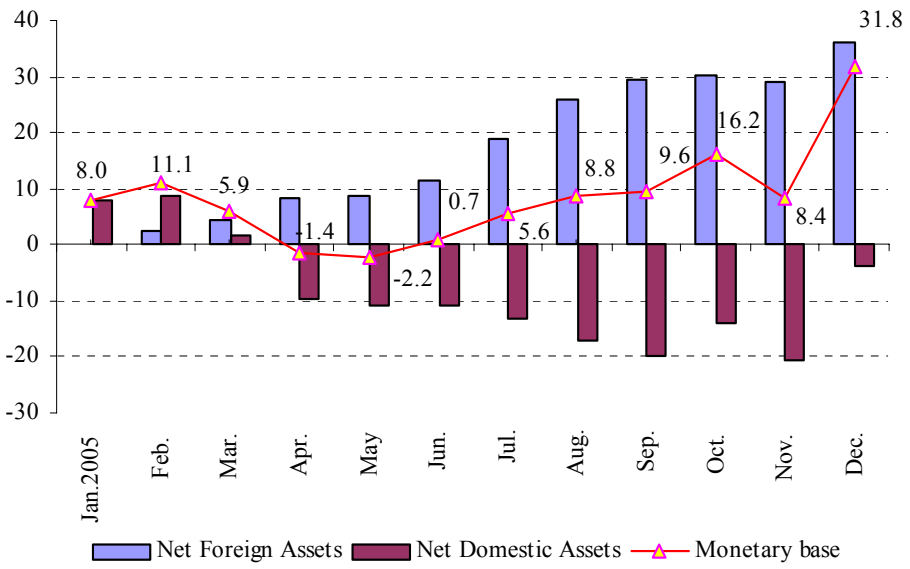
The broad money M2 dynamics generated the increase of the monetization level up to 30.3% in December 2005 from 25.4% in December 2004. The upward trend of the monetization indicator illustrates the positive dynamics of financial intermediation in the national economy.

Dynamics of Monetary Indicators

Reserve Money

Reserve money* in 2005 increased by 31.8% (1689.8 million lei) and amounted to 7002.9 million lei as of 31 December 2005.

Chart no. 25. **Components contribution to the monetary base growth (Dec. 2004=100%)**



The amplification of sterilisation operations by the National Bank of Moldova in the forex market constituted the main factor that induced the enlargement of reserve money. Net foreign assets denoted noticeable increases over 2005, while net domestic assets reduced as result of intensified sterilisation operations (*chart no. 25*).

The 50.8% rise of banks' reserves over the year was mainly due to the larger value of means in commercial banks' correspondent accounts with the National Bank of Moldova. Excessive banks' reserves consolidated by 2.1 times and totalled 1057.7 million lei as of 2005-end.

* Reserve money includes currency in circulation (outside the banking system), banks' reserves (reserves of commercial banks in lei maintained in correspondent accounts with the National Bank of Moldova and currency in banks' vaults) and sight deposits of other organisations with the National Bank of Moldova.

Such consolidation of banks' excess reserves determined the reduction of liquidity coefficient from 0.83 in 2004 down to 0.70 in 2005, which led to the increase of monetary multiplier.

The monetary multiplier rose over the year by 3.9% (from 1.53 up to 1.59), illustrating the intensified financial intermediation and, ultimately, the more pronounced growth rate of broad money (M2) over reserve money.

Broad Money Dynamics

Broad Money M2 (broad money in MDL) increased over the year by 2988.6 million lei, or by 36.7%. ***Broad money M3*** rose by 4107.1 million lei or by 35.0% and totalled 15826.8 million lei as of 31 December 2005.

The larger value of broad money M3 was due to the dynamics of implied components (*chart no. 26*), especially of the monetary aggregate M2 (currency in circulation, deposits in MDL and money market instruments), which rose over the year by 36.7% (as against 44.7% in 2004).

Chart no. 26. **Broad money M3 by components in 2002-2005**

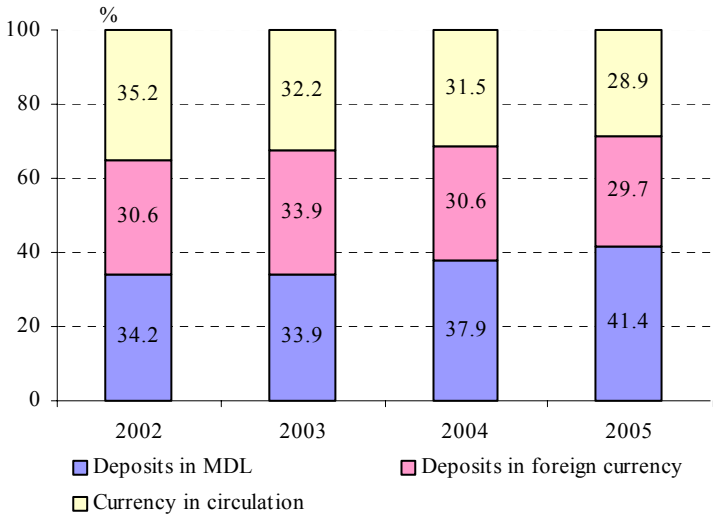


Table no. 19. **Broad money by components at end-period** (MDL mln.)

	2004	2005	Growth, %
Broad money M3	**11719.7**	**15826.8**	**35.0**
Broad money M2	**8137.0**	**11125.6**	**36.7**
Currency in circulation M0*	3699.9	4571.2	23.5
Deposits	8019.3	11255.5	40.4
in MDL	4436.6	6554.3	47.7
in foreign currency	3582.7	4701.2	31.2
Money market instruments	0.5	0.1	-80.0

Within the structure of the monetary aggregate M2, the weight of currency in circulation (outside banks) reduced from 45.5% in 2004 to 41.1% in 2005, while the weight of deposits in national currency (deposits of individuals and legal entities) enlarged from 54.5% to 58.9%. The more pronounced growth of broad money in MDL (M2) was due to population's deposits, which accounted for 32.3% of M2 in 2005 as against 28.2% in 2004.

Currency in circulation (M0) rose by 23.5% (871.3 million lei) and amounted to 4571.2 million lei. The average monthly growth rate of currency in circulation (1.8%) was inferior to that of broad

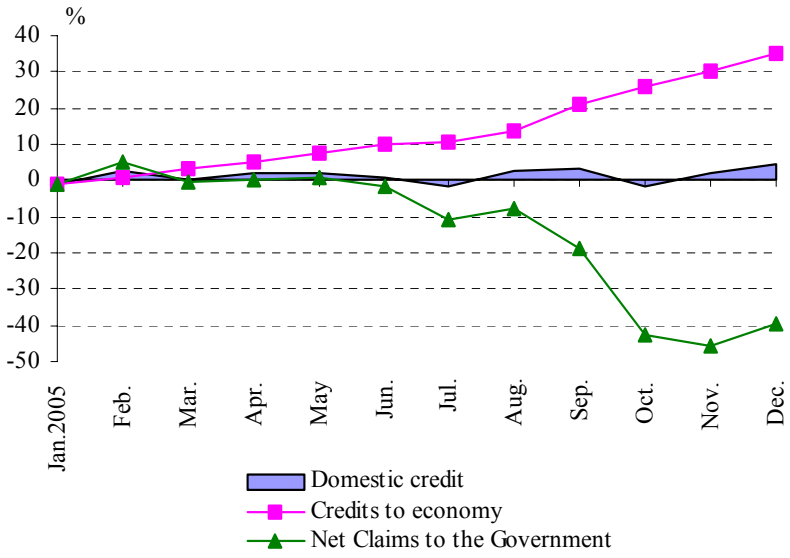
money M2 (2.6%). This indicator denotes the economy's demand for cash holdings. The most critical increase of currency in circulation in the 3rd quarter of 2005 was conditioned by the seasonal increase of demand for cash holdings resulted from acquisitions of agricultural goods and foreign currency sales by individuals.

Money velocity (M2) over the reported year reduced from 3.94 down to 3.30.

The broad money (M3) expansion was impacted by the dynamics of ***net domestic assets*** and ***net foreign assets***.

Net domestic assets of the banking system increased by 1582.0 million lei (23.2%) up to the level of 8405.3 million lei. *Domestic credit* in the banking system rose by 1671.0 million lei (17.2%) following augmented *credits to economy* and totalled 11377.6 million lei. At the same time, *net claims on Government* reduced by 920.2 million lei (39.9%) from 2004 as a result of accrued account of Central Treasury following collections of taxes, extra-budgetary means, funds of state social ensurance budget, and financial means on health mandatory ensurance especially from October to December 2005 (*chart no. 27*).

Chart no. 27. **Components contribution to domestic credit growth (Dec.2004=100%)**



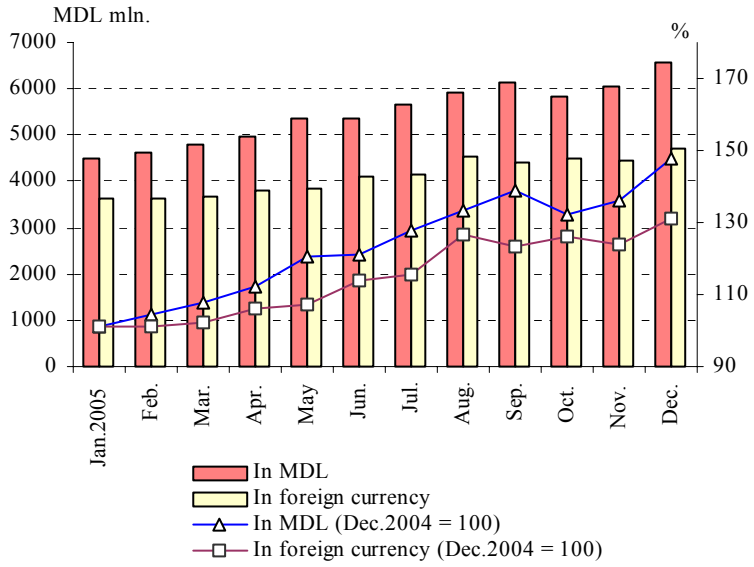
Net foreign assets (convertible) of the banking system consolidated by US$ 202.1 million and amounted to US$ 578.1 million. Within the relevant structure, net foreign assets of NBM rose by US$ 157.7 million; and of commercial banks – by US$ 44.4 million.

Foreign exchange reserves of the banking system in 2005 totalled US$ 754.8 million, augmenting by US$ 188.8 million from December 2004. ***NBM international reserves*** enhanced by US$ 127.1 million and reached US$ 597.4 million.

Deposits market

The balance of deposits* in the banking system enlarged by 40.4% from 2004 and amounted to 11255.5 million lei as of 31 December 2005, accounting for 71.1% of total broad money (M3). Within relevant structure, ***deposits in national currency*** accounted for the largest weight of 47.7% (2117.7 million lei), supporting by 65.4% the annual increase of banking deposits. ***Deposits in foreign currency*** displayed a slower growth – by 1118.5 million lei or by 31.2%. Expressed in US$, these deposits totalled US$ 366.4 million as of 31 December 2005 (*chart no. 28*).

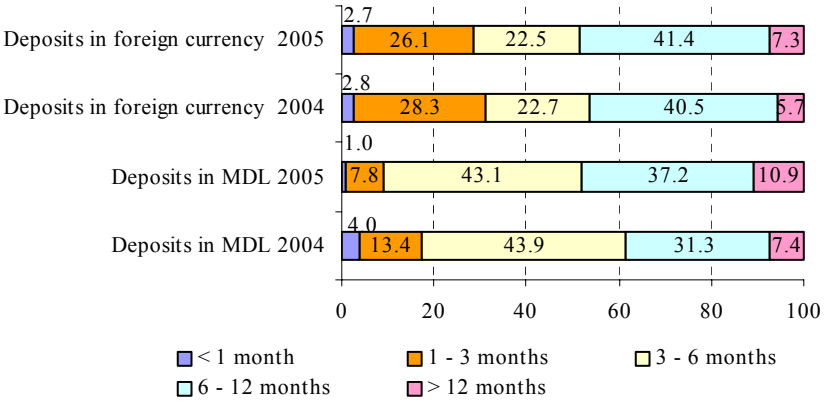
Chart no.28. **Deposits dynamics in 2005**



The ***balance of time deposits in national currency*** enlarged by 1220.1 million lei or 47.4% and accounted for 24.0% of total broad money (M3). Deposits by individuals augmented by 52.3% (1059.0 million lei) from 2004-end and accounted for 86.8% of such balance enlargement.

The ***balance of time deposits in foreign currency*** rose by 30.7% to 3127.8 million lei. Expressed in US$, these deposits increased by US$ 51.7 million and totalled US$ 243.8 million as of 31 December 2005.

Chart no.29. **Composition of time deposits attracted in MDL and foreign currency (%)**



The weight of deposits in foreign currency in total deposits reduced by 2.9 percentage points, conditioning the diminishment of deposits' dollarisation from 44.7% in December 2004 down to 41.8% in December 2005. Expressed in lei, the weight of foreign currency deposits in total broad money M3 accounted for 29.7% as of 2005-end (30.6% as of 31 December 2004).

The volume of ***time deposits in***

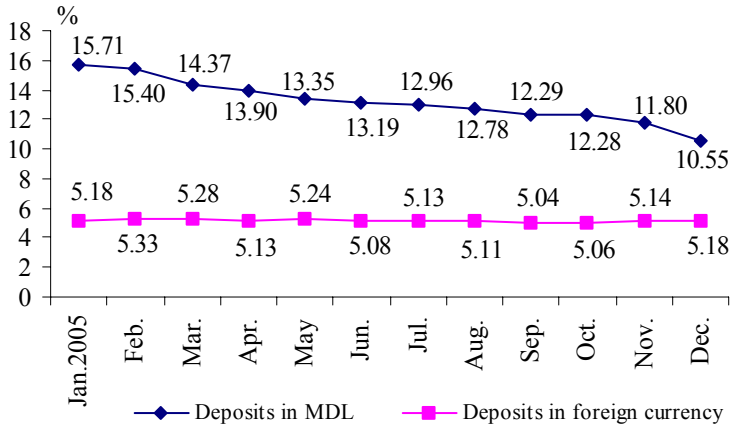
*according to IMF methodology, the followings are excluded from total deposits in the banking system: funds of commercial banks and other financial institutions; state budget accounts; extra-budgetary funds; deposits by non-resident individuals and legal entities

MDL attracted by banks over 2005 totalled 5642.3 million lei. Lowered interest rates applied on deposits in MDL resulted in the slowing down of these deposits' growth in 2005 (61.5% against of 85.1% in the previous year). Structurally, like in 2004, time deposits with maturities from 3 to 6 months accounted for the largest share of 43.1%; the weight of deposits for terms of 6 to 12 months rose by 5.9 percentage points (*chart no. 29*).

The volume of ***time deposits in foreign currency*** expanded by 49.2% to 4981.4 million lei. Deposits by individuals accounted for 88.1% of total deposits in foreign currency.

From viewpoint of deposit term, the structure of deposits in foreign currency displayed as follows: deposits for terms of 6 to 12 months prevailed with 41.4% (2062.4 million lei); and deposits for terms of 1 to 3 months accounted for 26.1%, decreasing by 2.2 percentage points from 2004.

Chart no.30. **Dynamics of average weighted interest rates on time deposits in 2005**



The average weighted interest rate applied on deposits in national currency exhibited downward trends, reducing by 5.16 percentage points from 15.71% to 10.55%. The average weighted interest rate on deposits in foreign currency followed the previously observed tendency, fluctuating over the year within 5.28% and 5.08%.

The ***average annual interest rate on time deposits in national currency*** decreased by 2.17 percentage points from 2004 and accounted for 12.99%. The ***average annual interest rate on time deposits in foreign currency*** rose by 0.14 percentage point from the previous year and accounted for 5.15%.

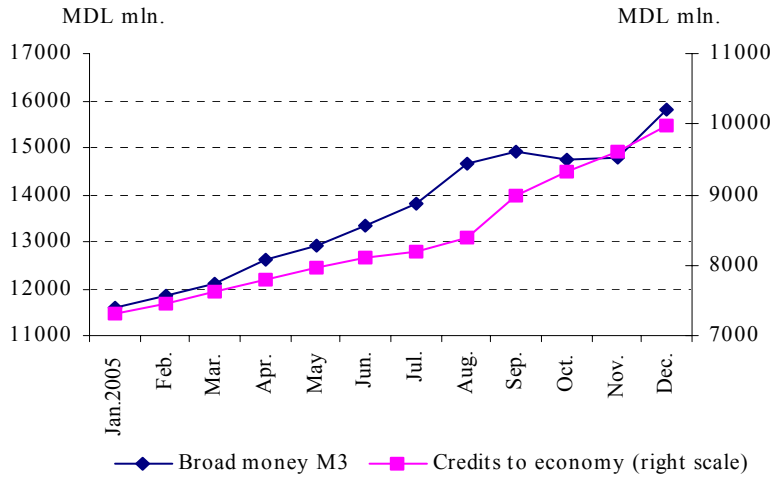
Credits market

The total balance of credits to economy* amounted to 9990.5 million lei as of 31 December 2005, expanding by 35.0% from 2004 (*chart no. 31*).

Credits extended over 2005 to industry and trade exhibited a noticeable increase, accounting for 48.9% of total credits (by 29.2%

* As in accordance with the IMF methodology, from total credits to economy (including accrued interest on credits) are deducted interbank credits and credits to Government

Chart nor.31. **Monetary aggregates in 2005**



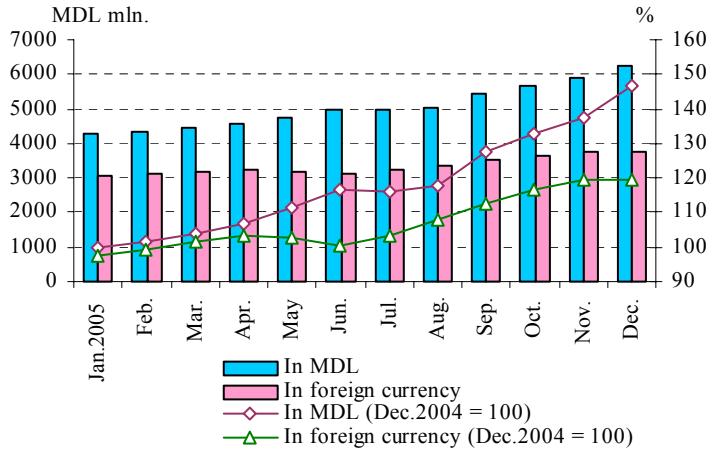
more than in the previous year); credits to agriculture and food industry rose by 27.7% and constituted 24.4%. The diversification of banking products generated the broadening of consumer credits and of credits for real estate, construction and development up to 14.9% of total provided credits (*table no. 20*).

The ***balance of credits in national currency*** increased by 46.4% and amounted to 6255.1 million lei,

Table no. 20. **Breakdown of loans by sectors of economy** (MDL mln.)

	As of 31.12.2004	Weight in the total, 2004 (%)	As of 31.12.2005	Weight in the total, 2005 (%)	Absolute change	Percentage change, %
Loans to agriculture and food industry	1908.2	25.8	2437.6	24.4	529.4	27.7
Loans for real estate, construction and development	471.3	6.4	697.9	7.0	226.6	48.1
Consumer credit	280.8	3.8	793.2	7.9	512.4	182.5
Loans to energy and fuel industry	348.0	4.7	294.0	3.0	-54.0	-15.5
Loans to industry and trade	3784.1	51.1	4890.1	48.9	1106.0	29.2
Loans for road construction and transportation	205.9	2.8	297.2	3.0	91.3	44.3
Other loans	401.0	5.4	580.5	5.8	179.5	44.8

Chart no.32. **Credits to economy**



accounting for 62.6% of total bank credits. The ***balance of credits in foreign currency*** enlarged by 608.1 million lei and totalled 3735.4 million lei. The 19.4% growth of these credits was partially due to the MDL nominal depreciation against US$ (*chart no. 32*).

The ***volume of credits in national currency*** rose by 57.9% (by 18.6% in 2004) and amounted to 9026.9 million lei.

In breakdown by maturity, the weight of credits extended for terms of over 12 months enlarged from 31.2% in 2004 to 46.3% in 2005; the weight of credits with terms of 6 to 12 months reduced by 10.9 percentage points to 33.4% in 2005, denoting the consolidation of medium- and long-term financing (*chart no. 33*).

Chart no.33. **Structure of loans by terms extended in national and foreign currency (%)**

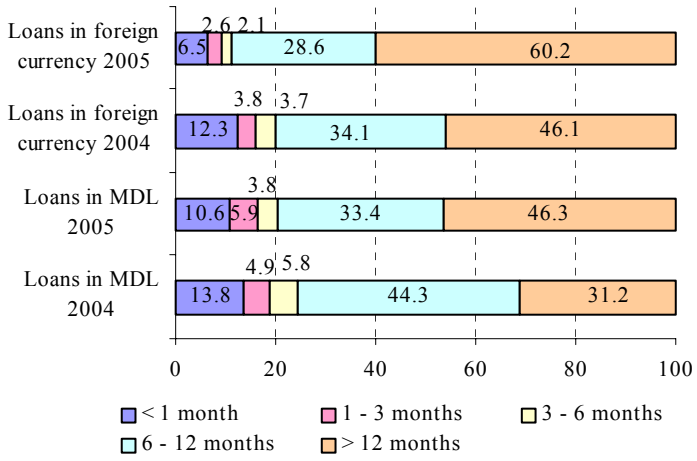


Chart no.34. **Dynamics of average weighted interest rates on loans in 2005**

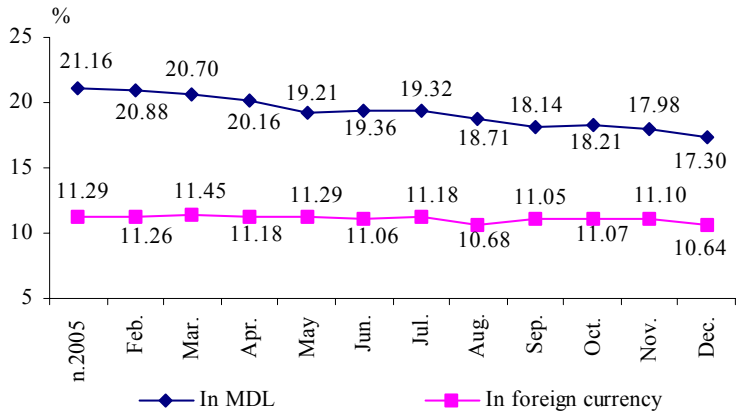
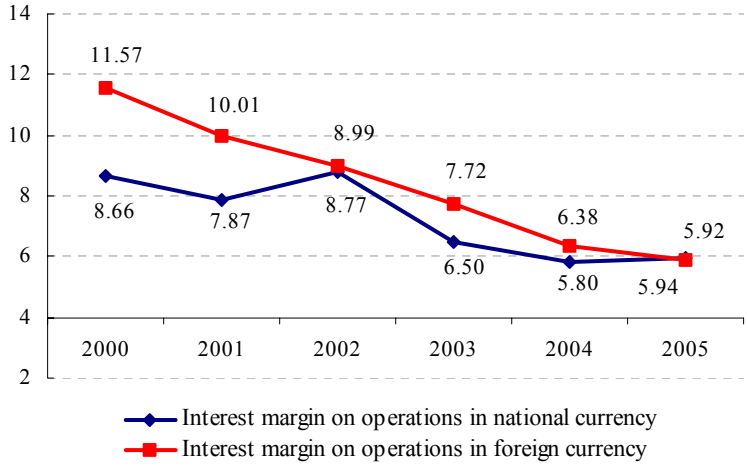


Chart no. 35. **Interest margin on banks' operations in national and foreign currency in 2000-2005**
(percentage points)



The ***volume of credits in foreign currency*** totalled 4417.9 million lei, increasing by 27.0% from the previous year.

The noticeable demand for longer-term credits in foreign currency conditioned the enlargement of the weight of credits extended for terms of more than 12 months from 46.1% to 60.2% (*chart no. 33*).

The average interest rates on credits in national and foreign currency displayed over 2005 downward tendencies determined, as well, by the NBM policy of establishing adequate conditions for the reduction of interest rates on credit resources (*chart no. 34*). Thus, the average weighted interest rate applied on credits in national currency reduced by 3.86 percentage points from 21.16% in January down to 17.30% in December 2005; and the average weighted interest rate on credits in foreign currency – by 0.65 percentage point to 10.64% as of 2005-end.

The ***average annual interest rate on credits in national currency*** decreased by 2.03 percentage points and accounted for 18.93% in 2005.

The ***average annual interest rate on credits in foreign currency*** reduced by 0.32 percentage point and accounted for 11.07%.

Banking margin (difference between average interest rates on credits and deposits) related to transactions in national currency rose by 0.14 percentage point to 5.94 percentage points. Commercial banks' margin related to transactions in foreign currency followed the descendant trend and reduced over the reported year by 0.46 percentage point to 5.92 percentage points (*chart no. 35*).

Monetary policy instruments

Interest Rate Policy

In 2005 the National Bank of Moldova has further aimed at orienting interest rates in the money market within the interest rates' corridor limited by the interest rate on overnight deposits and interest rate on overnight credits. The rate on 2-month State Securities buying REPOs, which is the NBM ***base rate***, served as reference point in establishing the interest rates on NBM monetary instruments.

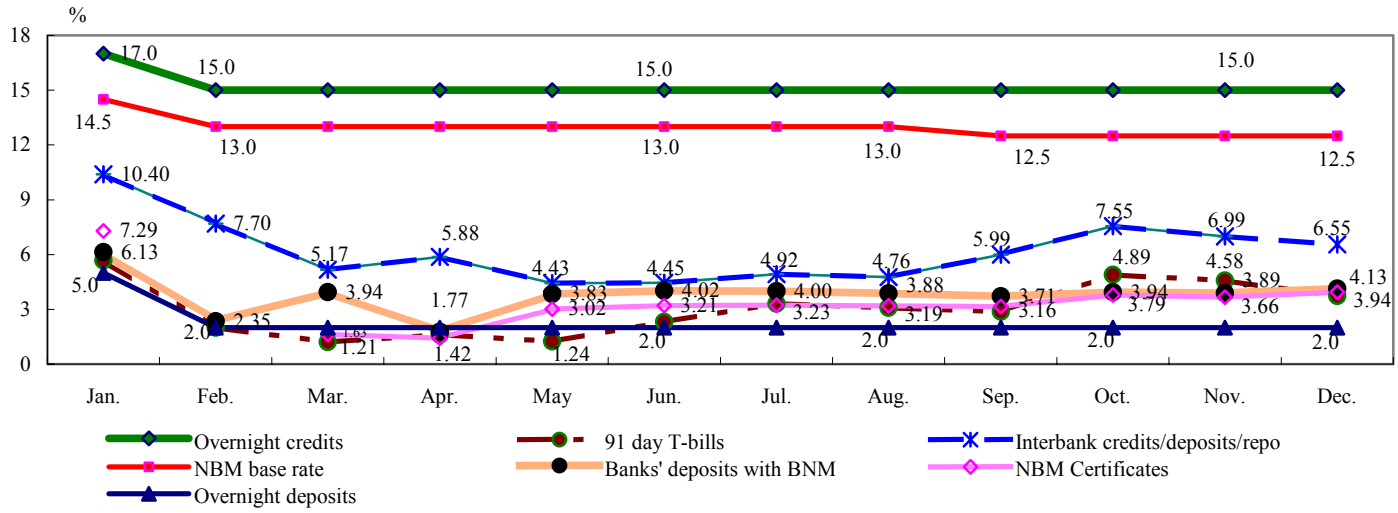
The National Bank of Moldova has further promoted a prudent interest rate policy, establishing the interest rates based on inflation rate and general dynamics of other economic and financial indicators. Decisions on interest rates approved by NBM over 2005 are included in *table no. 21*.

Table no. 21. **Interest rates on monetary instruments**

Date of decision effectiveness	Decision
18 February 2005	– The base rate is diminished from 14.5% per year to 13.0% per year. – The interest rate on overnight credits is diminished from 17.0% per year to 15.0% per year. – The interest rate on overnight deposits is diminished from 5.0% per year to 2.0% per year. – The interest rate on Lombard facility is diminished from 16.0% per year to 14.0% per year.
1 April 2005	– The base rate is maintained at 13.0% per year. – The interest rate on overnight credits is maintained at 15.0% per year. – The interest rate on overnight deposits is maintained at 2.0% per year. – The interest rate on Lombard facility is maintained at 14.0% per year.
8 July 25	– The base rate is maintained at 13.0% per year. – The interest rate on overnight credits is maintained at 15.0% per year. – The interest rate on overnight deposits is maintained at 2.0% per year. – The interest rate on Lombard facility is maintained at 14.0% per year.
2 September 2005	– The base rate is diminished from 13.0% per year to 12.5% per year. – The interest rate on overnight credits is maintained at 15.0% per year. – The interest rate on overnight deposits is maintained at 2.0% per year. – The interest rate on Lombard facility is maintained at 14.0% per year.
7 October 2005	– The base rate is maintained at 12.5% per year. – The interest rate on overnight credits is maintained at 15.0% per year. – The interest rate on overnight deposits is maintained at 2.0% per year. – The interest rate on Lombard facility is maintained at 14.0% per year.

In 2005 the National Bank reduced the interest rates on instruments of monetary regulation twice. The base rate has been lowered by 2.0 percentage points; the interest rate on overnight deposits – by 3.0 percentage points; the interest rate on Lombard facility and overnight credits – by 2.0 percentage points (*chart no. 36*).

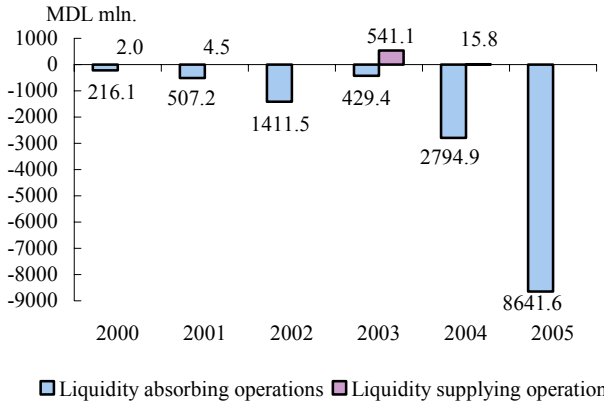
Chart no. 36. **Evolution of interest rates corridor in 2005**



At the same time, NBM continued to determine the base rate on long-term credits (over 5 years), reducing it over the year twice – from 11.5% per year down to 10.5% per year.

Liquidity Management Operations of the National Bank of Moldova

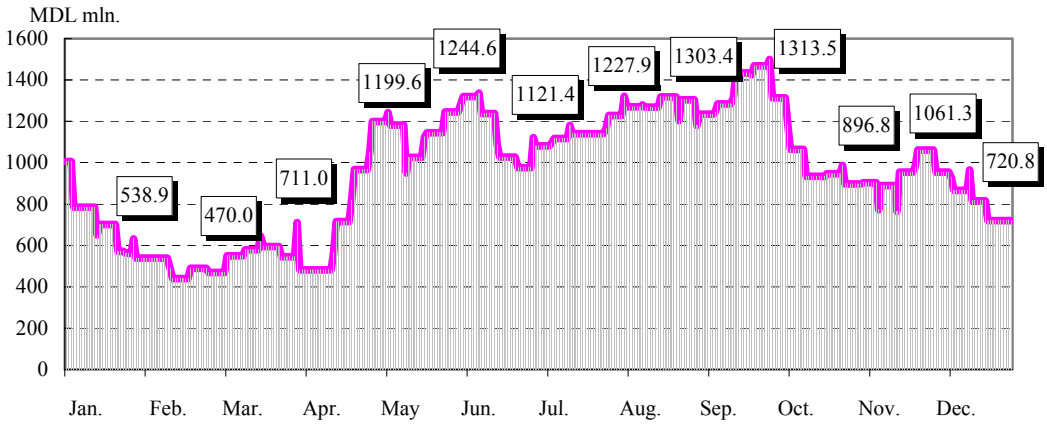
Chart no. 37. **NBM operations in money market in 2000-2005**



In 2005 the National Bank of Moldova faced a permanent liquidity surplus in the money market determined, as well, by acquisitions of foreign currency.

To compensate the impact of conducted interventions in the forex market upon price growth, the National Bank of Moldova intensified the sterilisation of excess liquidity. In 2005 the National Bank implemented a new instrument – NBM Certificates, which in common with deposits' attraction from banks, constituted the main instruments used to sterilise excess liquidity in the banking system. The volume of absorbing operations in 2005 amounted to 8641.6 million lei, by 3.1 times more than in the previous year (*chart no. 37*).

Chart no. 38. **Balance of NBM' sterilization operations in 2005**



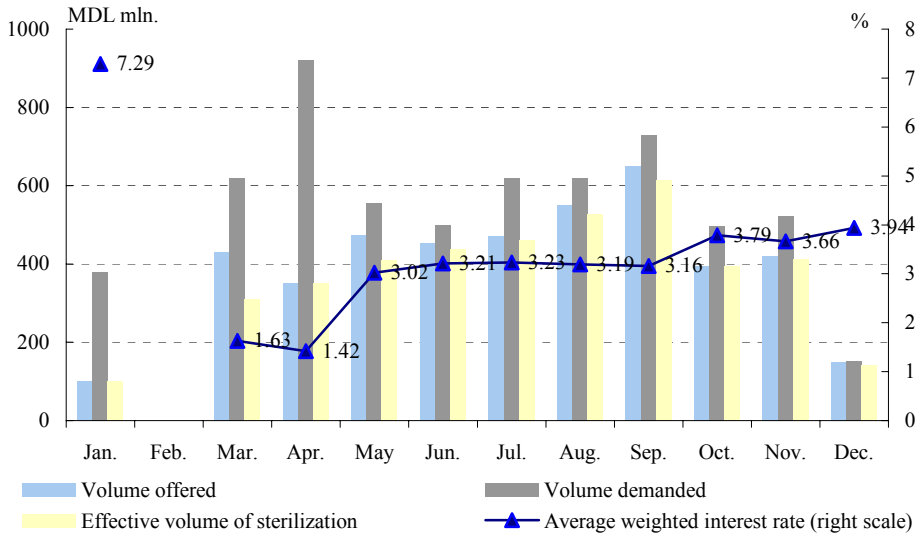
The ***average weighted interest rate on NBM sterilisation operations*** reduced from 11.88% per year in 2004 to 3.36% per year in 2005.

The average daily balance of absorbing operations in the reported year totalled 946.8 million lei, increasing by three times from the previous year (*chart no. 38*).

Sales of NBM Certificates

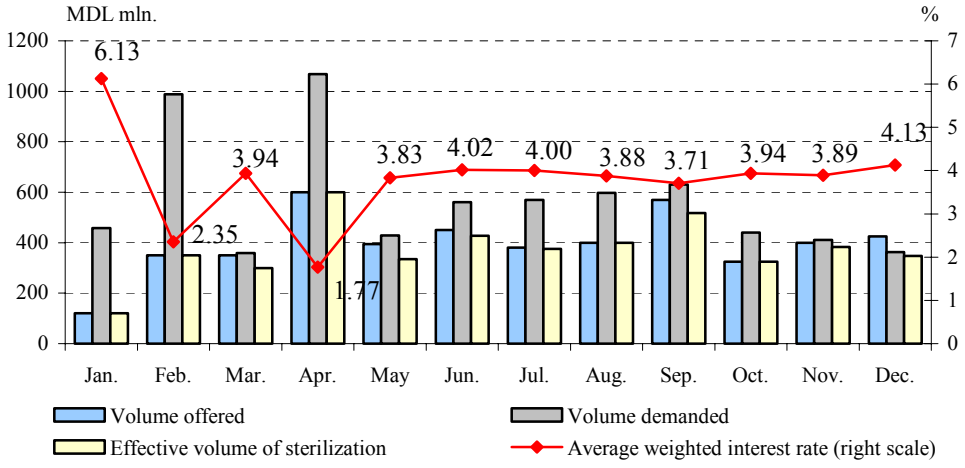
The value of 28-day NBM Certificates sold within the 39 auctions of NBM Certificates placement conducted by the National Bank over 2005 totalled 4445.0 million lei.

Chart no. 39. **Dynamics of NBM Certificates sales in 2005**



Banks' demand amounted to 6116.1 million lei. 93.8% of announced offer has been placed. The value of commercialised NBM Certificates totalled 4170.1 million lei at nominal value and 4160.1 million lei at selling price. The average nominal interest rate of NBM Certificates reduced from 7.29% per year in January to 3.94% per year in December 2005. The average nominal annual interest rate accounted for 3.14% per year.

Chart no. 40. **Dynamics of deposit operations in 2005**



Deposit Operations

In 2005 the National Bank conducted 42 deposit auctions, offering a value of 4715.0 million lei.

The aggregate value of bids placed by banks amounted to 6873.5 million lei, surpassing by almost 46.0% or 2158.5 million lei the amount offered. Accepted bids amounted to 4481.5 million lei, by 3.5 times more than in 2004.

The average weighted interest rate on deposits placed from January to April 2005 exhibited a descendant trend, reducing from 6.13% per

year to 1.77% per year. Since May, the relevant tendency has stabilised and the interest rates varied slightly within 4.13% and 3.71% per year. The annual average weighted interest rate reduced by 8.77 percentage points from the previous year and accounted for 3.57% per year.

The average term of placed deposits accounted for 56 days, slightly increasing from 54 days in 2004.

Required Reserves

The transit period to separate reserving in MDL and free convertible currencies (FCC) from means attracted in relevant currencies as established following the Decision of the Council of Administration of the National Bank of Moldova no. 114 of 20 May 2004 has been concluded at the end of the 1st quarter of 2005.

Starting from the attracted resources' observing period of 1 – 15 April 2005, required reserves from means attracted in free convertible currency are integrally maintained in free convertible currency (US$ and Euro) and required reserves from means attracted in MDL and non-convertible currencies – in MDL.

The value of monthly average required reserves in MDL formed by banks in December 2005 amounted to 775.5 million lei, surpassing by 11.3% or 78.9 million lei the value registered in December 2004.

Required reserves in US$ and Euro as of 2005-end totalled, respectively US$ 23.7 million and EUR 13.8 million (by US$ 11.5 million or 94.3% and EUR 8.6 million or 2.7 times more than as of 2004-end).

The National Bank paid to banks distinct interest rates for required reserves maintained in MDL and free convertible currencies, applying the average interest rate on interest-bearing demand deposits attracted by the banking sector in MDL and FCC, calculated based on monthly reports submitted by banks.

The annual average interest rate applied for MDL required reserves' remuneration by NBM in 2005 accounted for 3.58% per year; and the interest rate applied on remuneration of required reserves in FCC – for 0.38% per year. NBM expenses on required reserves' remuneration amounted to 12.64 million lei.

Lending Activity

Direct Credits to Banks

In 2005 the National Bank has further monitored credits extended to banks over 1992 to 2002 for purposes of completion of housing co-operative construction works.

The balance of credits extended to banks reduced by 17.0% in 2005 – from 62.3 million lei as of 31 December 2004 to 51.7 million lei as of 31 December 2005. Such dynamics was due to credit payments, especially to advance reimbursements. The volume of credit paid in advance totalled 9.1 million lei, or 85.8% of credit reimbursement in 2005 (by 12.8 percentage points more than in 2004).

Government Debt to the National Bank of Moldova

In 2005 the National Bank of Moldova executed budgetary policy provisions based on the Law on the State Budget for 2005 no. 373-XV of 11 November 2004, the Law on Modification of Article 27 of the Law on the State Budget for 2004 no. 195-XV of 17 June 2004, the Law on State Debt and State Guarantees no. 943-XIII of 18 July 1996 and the Law on the National Bank of Moldova no. 548-XIII of 21 July 1995.

As of 31 December 2005, the Government debt to the National Bank of Moldova reduced by 4.6% from 2004-end following credit reimbursement of 127.0 million lei by the Ministry of Finance as provided in the Law on the State Budget for 2005.

There is a positive downward trend of the share of Government debt to the National Bank of Moldova within total domestic public debt and the enlargement of debt share in form of state securities placed in the market. Thus, as of 2005-end, the Government debt to the National Bank of Moldova reduced to 68.9% of total debt (as compared to 73.7% as of 2004-end).

Table no. 22. **Domestic public debt contracted from the National Bank of Moldova** (MDL mln.)

	Balance as of 31.12.2004	Loans extended in 2005	Loans paid off in 2005	Balance as of 31.12.2005	Weight, %
1.Loans contracted from the National Bank of Moldova					
- for external debt servicing	1719.7	-	90.0	1629.7	62.4
- for budget deficit financing	288.5	-	27.0	261.5	10.1
- for State securities redemption	329.8	-	10.0	319.8	12.2
Total loans	**2338.0**	-	**127.0**	**2211.0**	
2. State securities in the National Bank of Moldova portfolio	400.0		-	400.0	15.3
Total Government debt to the National Bank of Moldova	**2738.0**	**-**	**127.0**	**2611.0**	**100.0**

The Government debt to NBM as of 31 December 2005 amounted to 2611.0 million lei and included the debt on NBM loans in a value of 2211.0 million lei and the debt in form of SS in NBM portfolio in a value of 400.0 million lei (at purchasing price) (*table no. 22*).

Lending Activity

The National Bank of Moldova did not extend any new credit to the Government in 2005.

Loans extended to the Government have been re-concluded for terms of up to 91 days at market interest rates, which evolved from 6.36% per year at the beginning of January to 3.77% per year at December-end.

State Securities in the NBM Portfolio

The Government debt to the National Bank of Moldova in form of state securities in the NBM portfolio amounted to 400.0 million lei (at purchasing price) as of 31 December 2005 and did not registered any modification from 2004-end.

Over 2005 the National Bank re-issued state securities from own portfolio for terms of 91 days and 98 days. Interest rates on issued securities varied within 5.24% per year in January to 3.74% per year in December.

As a result of reflected accrued interest rates and evaluation of state securities in NBM portfolio at market prices, the balance sheet value of Government debt as of 31 December 2005 amounted to 2625.9 million lei, including:

- debt on loans to the Government – 2223.0 million lei;

- debt in form of SS in NBM portfolio – 402.9 million lei.

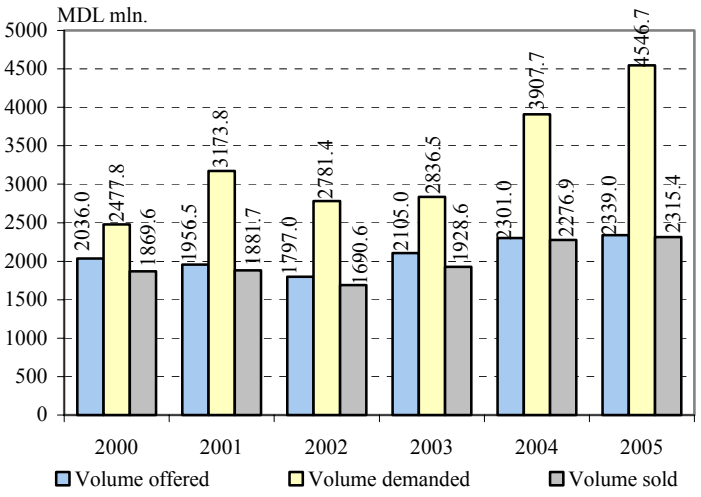
Money Market

Primary Market of State Securities

Acting as fiscal agent of the State in performing selling, recording and redemption of state securities, the National Bank of Moldova conducted in 2005 176 issues of state securities aimed at budgetary deficit financing.

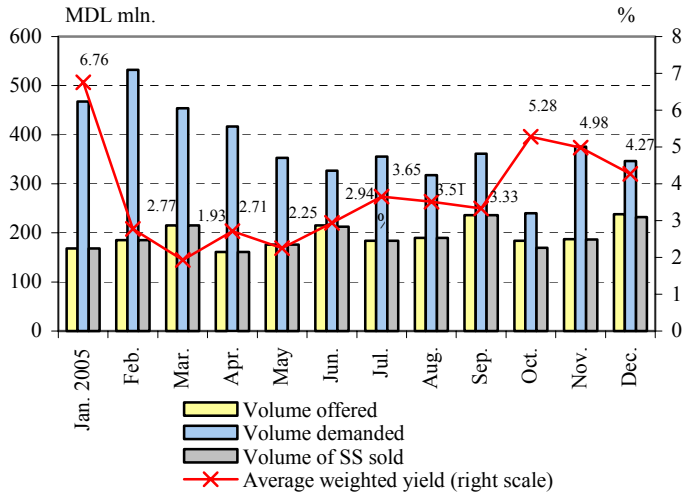
The offer of the Ministry of Finance at primary market auctions amounted to 2339.0 million lei, augmenting by 38.0 million lei from the previous year (*chart no. 41*). The primary market demand for state securities increased by 639.0 million lei from the previous year and totalled 4546.7 million lei, denoting an almost double value of the Ministry of Finance offer.

Chart no. 41. **Offer, demand and sales of State Securities in 2000-2005**



State securities placed over 2005 totalled 2315.4 million lei, or 99.0% of announced offer. The monthly demand for state securities, like in the previous year, was constantly higher than the announced offer (*chart no. 42*).

Chart no. 42. **Dynamics of offer, demand and sales of State securities in the primary market in 2005**



Banks' acquisitions for own portfolios exhibited larger values as compared to the previous year both in absolute and weight values and totalled 2100.6 million lei or 90.7% (78.7% in 2004).

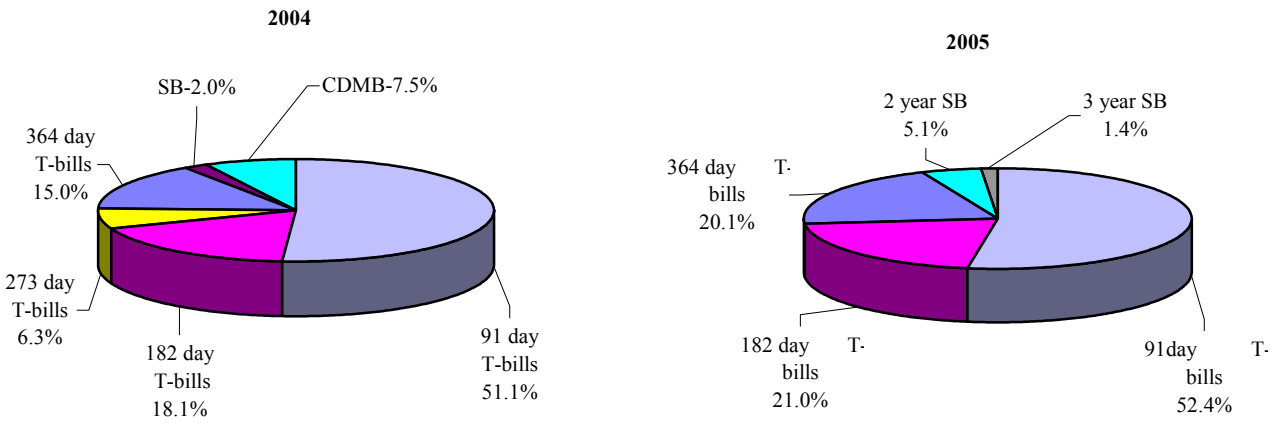
The weight of acquisitions on investors' account reduced from the previous year and accounted for 9.3% (21.3% in 2004).

The structure of issued state securities modified from 2004 (*chart no. 43*).

State securities with maturities under one year have been issued only for three terms: Treasury Bills (T-Bills) of 91 days, 182 days and 364 days, accounting for 93.5% of total issued value.

Like in the previous year, the majority of state securities have been

Chart no. 43. **Composition by maturity of State security issues** (%)



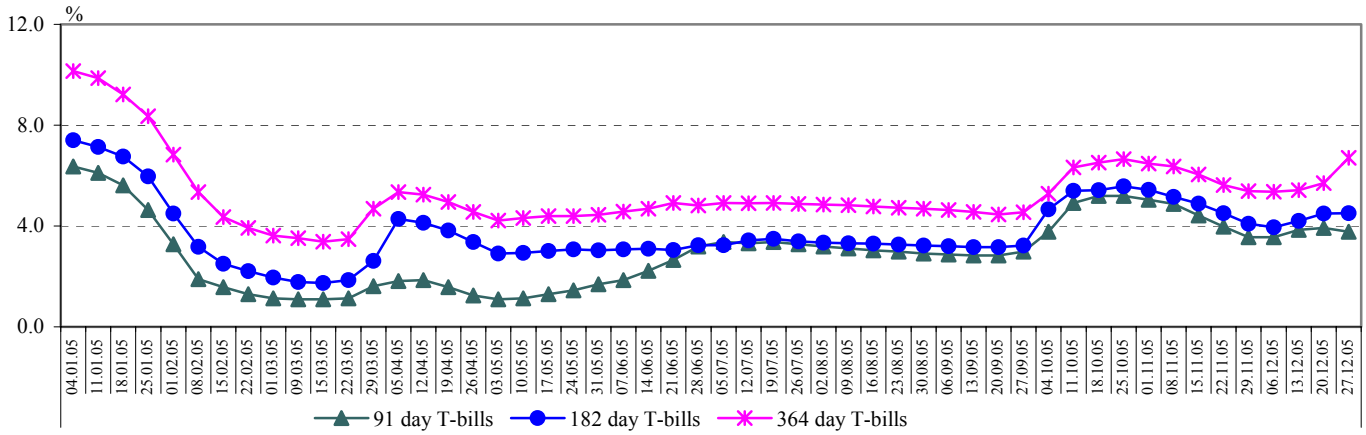
issued for a 91-day term and accounted for 52.4% of total value of issues of the Ministry of Finance.

At the same time, the Ministry of Finance increased the value and frequency of state bonds' (SB) issue: the SB share enlarged from 2.0% in 2004 to 6.5% in 2005. There were 20 SB issues launched in 2005 with maturities of 2 and 3 years, within which only one issue implied fixed interest rate, and the other SB have been issued at floating interest rates. From the 2nd quarter of 2005 SB started to be issued on a constant monthly basis. Following undertaken modifications the average annual maturity of state securities issued over 2005 enlarged from 170 days in 2004 to 210 days in 2005.

The annual average interest rate on state securities with maturity less than 1 year adjudged in 2005 accounted for 3.66% per year (11.62% in 2004).

The dynamics of average interest rate in breakdown by maturity at state securities' selling auctions conducted over 2005 (*chart no. 44*) denotes more pronounced descendant trends within the first auctions of 2005, reaching the lowest levels at the auction of 15 March, when yields fell down to 1.09%, 1.74% and 3.38% per year for securities with maturities of 91 days, 182 days and 364 days.

Chart no. 44. **Dynamics of nominal interest rates in breakdown by maturity on SS with terms under 1 year adjudged in 2005**



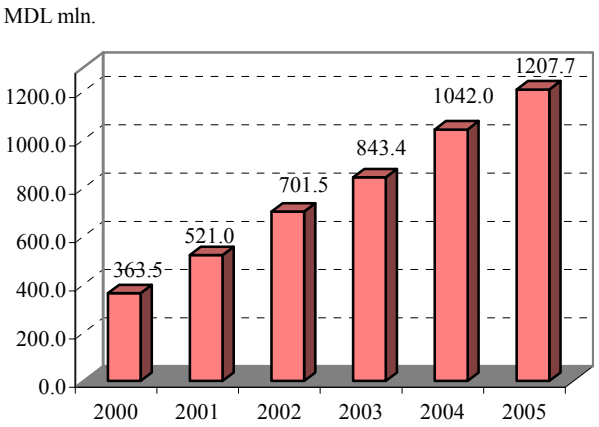
Starting with the 2nd quarter and until year-end, interest rates displayed two smooth increases – in April and October, after which resumed previously values. Within the last auctions of 2005 interest rates accounted for 3.77%, 4.51% and 6.71% per year for securities of 91 days, 182 days, and 364 days, respectively.

Table no. 23. **Annual nominal average weighted yields on traded State securities (2003-2005), %**

	28 day T-bills	56 day CDMB	91 day T-bills	182 day T-bills	273 day T-bills	364 day T-bills	1 year SB*	2 year SB*	3 year SB*
2003	**9.02**	**11.39**	**14.85**	**15.84**	**16.29**	**16.64**	**16.57**	**16.65**	**15.44**
2004		**8.39**	**11.15**	**11.79**	**14.98**	**13.75**	**14.98**	**17.45**	
2005			**2.98**	**3.77**		**5.36**		**5.90**	**6.62**

* effective interest rate

Chart no. 45. **Dynamics of the value of State securities in circulation issued in the primary market in 2000-2005, end of period**



The average nominal annual weighted interest rates on state securities commercialised over the last three years at primary market auctions in breakdown by maturity are shown in *table no. 23*.

The value of state securities in circulation placed at primary market auctions increased by 165.7 million lei or 15.9% and amounted to 1207.7 million lei in nominal terms as of 31 December 2005 (*chart no. 45*).

Interbank Money Market

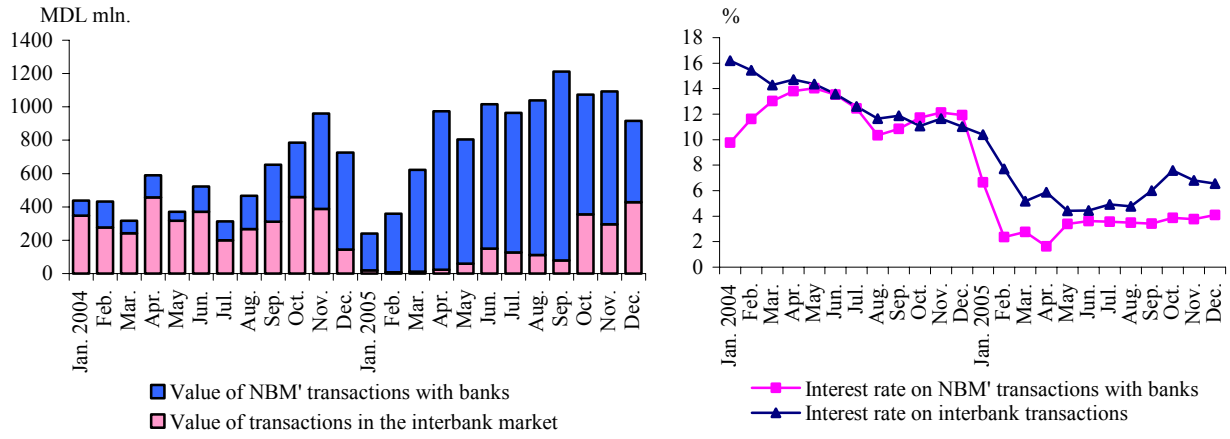
The value of transactions in the interbank market in 2005 totalled 10312.3 million lei, augmenting by 3738.9 million lei or 57.0% from 2004.

Banks' transactions with the National Bank of Moldova in 2005 accounted for 83.8% of total turnover in the interbank market, amounting to 8641.6 million lei.

Interbank credits / deposits accounted for the largest share of interbank transactions and totalled 1604.6 million lei (96.0% of total turnover); REPOs valued 66.1 million lei (4.0%).

The average weighted interest rates on interbank transactions (excluding NBM) over 2005 evolved from 10.4% per year in January to 6.54% per year at 2005-end.

Chart no.. 46. **Transactions in the interbank market in 2004-2005**



Transactions concluded between banks implied longer terms; the average weighted term accounted for around 9 days, expanding by 3 days from 2004 due to the reduced weight of overnight transactions in the total annual turnover (from 85.0% in 2004 to 69.0% in 2005).

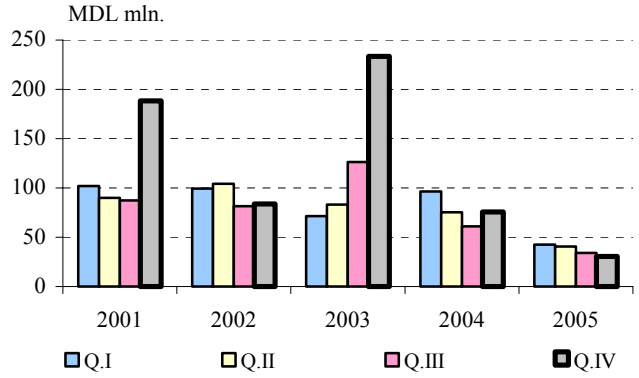
To further improve the interbank market condition and duly implement international standards and practices, the National Bank of Moldova initiated the process of determining the reference rates in the interbank market of the Republic of Moldova CHIBOR and CHIBID. The CHIBOR and CHIBID reference rates are calculated, starting with 1 December 2005, by REUTERS based on relevant quotations displayed by banks selected by the National Bank of Moldova and are daily published on the web page of the National Bank of Moldova.

Secondary Market of State Securities

In 2005 the secondary market of state securities (except open market operations of the National Bank of Moldova) narrowed its activity on the background of maintained excess liquidity in the money market, as well as the continuous descendant dynamics of securities' yields.

The number of selling / buying transactions with state securities in the secondary market reduced by 4.2 times from the previous year. The value of these transactions amounted to 147.7 million lei, decreasing almost twice from 2004 (*chart no. 47*).

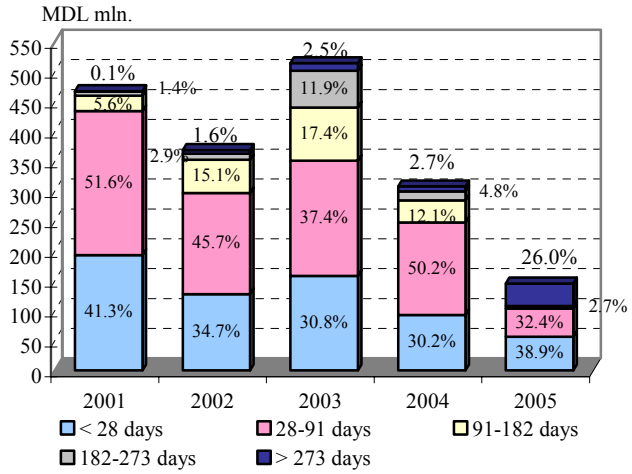
Chart no. 47. **Dynamics of the value of transactions with SS in the secondary market**



The value of transaction within the segment of state securities maturing under 1 year amounted to 145.7 million lei, materially decreasing by 162.6 million lei or by almost 2.1 times from 2004.

Transactions with State Bonds totalled 2.0 million lei and have been conducted at an average weighted effective interest rate of 5.46% for an average weighted term of 726 days till maturity.

Chart no. 48. **State security secondary market operations broken down by maturity of SS in 2001-2005**



Within the structure of state securities commercialised in the secondary market, 28-day state securities, as well as securities with terms of 28 days to 91 days, were most attractive to market makers, accounting, respectively, for 38.9% and 32.4% of total transactions with state securities (*chart no. 48*). The share of securities with terms longer than 273 days consolidated from 2.7% in 2004 to 26.0% in 2005.

The average nominal weighted yield of

traded SS under 1 year displayed the lowest level in the last years, accounting for 2.76% (as compared to 11.28% in 2004 and 12.68% in 2003).

NBM Certificates traded in 2005 in the secondary market recorded insignificant values, totalling 8.0 million lei; the average nominal weighted interest rate accounted for 3.80% and the average weighted term till maturity – for 10 days.

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

As of 31 December 2005, state securities registered in the Book Entry System of the National Bank of Moldova amounted to 3988.6 million lei in nominal terms. In breakdown by issuer, the relevant structure is as follows:

I. Ministry of Finance – SS in total amount of 3846.9 million lei, including:

- 1207.7 million lei or 31.4% - SS issued through primary market auctions;
- 2234.7 million lei or 58.1% - SS issued and delivered to the National Bank of Moldova to guarantee loans extended to the State;
- 404.5 million lei or 10.5% - SS issued through conversion of loans previously extended to the State.

II. National Bank of Moldova – NBM Certificates in total value of 141.7 million lei, issued through primary market auctions.

The total value of SS registered in BES at nominal value in breakdown by holder is as follows:

Banks

- as of 31.12.2005 - 1115.8 million lei
- as of 31.12.2004 - 1210.3 million lei

Other investors (including Deposit Guarantee Fund)

- as of 31.12.2005 - 91.9 million lei
- as of 31.12.2004 - 169.3 million lei

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

- as of 31.12.2005 - 2234.7 million lei
- as of 31.12.2004 - 2079.7 million lei

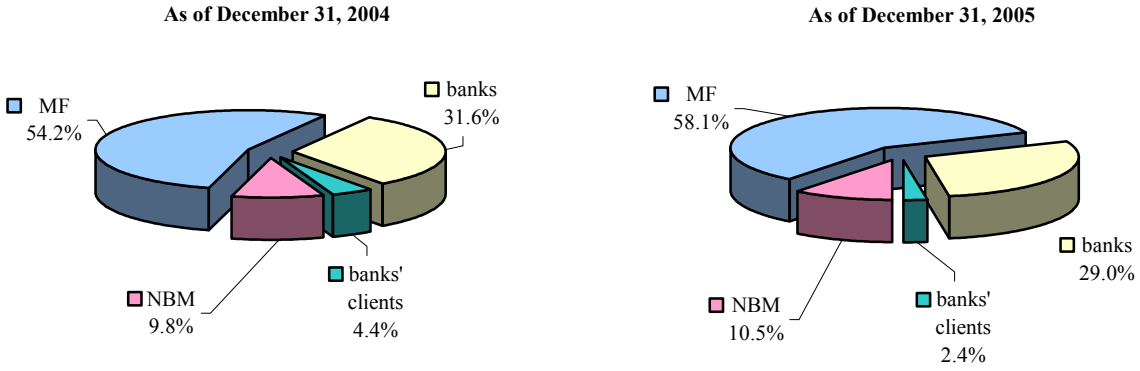
National Bank of Moldova

- as of 31.12.2005 - 404.5 million lei

- as of 31.12.2004 - 374.3 million lei

As of 31 December 2005, the weight of state securities held by the Ministry of Finance and NBM within the structure of SS registered in BES by holder, broadened from 2004-end following the use by the National Bank of Moldova at the end of 2004 of state securities within open market operations (*chart no. 49*).

Chart no. 49. **State securities recorded in the Book-Entry System of the National Bank of Moldova broken down by portfolio** (%)



NBM Certificates totalling 141.7 million lei in nominal terms have been registered in BES integrally in portfolios of commercial banks.

BES of the National Bank of Moldova registered over the reported year 4844 transactions amounting to 35842.3 million lei (by 4149.7 million lei more than in 2004), including:

1. primary market operations (new issues) – 17262.4 million lei;
2. repurchase by the Ministry of Finance of state securities upon maturity - 13079.0 million lei;
3. repurchase by the National Bank of Moldova of NBM Certificates upon maturity - 4028.4 million lei;
4. open market operations with state securities conducted by NBM - 313.5 million lei;
5. selling / buying transactions - 155.7 million lei;
6. interbank REPOs (stage I and II) – 136.6 million lei;
7. pledge operations – 866.7 million lei.

Activity of Primary Dealers in the State Securities Market

The 11 primary Dealers active in the state securities market in 2005 supported the relevant and adequate performance of primary market placement auctions of state securities and the secondary market liquidity.

With the view to establishing optimal conditions for banks acting as primary Dealers, the Council of Administration of the National Bank of Moldova approved on 10 March 2005 more flexible criteria related to primary Dealers' activity in the state securities market as follows:

1. Primary Dealers that hold assets in a value larger or equal to 800.0 million lei should as follows:
   - participate at every state securities selling auction;
   - acquire within one quarter SS at nominal value in a minimum quantum of 2.0% of the average quarterly offer announced by the Ministry of Finance over the previous four quarters.
2. Primary Dealers that hold assets in a value under 800.0 million lei should as follows:
   - participate at minimum 50.0% of total state securities selling auctions conducted over one month;
   - acquire within one quarter SS at nominal value in a minimum quantum of 1.0% of the average quarterly offer announced by the Ministry of Finance over the previous four quarters.
3. Primary Dealers should conclude transactions with state securities in the secondary market in a value of 0.3% of total transactions conducted by all primary Dealers over the previous quarter.

In 2005, primary Dealers have, based on their right to buy state securities both on own name and account and on the name and account of investors (their clients) – individuals and legal entities, residents and non-residents of the Republic of Moldova, placed bids at state securities selling auctions in a total value of 4284.4 million lei, surpassing by 1945.4 million the offer announced by the Ministry of Finance.

The value of state securities bought by primary Dealers over 2005 amounted to 2195.4 million lei, which accounts for 93.9% of the offer by the Ministry of Finance (93.7% in 2004).

The National Bank absorbed 8520.0 million lei through primary Dealers, including as follows:

- 4150.8 million lei through placement of Certificates of the National Bank;
- 4369.2 million lei through deposits' attraction.

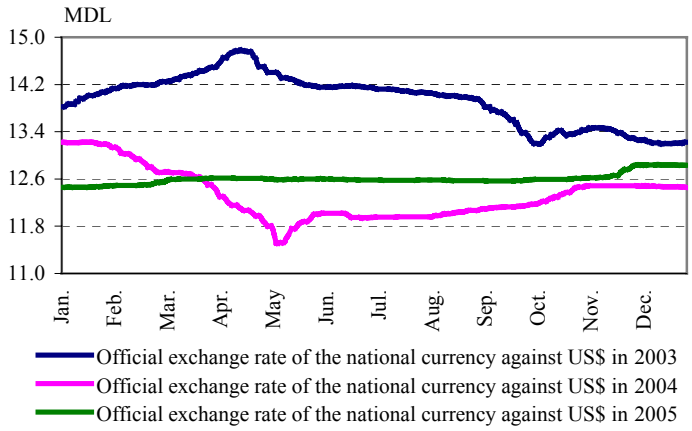
As in accordance with provisions of the Agreement of Execution of Primary Dealer Functions in the Market of Dematerialised State Securities concluded between the National Bank of Moldova and banks – primary Dealers, primary Dealers assured daily quotations of state securities through the "interbank messages" system.

Trends in the Foreign Exchange Market

Exchange Rate Trends in 2005

The official nominal exchange rate of the national currency against US$ depreciated over the year by 3.0% (from 12.4600 MDL per US$ 1 as of 31 December 2004 down to 12.8320 MDL per US$ 1 as of 31 December 2005); and against Euro appreciated by 10.4% (from 16.9542 MDL per Euro 1 as of 31 December 2004 up to 15.1950 MDL per Euro 1 as of 31 December 2005).

Chart no. 50. **Evolution of the official exchange rate of the national currency against US$ in 2003 – 2005**



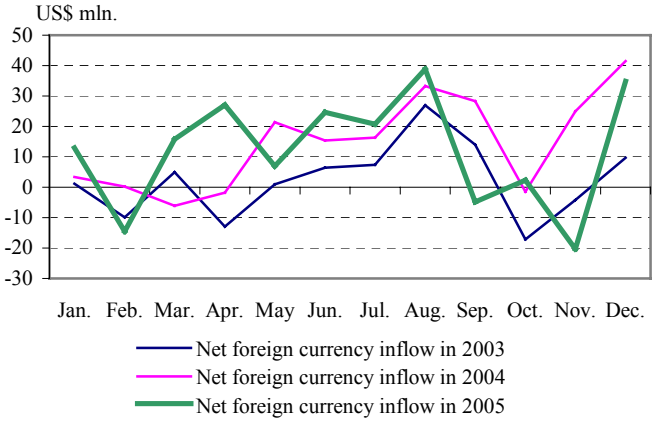
The dynamics of the average exchange rate of the national currency against US$ in the domestic cash forex market over the reported year denoted similar trends to that of the official exchange rate of the national currency against US$, except for more pronounced deviations marked by appreciation trends at the beginning of May 2005 and depreciation trends in the second half of November 2005.

The official average exchange rate of the national currency against US$ over 2005 amounted to 12.6003 MDL per US$ 1, as compared to 12.3283 MDL per US$ 1 in 2004. The official average exchange rate of the national currency against Euro totalled 15.6978 MDL per Euro 1, as compared to 15.3286 MDL per Euro 1 in 2004.

The dynamics of the average exchange rate of the national currency against US$ in the domestic forex market over 2005 has been mainly affected by the following factors:

1) ***Seasonal character of foreign currency net flows in the domestic forex market***

Chart no. 51. **Foreign currency inflow in 2003 – 2005**



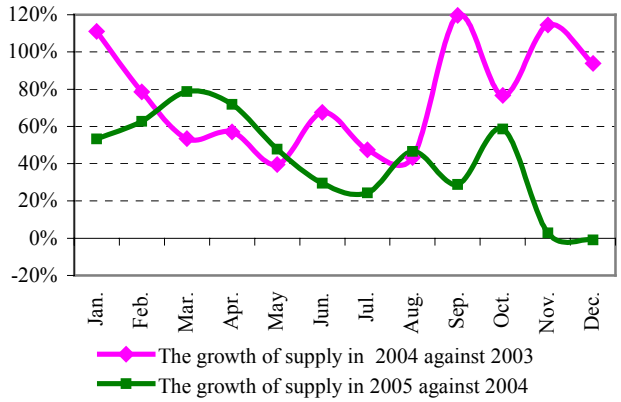
Foreign currency inflows and outflows into / from the national economy, as well as the cyclic character of the national economic activity represent the main factors that affected the dynamics of the exchange rate over 2005. *Chart no. 51* displays the seasonal character of the net foreign currency flow generated from foreign currency inflows and outflows. The depreciation of the national currency against

US$ in the 1st and 4th quarters of 2005 occurred on the background of insignificant positive net flows of US$ 14.2 million and US$ 16.8 million, respectively. The largest depreciation of the national currency against US$ - by 1.7%, determined by the maximal net flow of US$ 20.3 million, has been recorded in November 2005.

In the 2nd and 3rd quarters of 2005, backed by a significant flow of US$ 113.4 million, the national currency appreciated against US$ by 0.2%. The more noticeable appreciation of MDL against US$ over this period has been tempered by NBM significant interventions in the domestic forex market.

2) Tempering of the growth rate of net foreign currency supply by individuals

Chart no. 52. **Dynamics of the growth rate of net foreign currency supply by individuals in 2003-2005**

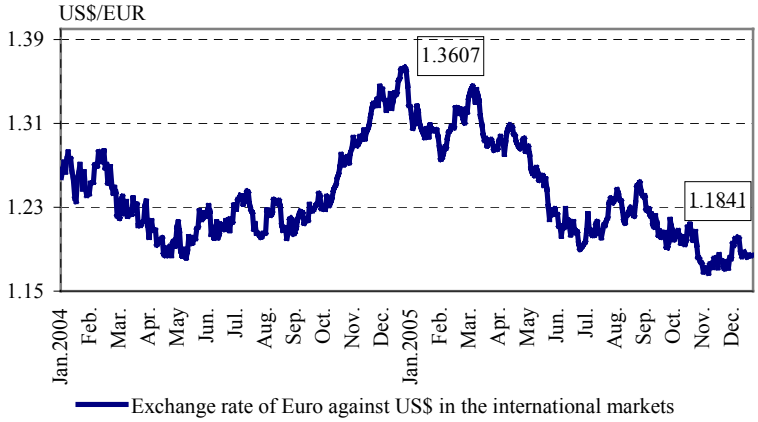


Another factor that impacted the dynamics of the official nominal exchange rate of the national currency against US$ is the double decline of the growth rate of foreign currency net supply by individuals – from 72.2% in 2004 against 2003 down to 36.1% in 2005 against 2004.

In absolute values, the net supply of foreign currency by individuals still denotes weighty values, amounting to US$ 1039.3 million, or 35.6% of GDP in 2005, as compared to 29.4% of GDP in 2004. The foreign currency net supply by individuals over the reported year surpassed by US$ 26.4 million the deficit of the balance with goods and services, as compared to US$ 106.0 million in 2004.

3) Appreciation trends of US$ against Euro in the international forex market

Chart no. 53. **The exchange rate of Euro against US$ in the international markets in 2004-2005**



The exchange rate of US$ against Euro in the international markets appreciated by 13.0% over 2005 – from US$ 1.3607 per Euro 1 as of 31 December 2004 to US$ 1.1841 per Euro 1 as of 31 December 2005 (*chart no. 53*).

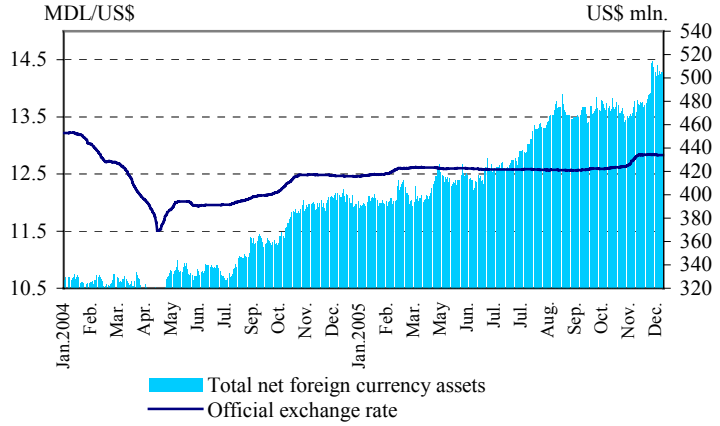
US$ deposits in 2005 enlarged by 23.5% or US$ 41.7 million as compared to the previous year (by 9.7% or US$ 15.7 million in 2004

against 2003), denoting the consolidated US$ attractiveness as savings currency.

4) Enhancement of net assets in banks' balance sheet, as well as of foreign currency deposits within periods of intensified foreign currency inflows

The depreciation trend of the official nominal exchange rate of the national currency against US$ in 2005 is also due to the expansion by 26.4% of banks' foreign currency assets and by 31.5% of foreign currency deposits by individuals, which generated the reduction of total foreign currency supply in the domestic forex market.

Chart no. 54. **Evolution of the official exchange rate of the national currency against US$ and of banks ' net foreign currency assets in 2004-2005**



Banks' net foreign currency balance sheet assets rose over 2005 by US$ 105.5 million (from US$ 399.7 million as of 31 December 2004 to US$ 505.2 million as of 31 December 2005), surpassing the relevant US$ 73.6 million-increase recorded in 2004. The most critical net foreign currency flow of US$ 38.9 million has been observed in August 2005 and banks expanded net balance sheet assets by US$ 41.7 million, thus assisting the tempering of the national currency appreciation against US$. Foreign currency deposits by individuals rose over 2005 by US$ 63.5 million.

Table 24 includes detailed data with regard to foreign currency inflows and outflows through the banking sector of the Republic of Moldova over 2003 to 2005 as registered in the banking statistics.

Table no. 24. **Foreign currency inflow and outflow*** (US$ mln.)

	2003		2004		2005		2004 against 2003		2005 against 2004	
	US$ mln.	*%*	*US$ mln.*	*%*	*US$ mln.*	*%*	*US$ mln.*	*%*	*US$ mln.*	*%*
Foreign currency total inflow	**1553.5**	**100.0**	**2088.4**	**100.0**	**2632.8**	**100.0**	**534.9**	**34.4**	**544.4**	**26.1**
Exports of goods and services	932.0	60.0	1154.2	55.3	1343.3	51.0	222.2	23.8	189.1	16.4
Foreign currency net supply from individua	443.7	28.6	763.9	36.6	1039.3	39.5	320.2	72.2	275.4	36.1
Loans	165.9	10.6	135.3	6.5	152.5	5.8	-30.6	-18.4	17.2	12.7
Direct and portfolio investment (net inflow)	11.9	0.8	35.0	1.7	97.7	3.7	23.1	2.9 tim	62.7	2.8 time
Foreign currency total outflow	**1526.2**	**100.0**	**1913.2**	**100.0**	**2488.4**	**100.0**	**387.0**	**25.4**	**575.2**	**30.1**
Imports of goods and services	1400.5	91.8	1812.1	94.7	2356.2	94.7	411.6	29.4	544.1	30.0
Debt servicing	125.7	8.2	101.1	5.3	132.2	5.3	-24.6	-19.6	31.1	30.8
Foreign currency net inflow	**27.3**		**175.2**		**144.4**					

* Banking statistics on international transactions

Source: Banking statistics: Balance of Payments Direction Reports (updated) at 28.02.06

Foreign exchange inflow in 2005 amounted to US$ 2632.8 million and included as follows: receipts from exports of goods and services – US$ 1343.3 million (51.0%); net foreign currency supply by individuals – US$ 1039.3 million (39.5%); external credits – US$ 152.5 million (5.8%); net direct and portfolio investments – US$ 97.7 million (3.7%).

Foreign exchange inflow over the reported period enlarged by US$ 544.4 million (26.1%) as against the similar period of 2004. Such enlargement was mainly due to the amplification of foreign currency supply by individuals – by US$ 275.4 million (36.1%); receipts from exports of goods and services – by US$ 189.1 million (16.4%); and direct and portfolio investments – by US$ 62.7million (2.8 times).

Charts no. 55 and no. 56 provides the dynamics of the average monthly exchange rate against US$ and of foreign currency inflows and outflows over 2004 to 2005.

Chart no. 55. **The average monthly official exchange rate of the national currency against US$ and foreign currency inflows in 2004 - 2005**

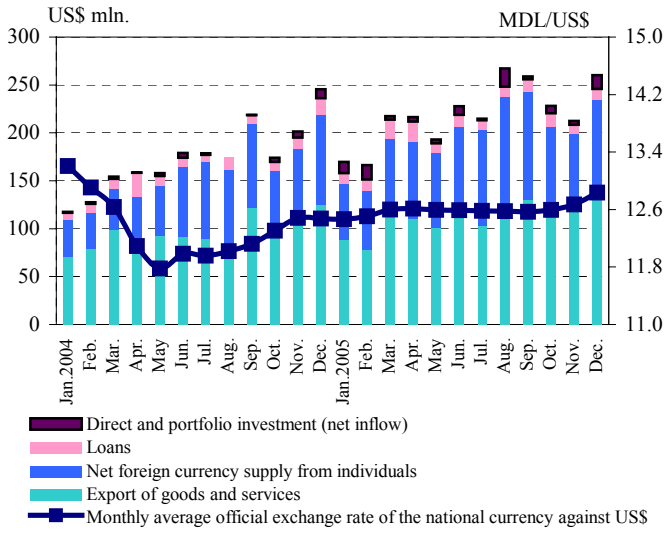
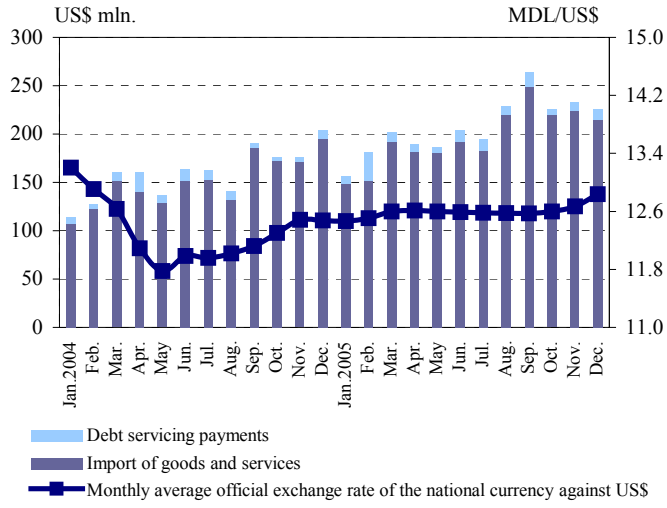


Chart no. 56. **The average monthly official exchange rate of the national currency against US$ and foreign currency outflows in 2004 – 2005**



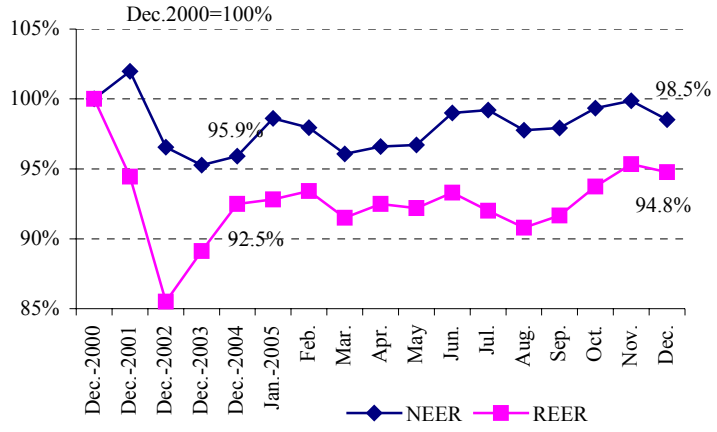
Foreign exchange outflow in 2005 totalled US$ 2488.4 million, determined by payments on imports of goods and services (US$ 2356.2 million or 94.7%); and on external debt servicing (US$ 132.2 million or 5.3%).

Foreign exchange outflow intensified over 2005 by US$ 575.2 million (30.1%), determined by the increase by US$ 544.1 million (30.0%) of payments on imports of goods and services and by US$ 31.1 million (30.8%) of external credits' servicing.

The ***nominal effective exchange rate of the national currency (NEER)*** computed against December 2000 and based on the weight of

main trade partners within external trade transactions appreciated by 2.6 percentage points – from 95.9% in December 2004 to 98.5% in December 2005 (chart no. 57).

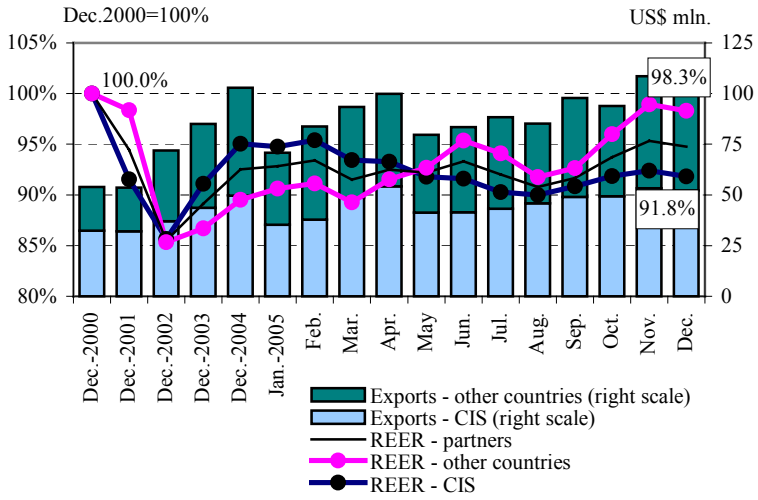
Chart no. 57. **Dynamics of the nominal effective and real exchange rate of the national currency computed based on the main trade partners' weights in 2000 – 2005**



The ***real effective exchange rate of the national currency (REER),*** which is a more complex indicator reflecting the exchange rate change in real terms against currencies of main trade partners (computed against December 2000 considering inflation rates in countries – trade partners and monthly exchange rate change) accounted for 94.8% in December 2005, and denoted the competitiveness of the national currency, which supports the promotion of Moldova's exports. Over 2005, the real effective exchange rate of the national currency exhibited an insignificant appreciation by 2.3 percentage points (*chart no. 57*).

The ***dynamics of the real effective exchange rate of the national currency in breakdown by geographical direction of exports and imports*** in shown in *chart no. 58*. The real effective exchange rate of the national currency computed against currencies of CIS trade partners as against December 2000 accounted for 91.8% as of December 2005. Exports of goods to CIS countries rose over the reported period by 9.7%* as against 2004. Over 2005, the real effective exchange rate of the national currency computed against currencies of CIS trade partners depreciated by 3.2 percentage points.

Chart no. 58. **Exports and real effective exchange rate computed based on main trade partners' weights in 2000–2005**

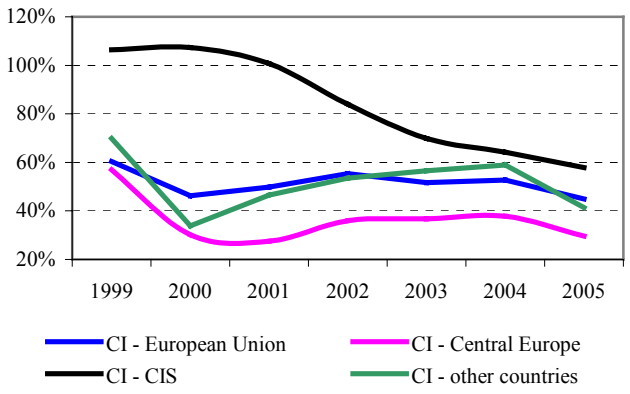


The real effective exchange rate of the national currency computed against currencies of trade partners from the rest of the world, against December 2000, accounted for 98.3% as of December 2005. Exports of goods to the rest of the world rose over the reported period by 11.8%* as against 2004. Over 2005, the real effective exchange rate of the national currency computed against currencies of trade partners from the rest of the world appreciated by 8.8 percentage points.

* According to data of the National Bureau of Statistics

The ***competitiveness index*** computed for the CIS zone has, after reaching the highest level of 107.3% in 2000, continuously decreased to 57.8% in 2005. The competitiveness index computed for EU countries reduced from 52.7% in 2004 down to 45.0% in 2005, mainly as result of more pronounced growth of imports from the European Union (by 32.2%) and smaller enlargement of exports to this region (by 12.9%). The lowest competitiveness index of 29.6% has been registered for countries of Central and Eastern Europe, which was due to the considerable surpassing of imports over exports related to this region.

Chart no. 59. **Competitiveness Index (CI) for domestic goods in 1999 –2005**



Foreign Exchange Market of the Republic of Moldova

The foreign exchange market of the Republic of Moldova over 2005 exhibited ascendant trends of transactions conducted in the domestic forex market against MDL due to the intensified activity of residents, as well as of non-residents. The total turnover of foreign exchange traded against MDL over the reported year totalled the equivalent of US$ 6251.5** million, increasing by 23.3% from 2004 (*table no. 25*). Within total turnover, purchase of foreign exchange in the domestic forex market against MDL amounted to US$ 3142.0 million, and sales –to US$ 3109.5 million.

Table no. 25. **Total turnover of transactions in the domestic forex market in 2004-2005 (foreign currency purchase / sale against MDL)** (US$ mln.)

	Non-cash forex market*						Cash forex market**			Domestic forex market
	NBM	Resident banks	Non-resident banks	Legal entities	Others	Total	Foreign exchange bureaus of commercial banks	Foreign exchange offices	Total	
US$ million										
2004	367.6	343.7	241.3	2620.8	146.1	3719.5	1083.5	267.4	1350.9	5070.4
2005	213.2	405.7	526.3	3159.6	213.7	4518.5	1397.6	335.4	1733.0	6251.5
Weight, %										
2004	7.2	6.8	4.8	51.7	2.9	73.4	21.3	5.3	26.6	100.0
2005	3.4	6.5	8.4	50.5	3.5	72.3	22.3	5.4	27.7	100.0
Growth rate against the previous year, %										
2005	-42.0	18.0	118.1	20.6	46.3	21.5	29.0	25.4	28.3	23.3

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

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

** Except purchase / sale transactions against MDL conducted by NBM, Ministry of Finance and other ministries

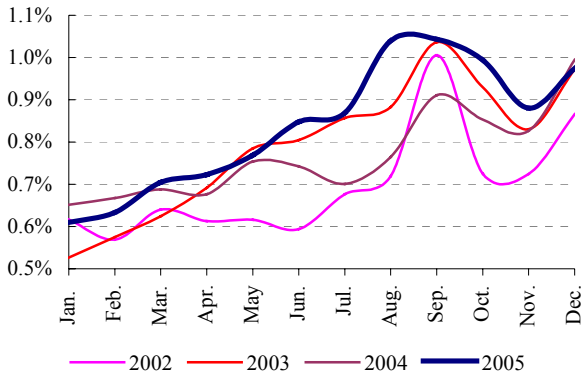
The volume of transactions in the domestic forex market over 2005 displayed ascendant trends, reaching the maximal value in the 3rd quarter. The turnover of transfer transactions in the forex market rose by 21.5% as compared to 2004, and that of cash transactions – by 28.3%. The weight of transfer transactions in the total turnover of transactions in the domestic forex market diminished by 1.1 percentage point (from 73.4% in 2004 down to 72.3% in 2005); the weight of cash transactions rose by 1.1 percentage point (from 26.6% in 2004 up to 27.7% in 2005). As compared to 2004, the structure of the total turnover of transactions concluded between the main forex market participants over 2005 modified as follows: the weight of transactions conducted by non-resident banks extended by 3.6 percentage points; by exchange bureaus of commercial banks – by 1.0 percentage point; by non-bank exchange offices – by 0.1 percentage point; while the weight of transactions by the National Bank of Moldova reduced by 3.8 percentage points; by legal entities – by 1.2 percentage point; and by resident banks – by 0.3 percentage point.

The turnover of transactions by exchange bureaus of commercial banks in 2005 accounted for 22.3% of total turnover of transactions in the domestic forex market. The weight of transactions' turnover by non-bank exchange offices reduced by 4.1 times.

The intensified turnover of forex transactions over 2005 was determined by the amplification of foreign exchange transactions related to imports / exports of goods and services by economic agents of the Republic of Moldova conducted through resident commercial banks; the augmented value of remittances from abroad; transactions with non-resident banks; as well as disbursement and servicing of external credits.

The ***foreign exchange market liquidity**** in 2005 rose from 0.77% in 2004 up to 0.84% in 2005. The components of this index, especially the average daily turnover of transactions in foreign currency against MDL and GDP increased, as compared to the previous year, by respectively US$ 4.6 million (from US$ 20.0 million to US$ 24.6 million) and by US$ 322.0 million (from US$ 2595.0 million to US$ 2917.0 million). The maximal values of forex market liquidity have been noted in the 3rd quarter, especially in August and September (1.04%) (*chart no. 60*).

Chart no. 60. **Domestic forex market liquidity**



* Represents the ratio between the average daily turnover of transactions against MDL and GDP (in %)

Table no. 26. **External forex market liquidity in 2004-2005** (%)

	2004	2005
Russian Federation	2.87	2.82
Moldova	**0.77**	**0.84**
Ukraine	0.60	0.68
Belarus	0.50	0.50

Chart no. 61. **Official exchange rate of the national currency against US$ and the NBM interventions in 2005**

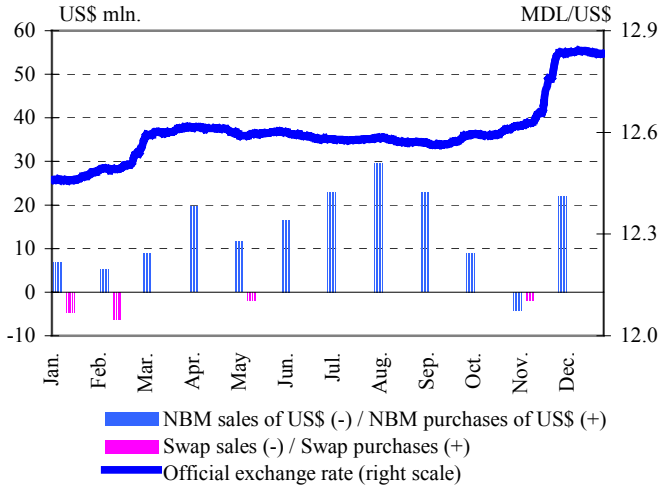
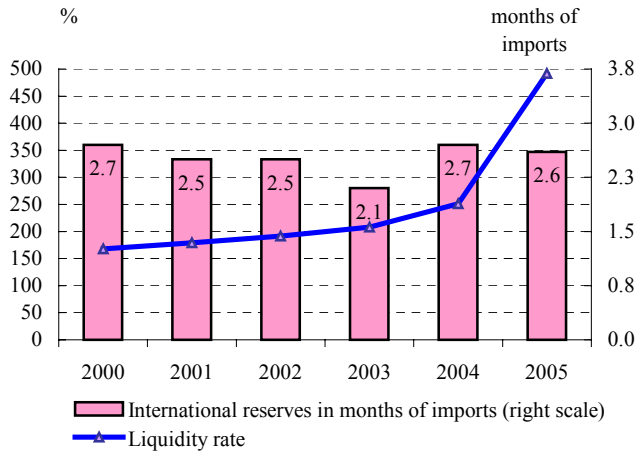


Chart no. 62. **Liquidity rate and international reserves in months of imports**



As compared to neighbouring countries and the main trade partners of the Republic of Moldova, the forex market liquidity of the Republic of Moldova is lower than in Russia (2.82%) and higher than in Ukraine (0.68%) and in Belarus (0.50%) (*table no. 26*).

With the view to attenuate excessive fluctuations of the official nominal exchange rate of the national currency against US$, over 2005 the ***National Bank of Moldova intervened in the domestic forex market using the following instruments***: US$ selling / buying transactions in a net value of US$ 171.4 million (including forward transactions in an amount of US$ 7.9 million) and reverse swap (selling) transactions in a value of US$ 15.03 million (*chart no. 61*).

Payments under external public debt servicing (including servicing of IMF credits) totalled US$ 76.3 million in 2005.

International reserves enlarged over 2005 by 27.0% from US$ 470.3 million up to US$ 597.4 million*. To the end of the year, international reserves expressed in import-months reached the level of 2.6 months**. Of special importance is the noticeable liquidity ratio of international reserves***, which accounted for 491.8% in 2005, increasing by 240.7 percentage points as compared to the previous year (*chart no. 62*).

The average annual shares of foreign currencies in the total foreign exchange turnover exhibited the following values: transactions in US$ accounted for 71.5%; in Euro – for 24.3%; in Russian Roubles – for 3.7%; and in other currencies – for 0.5% (*table no. 27*).

* According to the methodology provided in the IMF Manual on the Balance of Payments and Compartment I of the IMF Form within Special Data Distribution System

** According to data on imports of goods and services for 2005

*** State international reserves as at beginning of calendar year reported to total payments related to direct public and publicly guaranteed debt (including debt to IMF) according to payment schedule over the year (excluding arrears accumulated at year-beginning).

Table no. 27. **Structure of forex turnover in 2004 and 2005**

	Non-cash forex market		Cash forex market		Total forex market		In total turnover
	purchases	sales	purchases	sales	purchases	sales	
2004	Weight, %						
USD	81.9	81.4	58.6	65.6	72.3	79.3	75.7
EUR	11.8	15.9	39.8	30.0	23.3	17.7	20.6
RUB	6.0	2.4	0.9	1.9	3.9	2.4	3.1
Other currencies	0.3	0.3	0.7	2.5	0.5	0.6	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2005	Weight, %						
USD	80.5	78.7	49.0	60.4	66.6	76.5	71.5
EUR	13.2	17.0	49.5	35.1	29.2	19.2	24.3
RUB	6.1	3.9	0.9	2.2	3.8	3.7	3.7
Other currencies	0.2	0.4	0.6	2.3	0.4	0.6	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

US$ is still prevailing in forex market transactions of the Republic of Moldova. Yet, over 2005, the share of US$ transactions in Moldovan forex market reduced by 4.2 percentage points; while the share of Euro transactions rose by 3.7 percentage points. In 2005 the weight of Euro purchases in the cash forex market increased by 9.7 percentage points (from 39.8% in 2004 to 49.5 in 2005); and of Euro sales – by 5.1 percentage points (from 30.0% to 35.1%). The larger share of Euro transactions in the cash forex market is due to the increased value of Euro transfers by citizens of the Republic of Moldova working abroad.

As compared to 2004, ***foreign exchange purchases*** by commercial banks of the Republic of Moldova in the domestic forex market over 2005 rose by US$ 582.5 million (24.4%). Such increase was mainly due to larger foreign currency acquisitions from individuals (by US$ 301.1 million or 31.9%) and from foreign banks (by US$ 144.2 million or 122.5%).

Table no. 28. **Main sources of foreign exchange purchase by banks of the Republic of Moldova in the domestic forex market in 2004 and 2005** (US$ mln)

	Foreign exchange purchase in the domestic forex market against MDL from:							Total
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	Other	
	US$ million							
2004	44.9	161.8	117.7	1044.7	1.2	943.6	77.7	2391.6
2005	19.2	202.4	261.9	1127.7	4.3	1244.7	113.9	2974.1
	weight,%							
2004	1.9	6.8	4.9	43.7	0.0	39.5	3.2	100.0
2005	0.7	6.8	8.8	37.9	0.1	41.9	3.8	100.0
	Growth rate against the previous year, %							
2005	-57.2	25.1	122.5	7.9	258.3	31.9	46.6	24.4

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

Over 2005 banks conducted purchases of foreign currency in the domestic forex market mainly from individuals (41.9%); from legal entities (37.9%); from non-resident banks (8.8%); and from resident banks (6.8%).

As compared to 2004, over the reported year the weight of foreign currency acquisition from individuals rose by 2.4 percentage points; and from non-resident banks – by 3.9 percentage points. At the same time decreases have been noted in the weights of foreign currency purchases from legal entities - by 5.8 percentage points; and from NBM – by 1.2 percentage point. These modifications led to the reduction of the common weight of legal entities and individuals as source of foreign currency acquisition by 3.4 percentage points - from 83.2% in 2004 to 79.8% in 2005.

Foreign exchange sales by commercial banks of the Republic of Moldova in the domestic forex market over 2005 rose by US$ 530.6 million, or by 22.0%, mainly due to larger sales of foreign exchange towards legal entities (by US$ 455.7 million or 28.9%) and non-resident banks (by US$ 140.8 million or 113.9%). Commercial banks' sales of foreign currency in the domestic forex market over 2005 to legal entities accounted for 69.1%; to non-resident banks – for 9.0%, to individuals – for 7.1%; to resident banks – for 6.9%; and to NBM – for 6.6%.

Table no. 29. **Main directions of foreign currency sales by banks of the Republic of Moldova in the domestic forex market in 2004 and 2005** (US$ mln.)

	Foreign currency sales in the domestic foreign market against MDL of:							Total
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	Other	
US$ million								
2004	322.7	181.9	123.6	1576.1	0.6	181.9	24.6	2411.4
2005	194.0	203.2	264.4	2031.8	1.0	209.3	38.3	2942.0
Weight, %								
2004	13.4	7.6	5.1	65.4	0.0	7.5	1.0	100.0
2005	6.6	6.9	9.0	69.1	0.0	7.1	1.3	100.0
Growth rate against the previous year, %								
2005	-39.9	11.7	113.9	28.9	66.7	15.1	55.7	22.0

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

As compared to 2004, increased shares have been noted for sales of foreign currency to non-resident banks (by 3.9 percentage points); and to legal entities (by 3.7 percentage points), and reduced shares – for sales to the National Bank of Moldova (by 6.8 percentage points); to

resident banks (by 0.7 percentage point); and to individuals (by 0.4 percentage point).

Excess foreign currency in the domestic forex market (US$ 1114.3 million), derived mainly from individuals (US$ 1035.4 million or 92.9%) and acquired by commercial banks over 2005 has been sold to legal entities (US$ 904.1 million) and NBM (US$ 174.8 million). The net balance of foreign currency selling / buying transactions against MDL in 2005 totalled US$ 32.1 million (*table no. 30*).

Table no. 30. **Net balance of forex sale/purchase transactions against MDL** (US$ mln.)

	Net Balance							Total
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	Other	
US$ million								
2004	-277.8	-20.1	-5.9	-531.4	0.6	761.7	53.1	-19.8
2005	-174.8	-0.8	-2.5	-904.1	3.3	1035.4	75.6	32.1

*Dynamics of Banks' Assets and Liabilities in Foreign Currency**

As of 31 December 2005 the ***net balance sheet assets in foreign currency of commercial banks*** (extended credits, available funds, required reserves and other assets in foreign currency) rose as from 31 December 2004 by US$ 105.5 million (from US$ 399.7 million up to US$ 505.2 million), or by 26.4% (*table no. 31*).

Table no. 31. **Banks' assets in foreign currency in 2005** (US$ mln.)

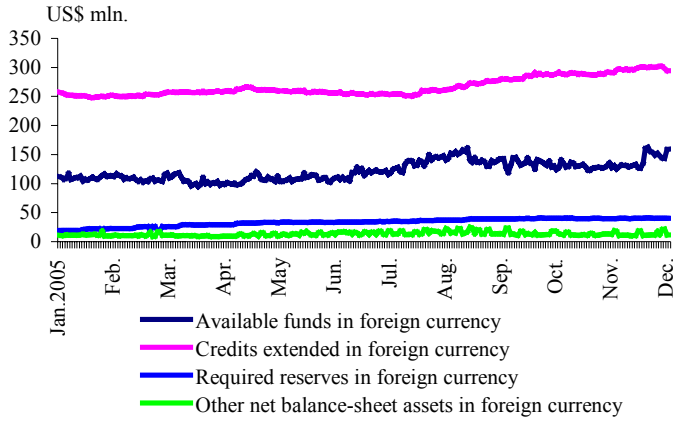
	As of **31.12.2004***	Weight, %	As of **31.12.2005**	Weight, %	Changes as against 31.12.2004, %	Daily average	In percent of daily average, %	Minimal weight, %	Maximal weight, %
Loans	**257.7**	64.5	**294.5**	58.3	14.3	266.9	61.3	55.4	66.0
Foreign currency available funds	**114.4**	28.6	**159.1**	31.5	39.1	121.9	28.0	24.3	33.3
Required reserves with NBM	**19.3**	4.8	**40.1**	7.9	2.1 times	33.3	7.7	4.1	8.6
Other assets	**8.3**	2.1	**11.5**	2.3	38.6	13.2	3.0	2.1	5.2
Total net assets in foreign exchange	**399.7**	100.0	**505.2**	100.0	**26.4**	**435.3**	100.0		

* According to present data

Within total assets in foreign currency, ***credits in foreign currency*** accounted for the largest share of 58.3% as of 31 December 2005 and varied within 55.4% to 66.0%. As compared to 2004-end, the balance of credits extended in foreign currency as of 31 December 2005 rose by

* According to data within the Report on Bank Open Foreign Exchange Position (Regulation on Bank Open Foreign Exchange Position no 126 of 28.11.1997, Official Monitor of the Republic of Moldova no. 112-114/198 of 14.10.1999)

Chart no. 63. **Evolution of banks' net assets in foreign currency in 2005**



US$ 36.8 million (from US$ 257.7 million up to US$ 294.5 million) or by 14.3%.

Within the balance of credits in foreign currency in breakdown by currency, US$ credits accounted for 67.4%; and Euro credits – for 32.6%.

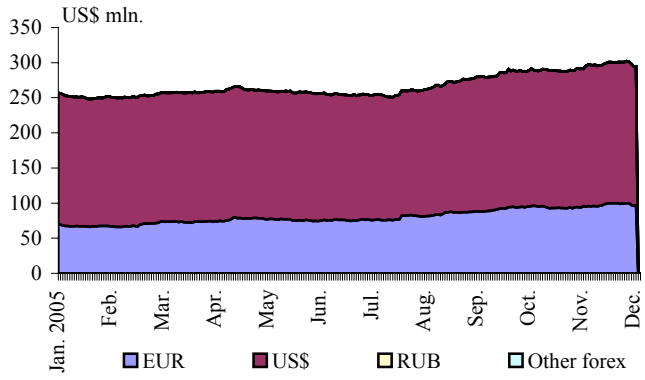
As compared to the end of the previous year, the balance of US$ credits as at 2005-end rose by 6.2%, or by US$ 11.6 million in absolute value (from US$ 186.9 million to US$ 198.5 million). The share of US$ credits within total credits in foreign currency reduced over the reported period by 5.1 percentage points (from 72.5% to 67.4%). As compared to the situation of 31 December 2004, as of 31 December 2005 the balance of Euro credits within total credits in foreign currency rose by 5.2 percentage points (from 27.4% to 32.6%). In absolute values, the balance of Euro credits rose by the equivalent of US$ 25.4 million, or by 36.0% (from US$ 70.6 million as of 31 December 2004 to US$ 96.0 million as of 31 December 2005).

The structure of credits and deposits in foreign currency in breakdown by currency denotes a discrepancy between the balance of US$ credits and US$ deposits. Thus, as of the end of 2005, deposits attracted in US$ surpassed by US$ 20.5 million the balance of credits extended in US$. This situation differs from that as of 2004-end, when US$ credits surpassed US$ deposits by US$ 9.6 million in value terms (*table no. 32*).

Table no. 32. **Credits in foreign currency in the banking sector in 2005** (US$ mln.)

	As of **31.12.2004***	Weight, %	As of **31.12.2005**	Weight, %	Changes as against 31.12.2004, %	Daily average	In percent of daily average, %	Minimal weight, %	Maximal weight, %
US$	**186.9**	72.5	**198.5**	67.4	6.2	186.1	69.7	66.7	73.5
EUR	**70.6**	27.4	**96.0**	32.6	36.0	80.7	30.2	26.4	33.3
RUB	**0.2**	0.1	**0.0**	0.0	-100.0	0.1	0.1	0.0	0.1
Other currencies	**0.0**	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0
Total (all currencies)	**257.7**	100.0	**294.5**	100.0	**14.3**	**266.9**	100.0		

Chart no. 64. **Evolution of the balance of credits extended in foreign currency in 2005**



Within Euro-denominated deposits and credits as of 31 December 2005, the ratio between Euro credits and Euro deposits accounted for 61.9% (as against 62.3% as of 31 December 2004). As of 31 December

2005, the value of clients' Euro deposits not covered by Euro credits totalled the equivalent of US$ 59.1 million (as against US$ 42.7million as of 2004-end).

Within total net balance sheet assets in foreign currency, ***available funds in foreign currency*** accounted for 31.5% as of 31 December 2005 and varied over the year within 24.3% to 33.3%.

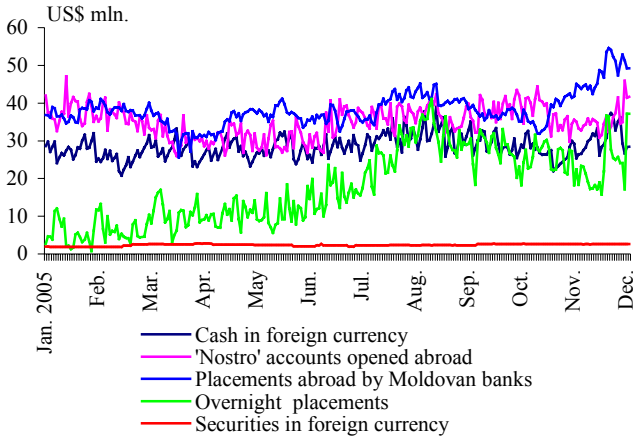
Available funds in foreign currency as of 2005-end, as compared to 2004-end, enlarged both in absolute values – by US$ 44.7 million (from US$ 114.4 million up to US$ 159.1 million), or by 39.1%, and in share value within total net balance sheet assets in foreign currency – by 2.9 percentage points (from 28.6% to 31.5%).

Within the structure of commercial banks' available funds in foreign currency of as of 31 December 2005 banks' placements abroad accounted for 30.9%; "Nostro" accounts opened abroad – for 26.2%; overnight placements – for 23.4%; cash in foreign currency – for 17.9%; and securities – for 1.6% (*table no. 33*).

Table no. 33. **Banks' available funds in foreign currency in 2005** (US$ mln.)

	As of **31.12.2004**	Weight , %	As of **31.12.2005**	Weight, %	Changes as against 31.12.2004, %	Daily average	In percent of daily average, %	Minimal weight, %	Maximal weight, %
Placements abroad by Moldovan banks	**38.9**	34.0	**49.2**	30.9	26.5	38.3	31.4	23.6	38.2
Nostro" accounts opened abroad	**37.2**	32.5	**41.7**	26.2	12.1	35.0	28.7	19.9	41.7
Overnight placements	**9.2**	8.0	**37.2**	23.4	4 times	17.7	14.5	0.7	26.6
Cash in foreign currency	**27.2**	23.8	**28.4**	17.9	4.4	28.5	23.4	17.8	33.3
Securities in foreign currency	**1.9**	1.7	**2.6**	1.6	36.8	2.4	2.0	1.5	2.8
Total	**114.4**	100.0	**159.1**	100.0	**39.1**	**121.9**	100.0		

Chart no. 65. **Evolution of banks' available funds in foreign currency**



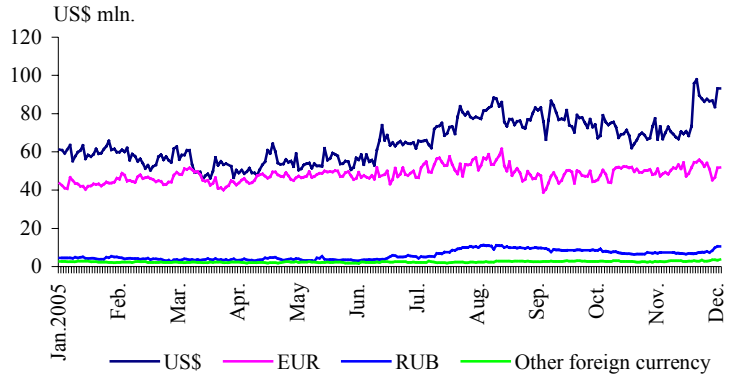
As at the end of reported period, as against end of 2004, the balance of overnight placements in foreign currency increased by almost four times; of securities in foreign currency – by 36.8%; of Moldovan banks' placements abroad – by 26.5%; of "Nostro" accounts abroad – by 12.1%; and of cash in foreign currency – by 4.4%.

Within the structure of available funds in foreign currency in breakdown by currency, funds in US$ accounted for 58.6%; in Euro – for 32.5%; and in Russian Rouble – for 6.7% (*table no. 34*).

Table no. 34. **Banks' available funds in foreign currency in breakdown by currency in 2005** (US$ mln.)

	As of **31.12.2004**	Weight , %	As of **31.12.2005**	Weight, %	Changes as against 31.12.2004,%	Daily average	In percent of daily average, %	Minimal weight, %	Maximal weight, %
US$	**62.6**	54.7	**93.2**	58.6	48.9	65.4	53.6	47.2	60.4
EUR	**44.7**	39.1	**51.7**	32.5	15.7	48.1	39.5	30.7	47.3
RUB	**4.5**	3.9	**10.6**	6.7	135.6	6.0	4.9	2.6	7.9
Other currencies	**2.6**	2.3	**3.6**	2.2	38.5	2.4	2.0	1.4	2.8
Total	**114.4**	100.0	**159.1**	100.0	**39.1**	**121.9**	100.0		

Chart no. 66. **Available funds in forex in breakdown by currency**



Significant increase over the reported year has been observed within US$ available funds. Thus, the balance of funds in US$ enlarged by 48.9% or by US$ 30.6 million (from US$ 62.6 million as of 31 December 2004 to US$ 93.2 million as of 31 December 2005). As of 2005-end, the share of US$ funds in total available funds in foreign currency expanded by 3.9 percentage points as compared to 2004-end (from 54.7% to 58.6%).

The balance of Euro funds as of 2005-end increased from 2004-end by 15.7% and by the equivalent of US$ 7.0 million in terms of absolute values (from US$ 44.7 million to US$ 51.7 million). Yet, in share terms, Euro funds in total available funds in foreign currency diminished over the reported year by 6.6 percentage points (from 39.1% to 32.5%).

Required reserves in total net balance sheet assets in foreign currency rose by 2.1 times or by US$ 20.8 million (from US$ 19.3 million as of 31 December 2004 to US$ 40.1 million as of 31 December 2005). The share of required reserves in total net balance sheet assets in foreign currency accounted for 7.9% as of 31 December 2005 and varied over the year from 4.1% to 8.6%.

Net balance-sheet liabilities in foreign currency over the reported year increased by 25.3% or by US$ 96.9 million (from US$ 382.7 million as of 31 December 2004 to US$ 479.6 million as of 31 December 2005) (*table no. 35*).

Clients' *time deposits in foreign currency* accounted for the largest share of 51.5% of total net balance sheet liabilities. The relevant balance as of 2005-end rose by US$ 68.3 million from 2004-end (from US$ 178.5 million to US$ 246.8 million), or by 38.3%.

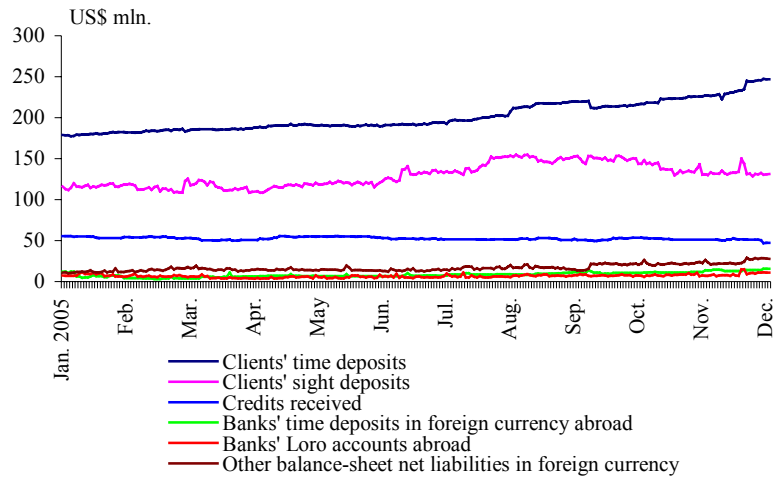
Table no. 35. **Net balance sheet liabilities in foreign currency in 2005** (US$ mln.)

	As of **31.12.2004**	Weight , %	As of **31.12.2005**	Weight, %	Changes as against 31.12.2004, %	Daily average	In percent of daily average, %	Minimal weight, %	Maximal weight, %
Clients' time deposits	**178.5**	46.7	**246.8**	51.5	38.3	201.1	48.5	46.1	51.5
Clients' sight deposits	**116.5**	30.4	**131.3**	27.4	12.7	129.6	31.2	27.0	35.0
Received credits	**55.8**	14.6	**47.3**	9.9	-15.2	52.5	12.7	9.7	14.9
Time deposits of foreign banks	**12.2**	3.2	**15.5**	3.2	27.0	8.4	2.0	0.9	3.2
Loro accounts of foreign banks	**7.3**	1.9	**10.8**	2.2	47.9	6.8	1.6	1.0	3.0
Other liabilities in foreign currency	**12.4**	3.2	**27.9**	5.8	2.3 times	16.7	4.0	2.7	6.0
Total	**382.7**	100.0	**479.6**	100.0	**25.3**	**415.1**	100.0		

Clients' *sight deposits in foreign currency* accounted for 27.4% of total net balance sheet liabilities in foreign currency as of the end of reported period. The balance of these deposits augmented over 2005 by US$ 14.8 million in absolute values (from US$ 116.5 million as of 31 December 2004 to US$ 131.3 million as of 31 December 2005), or by 12.7%.

The weight of *credits received in foreign currency* in total net balance sheet liabilities accounted for 9.9% as of 31 December 2005, and reduced by US$ 8.5 million from end of 2005 (from US$ 55.8 million to US$ 47.3 million), or by 15.2%.

Chart no. 67. **Balance sheet net liabilities in foreign currency in 2005**



Banks' time deposits in foreign currency abroad increased by US$ 3.3 million (from US$ 12.2 million as of 31 December 2004 to US$ 15.5 million as of 31 December 2005), or by 27.0%. The share of these deposits in total net balance sheet liabilities in foreign currency accounted for 3.2% as of 2005-end.

Banks' "Loro" accounts abroad enlarged over the reported period by US$ 3.5 million (from US$ 7.3 million as of 31 December 2004 to US$ 10.8 million as of 31 December 2005), or by 47.9%. The balance of thereof in total net balance sheet liabilities in foreign currency accounted for 2.2% as of 2005-end.

Basic balance sheet liabilities in foreign currency (clients' time deposits, sight deposits) increased by US$ 83.1 million (from US$ 295.0 million as of 31 December 2004 to US$ 378.1 million as of 31 December 2005), or by 28.2%.

The structure of clients' deposits in breakdown by currency denotes that US$ is still the preferred savings currency of banks' clients (*table no. 36*). The share of US$ deposits in clients' total deposits in foreign currency varied within 56.4% and 60.7% and accounted for 57.9% as of 2005-end, enlarging by 23.5% from the end of 2004. As from 31 December 2004, the balance of US$ deposits rose by US$ 41.7 million and amounted, as of 31 December 2005, to US$ 219.0 million.

Table no. 36. **Total deposits of clients in foreign exchange in the banking sector in 2005** (US$ mln.)

	As of **31.12.2004**	Weight , %	As of **31.12.2005**	Weight, %	Changes as against 31.12.2004, %	Daily average	In percent of daily average, %	Minimal weight, %	Maximal weight, %
US$	**177.3**	60.1	**219.0**	57.9	23.5	193.0	58.4	56.4	60.7
EUR	**113.3**	38.4	**155.1**	41.0	36.9	133.7	40.4	37.8	42.5
RUB	**2.7**	0.9	**2.3**	0.6	-14.8	2.7	0.8	0.5	1.5
Other currencies	**1.7**	0.6	**1.7**	0.5	0.0	1.3	0.4	0.3	0.6
Total	**295.0**	100.0	**378.1**	100.0	**28.2**	**330.7**	100.0		

The dynamics of Euro deposits exhibits an increase by 2.6 percentage points of the share of thereof (from 38.4% as of 2004-end to 41.0% as of 2005-end), which varied over the reported year from 37.8% to 42.5%. The balance of Euro deposits as of the end of 2005 totalled the equivalent of US$ 155.1 million, exhibiting a 36.9%-increase from 31 December 2004 (US$ 113.3 million). Deposits in Russian Roubles and other currencies accounted for an insignificant share of clients' deposits in foreign currency with the banking system of the Republic of Moldova. As of the end of 2005, the share of RUB deposits amounted to the equivalent of US$ 2.3 million and accounted for 0.6% of total clients' deposits.

Chart no. 68. **Evolution of US$ deposits and the official exchange rate of the national currency against US$ in 2005**

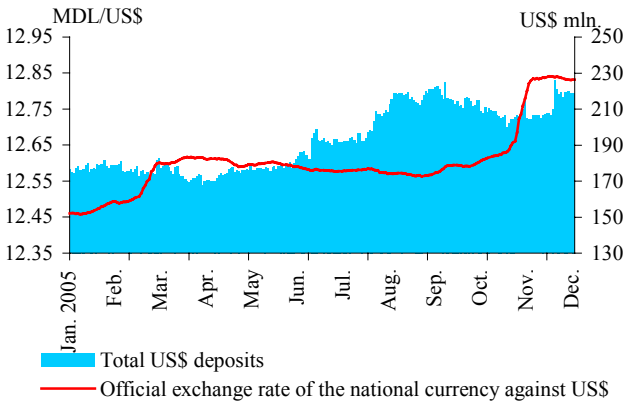
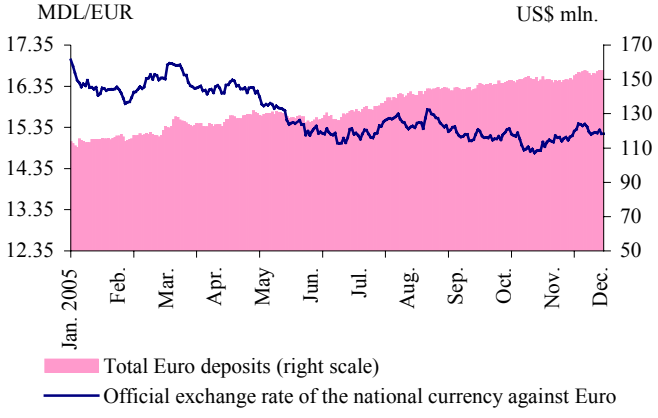


Chart no. 69. **Evolution of Euro deposits and the official exchange rate of the national currency against Euro in 2005**



Banks' *conditional assets and liabilities* in foreign currency increased over the reported year by, respectively, 15.9 times and 15.6 times (*table no. 37*).

Table no. 37. **Banks' off-balance-sheet assets and liabilities in 2005** (US$ mln.)

	As of 31.12.2004*	Weight, %	As of 31.12.2005	Weight, %	Changes against 31.12.2004, %
Off-balance-sheet assets					
Current purchases	**9.3**	76.2	**105.3**	54.3	11.3 times
Term purchases	**2.9**	23.8	**88.5**	45.7	30.5 times
Other off-balance-sheet assets	**0.0**	0.0	**0.0**	0.0	0,0
Total off-balance-sheet assets	**12.2**	100.0	**193.8**	100.0	15.9 times
Off-balance-sheet liabilities					
Current sales	**9.3**	71.0	**105.3**	51.5	11.3 times
Term sales	**3.5**	26.7	**98.4**	48.1	28.1 times
Other off-balance-sheet liabilities	**0.3**	2.3	**0.9**	0.4	3 times
Total off-balance-sheet liabilities	**13.1**	100.0	**204.6**	100.0	15.6 times
Total regulatory capital (TRC)	**193.0**		**220.9**		
(Off-balance-sheet assets – Off-balance-sheet liabilities) /TRC, (%)	**-0.5**		**-4.9**		

*According to present data

As of 31 December 2005, within conditional assets, current purchases accounted for 54.3%; and term purchases – for 45.7%. Within conditional liabilities as of the same date, current sales accounted for 51.5%; term sales – for 48.1%; and other liabilities – for 0.4%.

The difference between conditional assets and conditional liabilities reported to Total Regulatory Capital increased from -0.5% as of 31 December 2004 to –4.9% as of 31 December 2005.

Open (long) foreign exchange position for al currencies as of 31 December 2005 as against 31 December 2004 reduced from US$ 16.8 million to US$ 16.1 million, or by 4.2%.

Chart no. 70. **Evolution of the open long foreign exchange position in US$ and the official exchange rate of the national currency against US$**

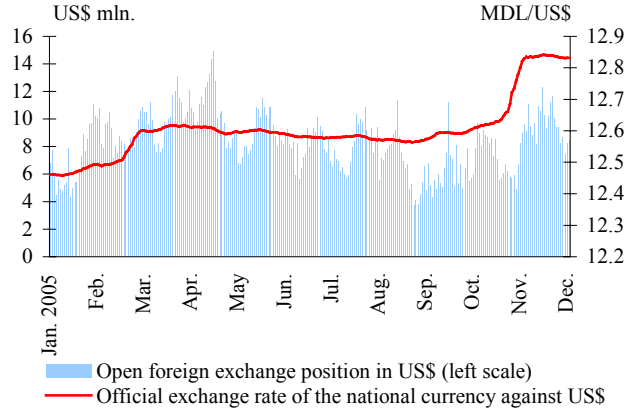
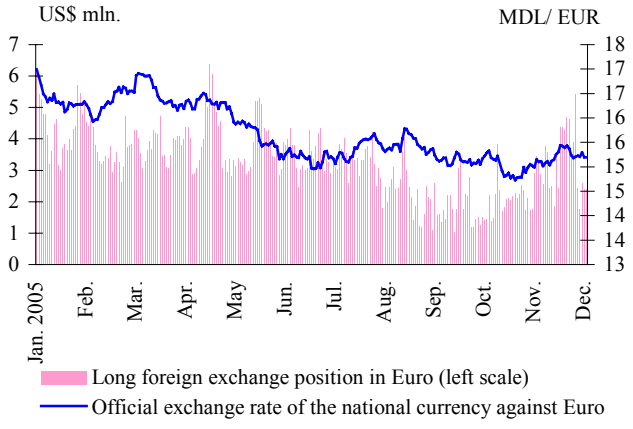


Chart no.71. **Evolution of the open long foreign exchange position in Euro and the official exchange rate of the national currency against Euro**



foreign exchange position in US$ rose from 2004-end by 7.7% (from US$ 7.8 million to US$ 8.4 million) (*chart no. 70*). At the same time, the open long foreign exchange position in Euro over the same period reduced by 59.3% (from the equivalent of US$ 5.9 million to the equivalent of US$ 2.4 million) (chart no. 71).

Foreign Exchange Regulation in 2005

Over 2005 the National Bank of Moldova has further improved the legal framework for foreign exchange regulation within the context of gradual liberalisation of foreign exchange rules, as well as paying due consideration to relevant modifications within the effective legislation of the Republic of Moldova.

- Given the modification of the Law on Regulation of Repatriation of Money Means, Goods and Services Obtained from External Trade Transactions (no. 1466-XIII of 29.01.1998), under which the National Bank of Moldova (NBM) and commercial banks have been exonerated from performance of repatriation control, a series of NBM normative acts in the field of foreign exchange regulation have been modified, and certain acts have been abrogated.

- As in accordance with the Law on Revision and Improvement of the Normative Framework for Entrepreneurial Activity Regulation (no. 424-XV of 16 December 2004), a series of NBM normative acts in the field of foreign exchange regulation have been modified as to exclude provisions allowing NBM to request other documents not explicitly specified in these acts. At the same time, other normative acts clearly stipulate the documents that used to be additionally requested for purposes of examination of authorisation issuance requests.

- Foreign exchange provisions regulating the activity of duty-free shops with foreign currency have been adjusted paying due consideration to the following legislative provisions of the Republic of Moldova:

a) stipulation of duty-free shops' right to trade goods against MDL, as well, in addition to trading in foreign currency;

b) determination that duty-free shops do not represent customs regime, but customs destination of goods' placement;

c) abrogation of the Decree of the President of the Republic of Moldova no. 195 of 10 June 1994 on Organization of Shops

Trading Goods under Duty-Free Regime, as well as of Shops Serving Diplomatic Corps;

At the same time, the list of documents to be submitted for purposes of receiving relevant authorisation to trade goods against foreign currency in duty-free shops has been updated; and the term provided for the examination of requests for relevant authorisation issuance has been reduced.

- Within regulation of registration / authorisation by NBM of private external commitments, NBM undertook the following actions.

Following the modifications within the Law on Regulation of Repatriation of Money Means, Goods and Services Obtained from External Trade Transactions (no. 1466-XIII of 29.01.1998), with regard to the modification of repatriation terms (prolongation of thereof up to one year and longer, depending on the case), as well as the liberalisation of a series of operations related to capital export, NBM excluded the requirement on authorisation of international credit loan / credit extended by residents to non-residents for terms longer than 180 days and smaller than 365 days.

Stipulations establishing additional requirements based on which NBM used to take the decision to authorise credit / loan, or financial leasing provision by residents (other than financial institutions) to non-residents have been abolished, as well.

At the same time, it has been established that residents should register their private external commitments at NBM prior the use of money funds as in accordance with contracts on private external commitments. In accordance with previous provisions, private external commitments were registered at NBM before the execution of relevant contacts.

- Considering effective legislative provisions, the norms within the foreign exchange domain related to issuance of authorisations to conduct certain foreign currency transactions by economic agents acting within civil aviation have been modified as for such provisions to cover all international airports of the Republic of Moldova determined so by the legislation.

NBM has simplified, as well, the procedure related to the submission of documents for purposes of obtaining the NBM authorisation to conduct certain operations in foreign currency by economic agents acting within civil aviation; and also reduced the list of documents to be submitted for the examination by NBM of relevant authorisation issuance request.

Additionally, NBM provided stipulations related to the examination term by NBM of new authorisation issuance requests in events set by effective normative acts.

- Within the context of cash exchange activity with individuals, considering the Law on Licensing of Certain Types of Activity (no. 451-XV of 30 July 2001), NBM prolonged the term set for the submission by relevant exchange offices to NBM of adequate explanations for violations traced out following conducted controls, as well as the term set for the NBM sanctioning decision.

Under the scope of the Law on Financial Institutions (no. 550-XIII of 21 July 1995), NBM set separate norms related to the application by NBM of sanctions towards commercial banks in events of non-observance by thereof of normative acts related to cash exchange transactions with individuals.

NBM modified, as well, the procedure of sanctions' application in events of violation of effective legislative provisions regulating the use of cash and control equipment by exchange offices. To mention, effective legislative acts include provisions related to all categories of economic agents. These provisions cover issues related to violation of stipulations on use of cash and control equipment; measures undertaken towards offenders; as well as relevant entities authorised to apply sanctions (excluding NBM). Furtheron, it has been established that NBM shall not apply sanctions in events of violation of NBM normative acts related to use by exchange offices of cash and control equipment, and that NBM shall deliver the information on such violation to relevant entities for purposes of application of adequate measures as in accordance with the legislation in effect.

- NBM modified over the reported year relevant foreign exchange regulations on card transactions.

Along with the modifications in the repatriation legislation, NBM abolished the requirement of payment card application within repatriation payments and control, thus allowing resident legal entities to use cards not only for purposes of paying business trip related expenses abroad, but also to make other payments in favour of non-residents. It is not allowed to withdraw cash through relevant cards in order to conduct such payments. NBM established the procedure of submitting to the bank adequate documents confirming the need of card payments, as well as the term of mentioned documents' submission by resident legal entities.

- Considering the perspectives of conducting payments / transfers based on documents bearing electronic signature, as well as the

modification of repatriation control procedure, NBM modified the procedure of submission by resident individuals and legal entities of documents confirming the need of payment / transfer performance in favour of non-residents; of handling of these documents; and of keeping of thereof in the bank.

In the event that the NBM normative acts in the field of foreign exchange regulation establish the need of submission by resident legal entities of documents confirming the need of payment / transfer performance and do not provide relevant rules on these documents' submission, such submission shall fall under the scope of the special normative act approved in 2005 – the Instruction on Confirming Documents within Payments / Transfers by Resident Legal Entities in Favour of Non-Residents.

This Instruction simplifies the rules on confirming documents' submission and handling of thereof, including as follows:

a) within performance of payments / transfers in favour of non-residents, resident legal entities shall submit to the bank the confirming documents' photocopies, the authenticity of which shall be certified by the relevant legal officer;

b) the bank shall not mark the amount and date of conducted payment / transfer on the photocopies of confirming documents, etc;

c) confirming documents shall be submitted only once in the event that a number of payments is conducted based on the same confirming documents.

Similar rules on confirming documents' submission by resident legal entities and handling of thereof have been established for resident individuals.

- Within the context of regulating the opening of residents' accounts abroad, NBM conducted the followings.

Considering that different rules and requirements are applied for different residents, Moldova's residents have been divided into a number of categories. These amendments implied relevant specifications as with regard to documents to be submitted to NBM by the resident individual practicing certain type of activity for purposes of receiving relevant authorisation, as well as to the repatriation of balances of accounts closed abroad by this category of residents.

At the same time, relevant regulations have been added with new provisions as follows:

a) performance through accounts opened abroad of transactions related to capital transfer subject to registration / authorisation by NBM;

b) operations not specified in the NBM authorisation that may be conducted through accounts opened abroad;

c) documents to be submitted to NBM by relevant residents with the first report.

Simultaneously, NBM simplified the list of documents to be delivered to NBM for purposes of obtaining the authorisation to open accounts abroad.

Over 2005 NBM has approved, as well, other foreign exchange regulations, including as follows.

- Banks have been allowed to extend foreign currency credits from own means for purposes of reimbursement of foreign currency credits received by residents from other banks of the Republic of Moldova, exclusively providing that such credit has been received to conduct payments with non-residents;

- Within measures aimed at easing the submission of confirming documents and handling of thereof in event of payments / transfers in favour of non-residents, NBM has as follows:

a) set similar provisions on confirming documents' submission and maintenance in events of foreign currency acquisition against MDL by resident legal entities, paying due consideration that same confirming documents, in certain cases, serve as basis for performance of both relevant acquisitions, as well as payments / transfers in favour of non-residents;

b) adjusted the provision of the Instruction on International Money Orders to new rules, taking into account that the Instruction has been worked out based on norms related to transfers abroad via the banking system.

- Improving foreign exchange normative acts, NBM has paid consideration to legislative provisions on assignment of state identifications numbers to enterprises and organizations, as well as on the introduction of the new certificate of enterprises and organizations registration.

- Within the context of foreign currency import / export into / from the Republic of Moldova, it has been allowed to use, along with the customs declaration of foreign currency import, the permission to export foreign currency upon foreign currency cash / traveller's check depositing in accounts of resident legal entities by non-residents (or

authorised persons of thereof) in cases provided by relevant foreign exchange regulations.

- The procedure related to MDL cash depositing by representative offices of non-resident legal entities into MDL accounts of thereof has been simplified.

- With the view to ensuring due transparency of certain provisions regulating cash import / export into / from the Republic of Moldova by banks, NBM established the relevant time-framework provided for NBM decision on issuance of cash import / export authorisation in favour of non-resident bank or refusal of such authorisation issuance, as well as additional grounds based on which NBM may refuse to issue requested authorisation.

- Considering the modifications and completions within the Chart of Accounts of Bookkeeping in Banks and Other Financial Institutions of the Republic of Moldova, as well as with the view to improving the system of statistic data collection, NBM modified in 2005 a series of regulations related to banks' reporting to NBM.

- Within the context of bringing the foreign exchange legislation of the Republic of Moldova in line with the European Union legislation, the National Bank of Moldova has further worked in 2005 on the elaboration of the draft Law on Foreign Exchange Regulation. Over 2005 NBM benefited from relevant technical assistance and undertook adequate measures aimed at adjusting the NBM legal and operational framework for NBM independence consolidation and institution of price stability objective as basic objectives of the National Bank of Moldova.

International Cooperation of the Republic of Moldova

International Monetary Fund (IMF)

The Republic of Moldova became member of the International Monetary Fund (IMF) on 12 August 1992. As of 2005-end, the subscription quota of the Republic of Moldova in IMF amounted to SDR 123.2 million (approximately US$ 176.1 million).

The relationship of the National Bank of Moldova with IMF over 2005 embodies monitoring of country's macroeconomic and financial condition, as well as annual bilateral Article IV consultation missions.

The financial support extended to the Republic of Moldova over 1992 to 2005 totalled US$ 386.0 million (SDR 270.1 million): total reimbursements amounted to US$ 290.5 million (SDR 203.3 million), and interests and commissions – to US$ 85.2 million (SDR 59.6 million).

Table no. 38. **Financial arrangements with IMF**

Facility	Amount approved (SDR mln.)	Amount disbursed (SDR mln.)	The weight of disbursement in percent of total approved amount (%)	Balance as of 31.12.2005 (SDR mln.)	Balance as of 31.12.2005 (US$ mln.)
Extended Fund Facility (EFF)	**135.0**	**87.5**	**64.8**	**39.1**	**55.8**
Poverty Reduction and Economic Growth Facility (PRGF)	**110.9**	**27.7**	**25.0**	**27.7**	**39.6**

Moldova's debt to IMF as at the end of 2005 totalled US$ 95.4 million (SDR 66.8 million). Total payments related to IMF credits' servicing in 2005 valued US$ 24.3 million (SDR 16.4 million), of which payments on credit principal amounted to US$ 21.6 million (SDR 14.6 million) and interest related payments – to US$ 2.7 million (SDR 1.8 million).

Within the context of relationship of the Republic of Moldova with IMF, on 7 February 2005 the Executive Board of the International Monetary Fund approved the IMF experts' Report following conclusion of Article IV consultation mission. IMF Directors recommended that within monetary policy implementation the National Bank of Moldova should pay special consideration to inflation target and ensurance of NBM independence, which shall further contribute to low-inflation maintenance. The Report appraised the favourable level of financial sector indicators.

Within the four visits conducted over the reported year, the IMF experts assessed the macroeconomic performances; discussed with official executives of the Government of the Republic of Moldova and the National Bank of Moldova on issues of monetary and fiscal policies for the period of 2005 to 2006, implementation of structural reforms provided in the Poverty Reduction and Economic Growth Strategy and the Actions Plan Republic of Moldova – EU; as well as conducted the annual bilateral Article IV consultation for 2005. The 2005 December mission negotiated the basic components of a new macroeconomic program financed by IMF under the Poverty Reduction and Economic Growth Facility (PRGF).

The IMF officials gave a positive appreciation of the NBM effort to maintain inflation at a low level and to sterilise excess liquidity.

The Republic of Moldova adhered to the General Data Dissemination System (GDDS) in February 2003. Since then, the IMF web page publishes the description of the methodology used to elaborate the macroeconomic indicators within the relevant system and statistic indicators have started to be disseminated through Internet.

The July IMF mission on observance of macroeconomic statistics standards and codes (ROSC mission) had as target the assessment of the quality of macroeconomic statistics elaborated in the Republic of Moldova. The mission has also assessed the compliance of macroeconomic indicators' dissemination procedures with GDDS recommendations, as well as the compliance of statistics calculation practice with Data Dissemination Special Standards (DDSS).

From 16 to 23 November 2005, IMF experts provided technical assistance to the Republic of Moldova within the context of country adherence to the system of Data Dissemination Special Standards (DDSS).

Following the NBM request, the Monetary and Financial Department technical assistance mission of 12 to 21 December 2005 conducted a relevant research study and extended consultation on central bank independence, monetary policy and monetary operations.

World Bank Group (WB)

Based on the Decision of the Parliament no. 1107-XII of 28 July 1992, the Republic of Moldova adhered to the International Bank for Reconstruction and Development (IBRD), International Financial Corporation (IFC), and International Development Agency (IDA).

The relationship with institutions within the World Bank Group over 2005 has been based on Country Assistance Strategy (CAS) of 14 December 2004 with regard to lending activities, economic assessment, and technical assistance for years 2005 to 2008. CAS has been worked out paying due consideration to the current economic condition of the Republic of Moldova, PRGF objectives and country's aspirations to European integration.

CAS provides a flexible financing framework for 2005 to 2008, which depends on the economic situation of the country and varies within US$ 90.0 million to US$ 137.0 million under IDA concession financing conditions.

On 16 June 2005 the World Bank approved a US$ 8.548 million loan within the Public Financial Management Project and an additional loan of US$ 3.0 million related to the First Cadastre Project. Both loans have been extended under IDA standard conditions: a service charge of 0.75% per year; with a maturity of 40 years; and a 10-year grace period. The Public Financial Management Project has been launched for purposes of improving the budgetary transparency and ensuring the compatibility of budgetary classification with the international system of governmental financial statistics. The total project cost is US$ 15.331 million and includes, as well, the local contribution and grants by the Government of the Netherlands and the Swedish International Development Agency (SIDA). The First Cadastre Additional Financing for the First Cadastre Project shall finance activities related to the enlargement of the scope and access to real estate registration system, consolidation of data of all territorial cadastral offices and enhancement of information flow.

With the view to supporting investments in the private sector, the World Bank approved on 27 October 2005 a Competitiveness Enhancement Project in a total value of US$ 9.8 million, of which US$ 4.9 million is financed through a grant and US$ 4.9 million – through an IDA standard loan. Financial resources shall be aimed at financing four categories of activities, including: improvements in the business environment (including introducing of Regulatory Impact Assessment (RIA) in the legislative process of Moldova); modernisation of the metrology, standardization, testing and quality infrastructure (MSTQ); improving access of enterprises to MSTQ; and improving access to finance (through establishment of a credit history database, relevant regulatory framework, etc.).

International Bank for Reconstruction and Development (IBRD)

The amount disbursed and not reimbursed on IBRD loans amounted to US$ 161.4 million as of 31 December 205. The scope of IBRD financed projects until 31 December 2005 covered general education system development; private sector development; structural adjustments implementation; removal of draught consequences; support of energy system development; economy rehabilitation.

International Development Agency (IDA)

The stock of IDA credits as of 31 December 2005 amounted to US$ 209.2 million; total disbursements over the year totalled US$ 23.6 million.

European Bank for Reconstruction and Development (EBRD)

The Strategy for the Republic of Moldova for the following two years has been approved at the EBRD Board on 26 July 2005.

In 2005 EBRD approved a credit of US$ 0.9 million directed to ProCredit Moldova, aimed at facilitating small and medium enterprises' access to financing.

In the first half of 2005 EBRD concluded the negotiations with "Azertrans" SRL (subsidiary company of Azerpetrol Group, Republic of Azerbaijan) on the restructuring of Giurgiulesti Petrol Terminal Project. Following transaction conclusion, the state payment guarantee provided as in accordance with the Performance State Guarantee Agreement has been annulled.

In 2005, the state payment guarantee for the restructuring of the overdue indebtedness of Vininvest SRL Company related to Wine Export Promotion Project has been annulled, as well.

The total stock of EBRD direct and private credits (under state guarantee and with no state guarantee) as of 31 December 2005 amounted to US$ 67.2 million, of which direct debt and private credits for which state guarantees have been issued over previous years accounted for 39.1%; and private non-guaranteed debt – for 60.9%.

Sector-wise, the EBRD credit portfolio as of 31 December 2005 includes as follows: credits to infrastructure - 27.0%; to financial institutions –26.7%; to energy sector –24.4%; to transportations – 19.8%; to small business financing – 1.3%; to communications – 0.5%; and to agrobusiness – 0.3%.

Disbursements over 2005 under EBRD projects in the private sector (credits with no state guarantee) totalled US$ 10.8 million, and have been integrally directed towards the banking sector. Total payments in 2005 amounted to US$ 32.7 million, including: private non-guaranteed loans - US$ 20.0 million; external commitments under state guarantee – US$ 11.5 million; and direct debt servicing – US$ 1.2 million.

European Union (EU)

The legal framework of cooperation relationship between the Republic of Moldova and the European Union embodies the Partnership and Cooperating Agreement (PCA) signed on 28 November 1994 (in effect from 1 July 1998).

The Actions Plan Republic of Moldova – EU, which is the basic document regulating the implementation of PCA provisions has been approved following the Decision of the Government of the Republic of Moldova no. 356 of 22 April 2005.

Under the scope of PCA implementation, the National Bank of Moldova participated at the updating of the National Program on Implementation of Measures of Actions Plan RM – EU, in particular of measures pertinent to NBM activity related to objective 19 "Medium – Term Economic Growth Consolidation and Sustainability", compartment "Functional Market Economy", etc. The National Bank submitted in 2005 monthly, quarterly and semester reports on the implementation of the Actions plan RM – EU approved on 22 February 2005 by the RM – EU Common Council for Cooperation.

Experts of the National Bank of Moldova have participated, as well, at the works of the inter-ministerial Commission for Social and Economic Issues and of the National Commission for European Integration on the implementation of the Actions Plan RM – EU.

In September 2005 the National Bank of Moldova submitted relevant data on NBM activity for the meeting of 6-7 October 2005 of the RM – EU Parliamentary Cooperation Committee, which was held in Chisinau.

The financial assistance extended by the European Union to the Republic of Moldova until 31 December 2005 has been channelled through three main instruments: financing of the deficit of the balance of payments via loans and grants; TACIS program; and financing of medicines' and food items' acquisition. In 2005 the Republic of Moldova received a grant of EURO 18.3 million within the Food Security Program.

Credit reimbursements in 2005 amounted to US$ 8.5 million (EURO 7.0 million); and interest related payments - to US$ 0.3 million (EURO 0.2 million).

European Council Development Bank

The Parliament of the Republic of Moldova has ratified, following Parliamentary Decision no. 77-XVI of 12 February 2005, the Agreement – credit framework between the European Council Development Bank and the Republic of Moldova, which has been signed on 5 January 2005 and provides a loan of EURO 6.0 million to finance the project of Transfusion Security in the Republic of Moldova.

Group of Banking Supervisors from the Central and Eastern Europe

The National Bank of Moldova joined the Group of Banking Supervisors from the Central and Eastern Europe in June 1996 following the signing of the Agreement on the Organization and Management of the BSCEE Group (with further modifications and completions). As in accordance with this Agreement, annual contributions related to operational costs of the Secretariat of BSCEE Group per member amount to Euro 1 thousand to be paid on an annual basis.

The membership of the BSCEE Group assists the Republic of Moldova in duly implementing the Basel standards on banking supervision. The application by NBM of Basel core principle for banking supervision determines the promotion of an adequate and efficient banking supervision, which adds up to the maintenance of the banking sector financial stability, the enhancement of bank' competitiveness in the international market, and the safeguarding of domestic depositors' interests. Within the Financial Sector Assessment Program, which has been conducted by experts of the World Bank and the International Monetary Fund in 2004, special emphasis has been put on detailed assessment of Moldova's compliance with Basel Committee core principles on efficient banking supervision.

Under the scope of membership of the BSCEE Group, the National Bank participates at activities related to experience exchange among Group members, continuous staff training, elaboration of new standards, as well as receives methodological assistance in the field of banking prudential regulation.

The cooperation within the BSCEE Group contributes to the consolidation of the domestic banks' competitiveness, the capacity of

thereof to attract investments, including external ones, and thus to enhance banks' capasity to satisfy relevant needs for banking services of the economic sector of the country.

International Fund for Agricultural Development (IFAD)

The Rural Finance and Small Enterprise Development Project (IFAD I) in a total value of US$ 8.1 million was concluded on 31 December 2005. The Project provided direct credit disbursements, acquisition of relevant equipment and extension of technical assistance to small agricultural enterprises within rural areas.

Agricultural Revitalization Project (IFAD II) in a total value of US$ 15.0 million is the second project implemented by IFAD for purposes of poverty eradication and increase of living standard within rural areas. The project is harmonised with objectives within the Moldovan Village Strategy of the Republic of Moldova.

Loans within these projects have been extended under concession conditions at a service charge of 0.75% per year; with a maturity term of 40 years; and a grace period of 10 years. Moldova's indebtedness to IFAD as of 31 December 2005 amounted to US$ 8.3 million; total disbursements over the year valued US$ 1.4 million.

Cooperation with Central Banks of Other States

In 2005 the National Banks has actively cooperated with the central banks of other states.

Based on established relationship, NBM cooperated with the Central Bank of the Check Republic in the field of new investment instruments of foreign exchange reserves management. The NBM staff participated at two activities within IT audit experience exchange with the Central Bank of Latvia and the Central Bank of Armenia. Audit and internal control experience has been shared, as well, with De Nederlandsche Bank N.V. The cooperation with the Central Bank of Spain embodied the audit of foreign exchange reserves management.

Within the context of bilateral cooperation, the National Bank of Moldova extended technical assistance to the National Bank of Kyrgyzstan on the methodology used to assess economic migrants' remittances.

NBM cooperated with the Agency of the Republic of Kazakhstan for the Financial Market and Financial Organizations Regulation and

Supervision with the view to elaborating the Banking Supervision Cooperation Agreement.

Over 2005 the National Bank of Moldova cooperated, as well, with the Central Banks of the Republic of Kazakhstan, of the Russian Federation, of Romania, the National Bank of Poland in the field of banking supervision.

The NBM staff benefited over 2005 of training courses held by the following central banks: Deutsche Bundesbank, Banque de France, Swiss National Bank, Bank of England, De Nederlandsche Bank N.V., the National Bank of the Czech Republic, the National Bank of Poland, Bank of Latvia, and the Central Bank of the Russian Federation.

Banking Supervision and Regulation

As of 31 December 2005 there were 16 joint stock commercial banks, including two branches of foreign banks, authorised by the National Bank of Moldova to conduct financial activity in the territory of the Republic of Moldova (one bank was under liquidation as in accordance with the relevant decision of bank's shareholders). The total number of banking institutions accounted for 928 units, of which 212 branches, 271 representative offices and 445 agencies. Over 2005 banks opened 18 branches and 78 representative offices and closed 16 representative offices and one branch.

As of 31 December 2005 there were 8476 employees activating in the banking sector of the Republic of Moldova; the number of thereof rose, as compared to the previous year, by 578 persons.

New Prudential Regulations

Over 2005 the National Bank of Moldova undertook a series of measures aimed at consolidating the banking system of the country, mitigating risks related to banking operations, and improving the mechanism of banking supervision with the view to safeguarding depositors' interests.

Following the examination of recommendations included in the Financial Sector Assessment Program (FSAP), the National Bank worked out the draft Law on Modification and Completion of a series of legislative acts related to the activity of the banking system. As of 21 October 2005 the Parliament of the Republic of Moldova approved Law no. 249-XVI on Modification and Completion of the Law on Financial Institutions no. 550-XIII of 21 July 1995 and of Article 24 of Law no. 199-XIV of 18 November 1998 on Securities' Market (Official Monitor of the Republic of Moldova no. 154-156 of 18 November 2005). Relevant modifications shall contribute to the establishment of adequate transparency of banks' owners; stimulation of strategic investors' attraction from abroad; restriction of transactions with banks' stocks belonging to persons placed in countries where disclosure of information on entrepreneurial activity is forbidden; avoidance of conflicts of interest and ensurance of due supervision and efficient and adequate control over bank's executive body; non-admittance of banks' implication in excessive risks; and toughening of sanctions for violation of effective legislation.

FSAP conclusions and recommendations have been paid, as well, due consideration while elaborating the Strategy of the Government and

the National Bank of Moldova on the Development of the Financial Sector of the Republic of Moldova for 2005 – 2010, as well as the National Program for the Implementation of the Actions Plan Republic of Moldova – EU.

The consolidation of the banking sector has a critical importance for due assurance of a sustained and stable functioning of this sector. Under this scope, NBM established new requirements towards capital value. Thus, until 31 December 2005 banks were provided to gradually increase their Tier I Capital up to the level of 50.0, 100.0 and 150.0 million lei, depending on the category of held license. With the view to conducting adequate supervision of banks' observance of minimum required capital level, NBM cooperated with authorised banks as to perform relevant actions (including planning of thereof) related to banks' compliance with new capital requirements. Based on financial reports submitted to the National Bank of Moldova by commercial banks, it has been concluded that over 2005 all the banks conformed to capital requirements.

With the view to maintaining the stability of the banking system, the National Bank of Moldova has further upgraded the methods of banking supervision, paying due attention to general accepted standards and best practices in the field of banking supervision, including to the documents of Basel Committee on effective banking supervision.

Thus, considering that over the last years commercial banks actively extended microcrediting services, NBM has specified the procedure of classification of risks related to provision of credits under 30.0 thousand lei. Within such classification banks have, along with supervising the fulfilment of credit reimbursement terms, to assess internal control procedures related to credit provision, supervision and reimbursement.

NBM modified and completed the Regulation on Requirements towards Banks' Administrators with the view to bringing these provisions in line with the effective legislation, as well as to adequately settle disorders traced out following the generalisation of the supervision practice.

The National Bank has also determined the procedure of notifying the National Bank of Moldova on opening by foreign banks of representative offices within the territory of the Republic of Moldova.

To mitigate eventual risks of banks to a person or to a group of persons acting in common and to affiliated persons, NBM modified and completed the Regulation on Large Credits and on Conclusion of

Agreements with Affiliated Persons. Thus, the application scope of prudential limits related to banks' transactions with a person or a group of persons acting in common, as well as to banks' transactions with affiliated persons shall be extended, emphasising banks' exposures to these very persons. As a result, along with extended credits, bank's exposure shall include, as well, bank's interest in the capital of economic units, stocks issued by economic agents, and means placed with banks for maturities over 15 days.

At the same time, to bring normative acts related to the regulation and supervision of activity of financial institutions in line with the effective legislation, the National Bank conducted modifications and completion of a series of regulations on: banks' licensing; holding of significant interest in bank's capital; holding by banks of interest in the capital of economic units; bank merging and association; opening of branches by banks; provision of certificates of qualification to banking auditors.

The National Bank of Moldova cooperated with the National Commission of Securities in order to establish relevant legal conditions for due assurance of transparency of owners of banks' shares, that are recorded and maintained by the nominal holder of shares. Following this cooperation the Law on Securities' Market has been adequately modified.

Cooperation relationship has been established over the reported year between banks' supervision bodies with the supervision body of the securities' market and the supervision body of the insurance segment. Thus, the insurance supervision body provides information on the development of the insurance market, including on the financial condition of insurance companies in which banks have relevant interest. This information allows the evaluation of these companies' impact upon banks' financial condition.

Following established collaboration between the banking supervisory body with the supervisory body of securities' market, the National Bank of Moldova received from the National Commission of Securities relevant information on banks' activity in the securities' market; this information has formed the basis for the evaluation of commercial banks' activity as professional participants of the securities' market. NBM cooperated, as well, with NCS for purposes of authorising banks to conduct professional activities in the securities' market.

Concomitantly, NBM enlarged its cooperation with the Ministry of Finance with the view to assuring adequate exchange of information with regard to the activity of microfinancing organizations. Such

information is used to conduct the analysis of these organizations' impact upon the banking system of the Republic of Moldova.

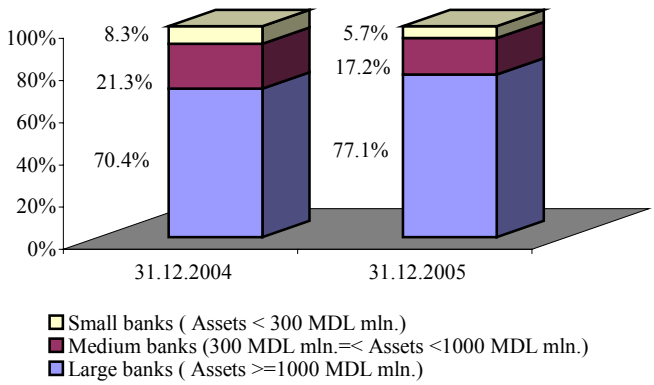
To adequately monitor banks' activity related to transactions of thereof in the international market and to determine country risk faced by the bank, NBM improved the supervision mechanism within this field. Thus, risks related to placement of banks' money means in foreign banks have been assessed using the country rating set by Standard and Poor's (S&P).

At the same time, within relevant controls, NBM inspectors assessed bank's internal control systems and determined whether risk evaluation policies and procedures (country risk and transfer risk, interest rate risk, exchange rate risk, etc.) are adequate and are effectively implemented. If drawbacks were traced out, relevant measures to further improve such systems have been recommended.

Assets of Commercial Banks

The development of the banking system of the Republic of Moldova over 2005 denoted positive dynamics with trend profile. Total assets of the banking sector rose by 4712.2 million lei (35.4%) and amounted, as of 31 December 2005, to 18007.7 million lei. Adequate increase has been also noted in the ratio of assets to GDP – from 41.6% up to 49.0% (*chart no. 75*). The augmentation of total assets of the banking sector was due to the enlargement by 4269.6 million lei (39.8%) of banks' liabilities and by 442.6 million lei (17.2%) of share capital.

Chart no. 72. **Dynamics of the banking sector assets by groups of banks from 31.12.2004* to 31.12.2005** (%)



*Data as on December 31, 2004 were adjusted according to audit statements

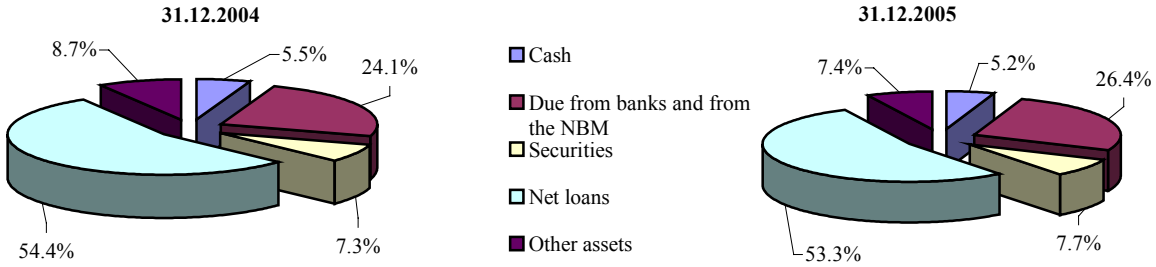
Assets of large and medium banks increased by 4524.4 million lei (48.3%) and 270.7 million lei (9.6%) respectively; while those of small banks reduced by 82.9 million lei (7.5%). Concomitantly, the weight of assets of large banks in total assets rose by 6.7 percentage points on the account of the decrease by 4.1 and 2.6 percentage points, respectively, of the weight of assets of medium and small banks (*chart no. 72*).

Within assets' structure rises have been registered in all asset components. Cash volumes enlarged by 208.7 million lei (28.4%); due from banks and from NBM – by 1545.0 million lei (48.2%); securities – by 425.3 million lei (43.9%); other assets – by 171.8 million lei

(14.9%). The largest increase has been denoted by net* credit portfolio – by 2361.4 million lei (32.6%).

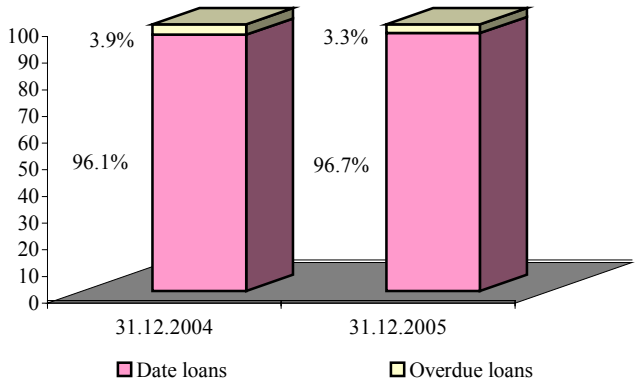
Net credits accounted for a maximum weight of 53.3% in total assets, reducing by 1.1 percentage point from the end of 2004. Due from banks and NBM accounted for 26.4%; securities – for 7.7%, cash – for 5.2%; and other assets – for 7.4% of total assets (*chart no. 73*).

Chart no. 73. **Dynamics of the banking sector assets composition from 31.12.2004 to 31.12.2005** (%)



The total credit portfolio as at 2005-end amounted to 10077.6 million lei, increasing by 2391.2 million lei (31.1%) as against 31 December 2004. Such enlargement invigorated economy development and was due to the reduction by 0.6 percentage point over the year of the weight of overdue loans, including of non-interest bearing ones, in total credits. As of 31 December 2005, overdue loans totalled 334.2 million lei, or 3.3% of total credits (*chart no. 74*).

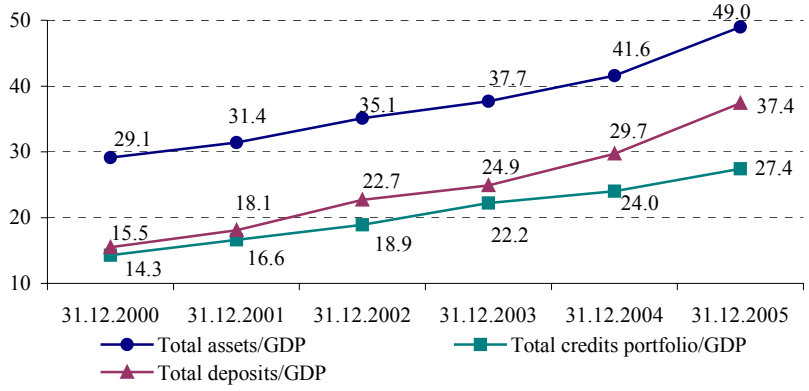
Chart no. 74. **Dynamics of the credit portfolio composition of the banking sector of the Republic of Moldova, according to credit reimbursement solvency, from 31.12.2004 to 31.12.2005** (%)



The ratio of extended credits to GDP rose from 24.0% as of 31 December 2004 up to 27.4% as of 31 December 2005 (*chart no. 75*). Such augmented ratio, as at 2005-end, certifies that the banking system is gradually further consolidating its impact upon the development of the real sector of the economy.

* As in accordance with credit account balances in the balance sheet, worked out based on the Instruction on Elaboration and Submission by Commercial Banks of Financial Statements approved following Decision no. 36 of the Council of Administration of the National Bank of Moldova of 08.08.1997 (Official Monitor of the Republic of Moldova no. 64-65 of 02.10.1997)

Chart no. 75. **Dynamics of assets, credits and deposits in percent of GDP** (%)



The breakdown of credit portfolio of banks of the Republic of Moldova by credit destination is shown in *Table no. 39*:

Credits are sufficiently diversified and risks are distributed all over the economic sectors. The largest weight in total credit portfolio as at end of 2005 was accounted for by credits to industry and trade – 48.1%; followed by credits to agriculture and food industry – 24.0%; consumer credits – 7.8%; and real estate, construction and development credits – 6.9%. Credits extended to banks accounted for the smallest weight in total credits – 0.4%; credits to the Government constituted 1.3%; credits for road construction and transportation – 2.9%; and credits to energy and fuel sector – 2.9%.

Table no. 39. **Dynamics of credits portfolio structure of the banking sector of the Republic of Moldova by destination of investment operations**

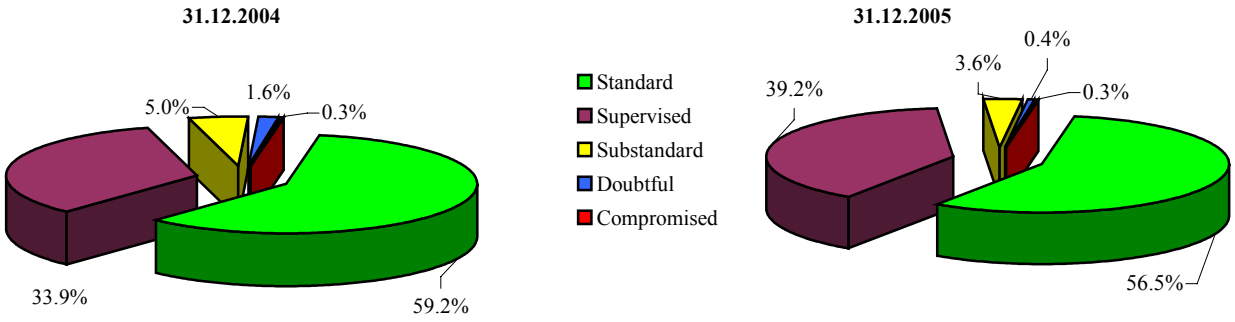
	As of 31.12.2004		As of 31.12.2005	
	MDL mln.	%	MDL mln.	%
Loans to agriculture and food industry	1852.4	24.1	2415.3	24.0
Loans for real estate, construction and development	457.5	6.0	691.5	6.9
Consumer credit	272.6	3.5	785.9	7.8
Loans to energy and fuel industry	337.8	4.4	291.3	2.9
Loans to banking sector	114.5	1.5	45.4	0.4
Loans to Government	80.2	1.0	133.2	1.3
Loans to industry and trade	3673.3	47.8	4845.3	48.1
Loans for road construction and transportation	199.9	2.6	294.5	2.9
Other loans	698.2	9.1	575.2	5.7
Total	7686.4	100.0	10077.6	100.0

Notable increase has been observed over 2005 in the values of credits to industry / trade – by 1172.0 million lei (31.9%); to agriculture and food industry – by 562.9 million lei (30.4%); of consumer credits – by 513.3 million lei (188.3%). Business development credits under 700.0 thousand lei rose by 172.8 million lei (18.9%) in value terms up to the level of 1085.4 million lei; and consumer credits under 700.0 thousand lei rose by 401.7 million lei (165.0%) to the level of 645.2 million lei. As of 31 December 2005, the weight of credits extended for purposes of business development and of consumer credits under 700.0

thousand lei in total credits accounted for 17.2%, surpassing by 2.2 percentage points the level registered at 2004-end.

The improvement of the credit portfolio quality over the reported year following the development of internal control systems and consolidation of internal procedures related to credit provision and supervision lead to the reduction of the weight of unfavourable (substandard, doubtful and compromised) credits in total credits by 2.6 percentage points from the end of 2004. Such weight accounted, as of 31 December 2005, to 4.3%. Credit loss provisions reduced by 1.1 percentage points and accounted, as of 31 December 2005, for 4.8% of credit portfolio.

Chart no. 76. **Credit portfolio and financial leasing structure (in terms of investment risk level) from 31.12.2004 to 31.12.2005** (%)



The compromised credits' total value written off in 2005 on the account of credit loss provisions amounted to 77.6 million lei; write-backs of loans totalled 23.5 million lei. Thus, out of total written off credits, write-backs accounted for 30.3%. Of special importance is that in 2004 write-backs constituted 61.1% of total written-off credits.

The total value of credits extended by the banking system to banks' affiliated persons amounted, as of 31 December 2005, to 518.7 million lei, exhibiting an insignificant share of 5.2% in total credits and of 18.1% in Tier I Capital *(the maximal limit is set at 100.0% of Tier I Capital)*.

Credits extended to banks' employees equalled in 34.4 million lei, or 0.3% of total credit portfolio and 1.2% of total regulatory capital of commercial banks *(the maximal limit is set as 10.0% of total regulatory capital)*.

The total value of large credits constituted 3194.1 million lei, accounting for 31.7% of total credit portfolio and 11.3% of total regulatory capital of commercial banks *(the maximal limit is set as*

500.0% of total regulatory capital). The sum of the largest 10 debts on credits constituted 37.0% of net system credits *(the maximal limit is set as 50.0% of total net credits)*.

The ratio of banks' investments in fixed assets and other long-term material assets to total regulatory capital as at 2005-end represented 29.6% *(the maximal limit is set as 50.0%)*. Investments in long-term material assets and equity interest in the capital of economic units reported to total regulatory capital accounted for 33.2% *(the maximal limit is set as 100.0%)*.

The weight of net assets in foreign currency in total assets constituted 36.0%. The weight of net foreign currency liabilities in total assets accounted for 34.2%, exhibiting a non-significant difference of 1.8-percentage point as against the weight of net foreign currency assets in total assets. As compared to the situation as of 31 December 2004, the weights of foreign currency assets and liabilities reduced by 1.5 and 1.7 percentage points, respectively. Loans in foreign currency accounted for the largest weight of 58.3% within the structure of net assets in foreign currency, and means in foreign currency due from banks – for 18.0%.

Credit conditional accounts (off-balance commitments) amounted to 4009.5 million lei, or 22.3% of total assets, increasing by almost 4 times from the beginning of the year. Within the structure of off-balance-sheet commitments, sales on current transactions totalled the largest value of 1351.7 million lei (33.7%); sales on time transaction totalled 1262.9 million lei (31.5%). Credit commitments amounted to 826.5 million lei or 20.6% of total off-balance-sheet commitments; and letters of credit and issued guarantees – to 562.7 million lei or 14.0%.

Capital of Commercial Banks

Tier I Capital represents the part of the total regulatory capital towards which the minimal value required for financial activities' performance is established as in accordance with Article 26 of the Law on Financial Institutions.

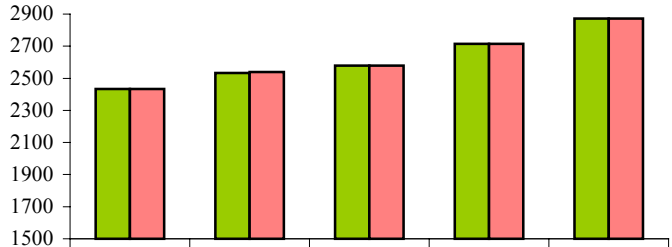
As of 31 December 2005, Tier I Capital reached the value of 2871.2 million lei, broadening by 437.1 million lei (18.0%). The relevant dynamics of Tier I Capital illustrates the continuous trend of banking system consolidation. As in accordance with financial reports submitted by banks, as of 31 December 2005, in all commercial banks the values of Tier I Capital complied with the category of held license.

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

Total regulatory capital grew over 2005 by 437.1 million lei (18.0%).

The dynamics of Tier I Capital and of the total regulatory capital over the reported period is shown in *chart no. 77*.

Chart no. 77. **Dynamics of banking capital in 2005** (MDL mln.)

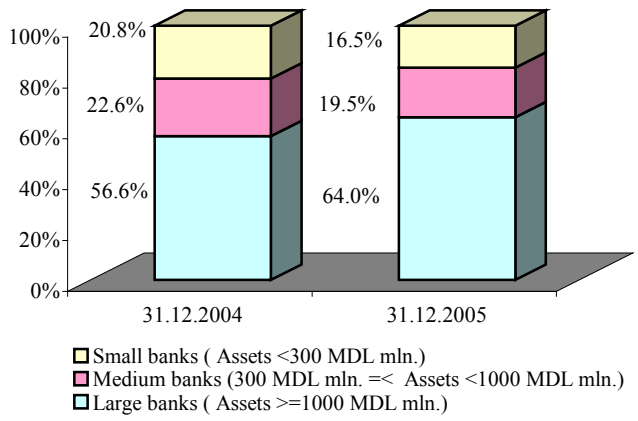


	31.12.2004	31.03.2005	30.06.2005	30.09.2005	31.12.2005
TRC	2434.0	2532.8	2578.1	2713.7	2871.1
Tier I capital	2434.1	2538.2	2578.2	2713.8	2871.2

The main source of increase of Tier I Capital and TRC embodied the net income earned by commercial banks in an amount of 480.2 million lei and the performance of 6 share issuances in four banks on the account of additional contributions of shareholders in an amount of 54.0 million lei. This situation added up to the sustained growth of banking system's stability degree.

The average risk weighted capital adequacy (*ratio of total regulatory capital to risk-weighted assets*) within the banking system reached, as of 31 December 2005, a high level of 27.2%. (The minimal level in the Republic of Moldova is 12.0%, the level set by the Basel Committee for banking supervision indicates a more reduced level of 8.0%). The reduction of this indicator by 4.2 percentage points as compared to the beginning of the year signals a better capacity of commercial banks to administrate the lending activity.

Chart no. 78. **Dynamics of total regulatory capital distribution by groups of banks from 31.12.2004 to 31.12.2005** (%)



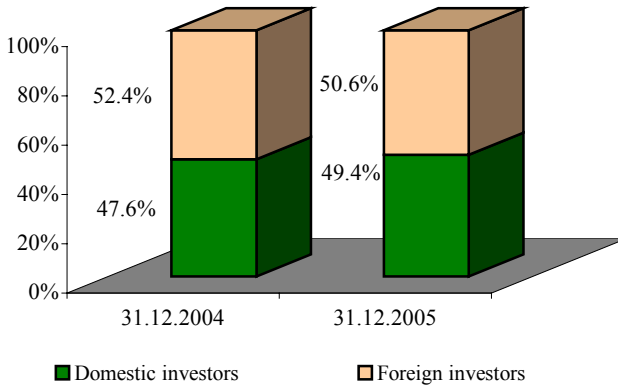
The modified structure of the banking sector capital from viewpoint of capital concentration by group of banks is shown in *chart no. 78*.

Over 2005, the total regulatory capital of large banks augmented by 461.0 million lei (33.5%); and of medium banks – by 8.7 million lei (1.6%), while that of small banks reduced by 32.6 million lei (6.4%).

The share of large banks' total regulatory capital accounted for 64.0% of total regulatory capital of the banking sector, rising by 7.4 percentage points from 2004-end on the account of reduced share of total

regulatory capital of medium and small banks (by 3.1 and 4.3 percentage points, respectively).

Graficul nr. 79. **Banking capital composition by type of investments from 31.12.2004 to 31.12.2005** (%)



The share of foreign investments in banks' capital constituted 50.6%, decreasing by 1.8 percentage point from previous year-end as a result of more pronounced growth trends of residents' investments as compared to non-residents (*chart no. 79*). Investments by local shareholders amplified over 2005 by 56.3 million lei (10.9%), totalling 573.8 million lei; foreign investments rose by 17.2 million lei (3.0%) up to the level of 587.5 million lei.

Foreign investors' participation in the capital of commercial banks of the Republic of Moldova includes as follows: European Bank for Reconstruction and Development; two Romanian banks; one Russian bank; as well as corporative investors from Great Britain, USA, Canada, Russia, Cyprus, Greece and other countries.

Out of total number of banks, 3 banks have a 100% foreign capital; 3 banks have a 100% local capital; and 10 banks have a capital formed of both local and foreign investments.

Liabilities of Commercial Banks

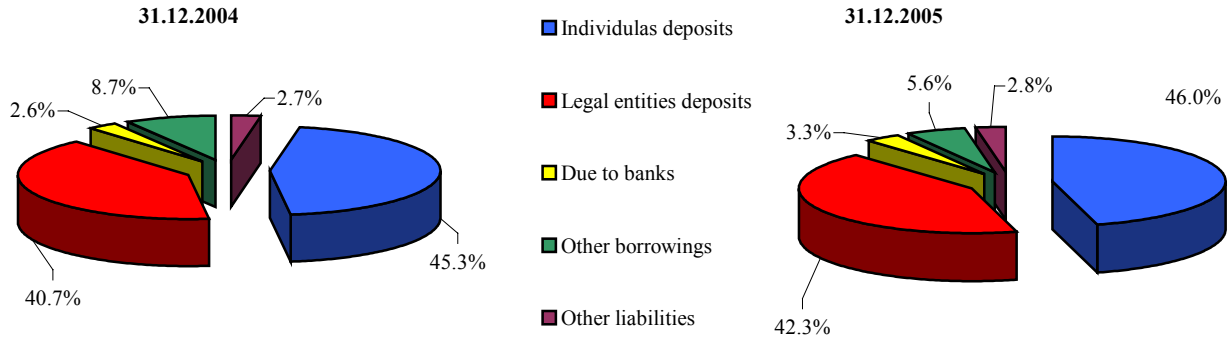
As of 31 December 2005 liabilities of commercial banks amounted to 14997.9 million lei, augmenting from the end of 2004 by 4269.6 million lei (39.8%). Such liabilities expansion was mainly due to the increase of the value of deposits* by 4232.7 million lei (44.5%), which certifies credibility in the banking system.

Growing trends could be noted over 2005 in all liability articles, except other loans, which reduced by 101.6 million lei (10.8%). Deposits by individuals rose by 2036.4 million lei (41.9%); deposits by legal persons – by 1978.4 million lei (45.4%); money means owed to banks – by 217.8 million lei (77.0%); other liabilities – by 138.6 million lei (48.3%).

* As in accordance with deposit account balances in the balance sheet, worked out based on the Instruction on Elaboration and Submission by Commercial Banks of Financial Statements approved following Decision no. 36 of the Council of Administration of the National Bank of Moldova of 08.08.1997 (Official Monitor of the Republic of Moldova no. 64-65 of 02.10.1997)

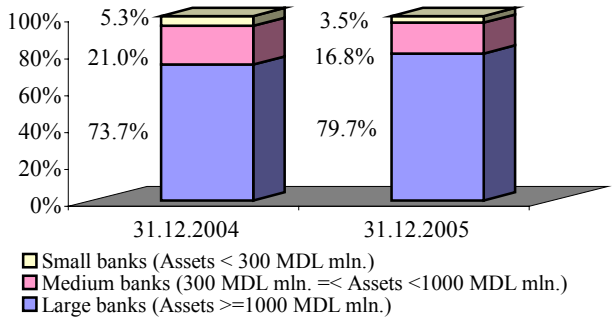
As of 31 December 2005, deposits accounted for the largest weight of 91.6% in banks' liabilities. As compared to 31 December 2004, the weight of deposits broadened by 3.0 percentage points. The ratio of deposits to GDP rose from 29.7% to 37.4% (*chart no. 75*). Deposits by individuals accounted for 46.0%; deposits by legal entities – for 42.3% of total liabilities; and deposits of banks – for 3.3%. Other loans and other liabilities constituted 5.6% and 2.8%, respectively (chart no. 80).

Chart no. 80. **Banking liabilities composition from 31.12.2004 to 31.12.2005** (%)



Liabilities of large banks rose by 4052.7 million lei (51.3%); liabilities of medium banks – by 264.1 million lei (11.7%); while liabilities of small banks reduced by 47.2 million lei (8.3%).

Chart no. 81. **Distribution of banking liabilities by groups of banks from 31.12.2004 to 31.12.2005** (%)



The weight of large banks' liabilities in total liabilities of the banking sector accounted, as of 31 December 2005, for 79.7%, rising by 6.0 percentage points from 31 December 2004 on the account of diminished value of liabilities of medium and small banks by 4.2 and 1.8 percentage points, respectively, down to 16.8% and 3.5% of total banking system liabilities (*chart no. 81*).

Liquidity of Commercial Banks

Liquidity indicators of the banking system in 2005 reflected banks' capacity to honour both current and long-term commitments.

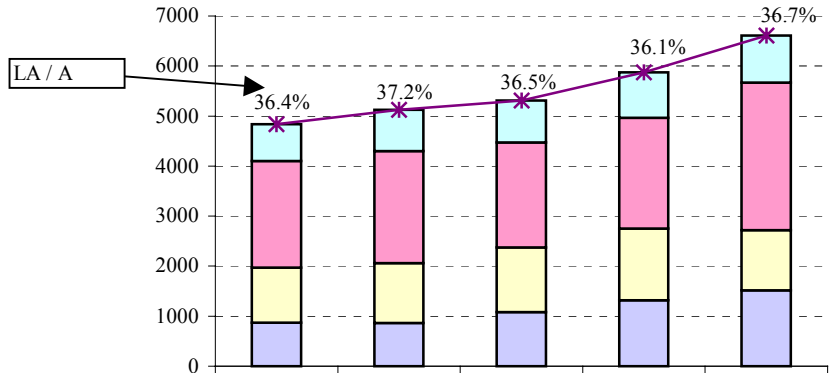
Thus, in accordance with liquidity principle I (*assets with reimbursement term over 2 years / financial resources with potential withdrawing term exceeding 2 years ≤ 1*), long-term liquidity

accounted, as of 31 December 2005, for 0.5. The level of this indicator denotes availability of funds for long-term investments.

Current liquidity, represented through liquidity principle II (*liquid assets / total assets ≥ 20%*) accounted, as of 31 December 2005, for 36.7%.

Liquid assets amounted to 6609.7 million lei and augmented over 2005 by 1773.0 million lei (36.7%). Such dynamics was due to the increase of cash value by 208.7 million lei (28.4%); of deposits with the National Bank of Moldova – by 816.4 million lei (38.3%); of liquid securities – by 102.6 million lei (9.3%); and of net interbank credits and loans with the reimbursement term of up to 1 month – by 645.3 million lei (74.4%) (*chart no. 82*). The continuous enlargement of liquid assets shall contribute to the maintenance by banks of relevant liquidity indicators.

Chart no. 82. **Dynamics of liquid assets** (MDL mln.) **and liquid assets weight in total assets in 2005**



	31.12.2004	31.03.2005	30.06.2005	30.09.2005	31.12.2005
Cash and precious metals	733.9	823.7	832.1	912.8	942.6
Deposits with NBM	2130.2	2238.3	2103.4	2210.5	2946.6
Liquid securities	1104.5	1194.0	1291.9	1434.9	1207.1
Interbank loans and borrowings, net	868.1	867.0	1080.4	1316.7	1513.4
Total liquid assets	4836.7	5123.0	5307.7	5874.9	6609.7

As of 31 December 2005, deposits with NBM accounted for the largest weight of 44.6% of liquid assets; net interbank credits and loans with the reimbursement term of up to 1 month – for 22.9%; liquid securities – for 18.3%; and cash – for 14.3%.

Incomes and Expenses of Commercial Banks

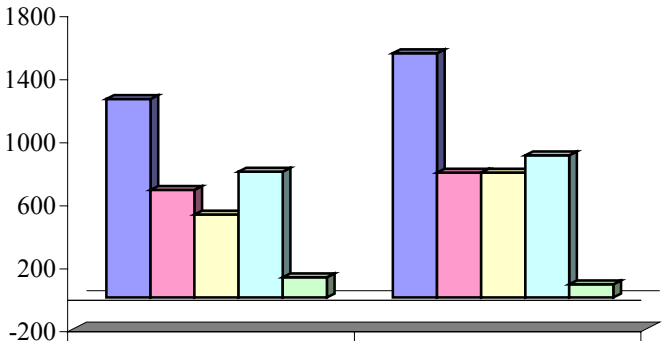
The net income of commercial banks of the Republic of Moldova in 2005 amounted to 480.2 million lei, augmenting from the previous year by 57.2 million lei (13.5%).

Thus, as compared to 2004, interest incomes rose by 290.0 million lei (23.0%) and non-interest incomes – by 109.0 million lei (16.0%).

Interest expenses enlarged by 265.9 million lei (50.6%) and non-interest expenses – by 103.9 million lei (13.0%). At the same time,

payments on credit loss provisions (risk fund) diminished by 43.2 million lei (34.0%) (*chart no. 83*).

Chart no. 83. **Dynamics of banking income and expense in 2004 – 2005** (MDL mln.)

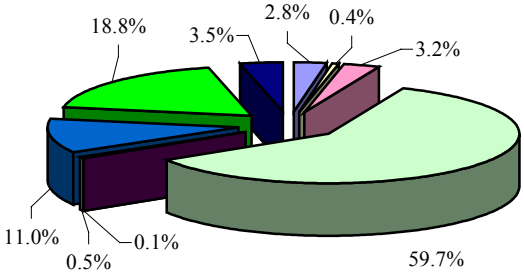


	31.12.2004	31.12.2005
Interest income	1258.7	1548.7
Non-interest income	682.7	791.7
Interest expense	525.9	791.8
Non-interest expense	798.0	901.9
Defalcations to risk fund	127.0	83.8

In 2005, banks registered stable incomes, generated, mainly, from the basic activity of commercial banks (investments in interest-bearing assets). Respectively, interest-related incomes totalled 1548.7 million lei, or 66.2% of total banks' incomes. Within the structure of interest-related incomes, interest incomes and credit commissions accounted for the largest share of 59.7% of total incomes, amounting to 1396.5 million lei (*chart no. 84*).

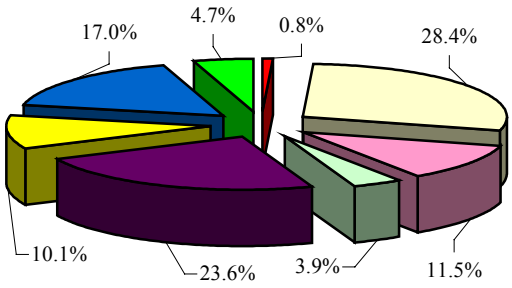
Chart no. 84. **Composition of banking income and expense in 2005** (%)

Income composition



Interest income on means due from banks
Interest income on overnight placements
Interest income on securities
Interest income and comissions on loans
Other interest income
Income from securities
Income from foreign currency operations
Income from comissions
Other non-interest income

Expense composition



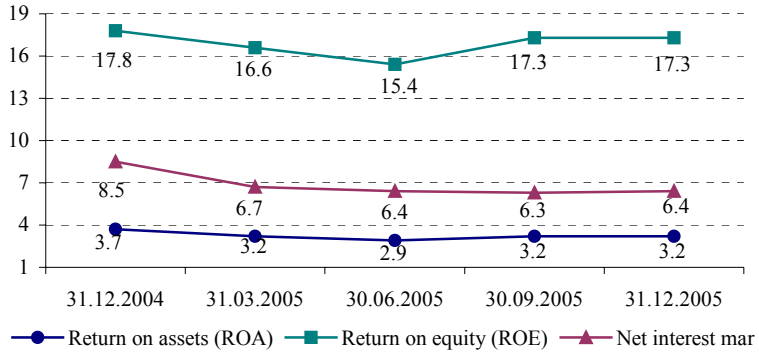
Interest expense on banks means
Interest expense on individuals deposits
Interest expense on legal entities deposits
Other borrowings interest expense, including overnight
Expense for labor remuneration, penssion fund and social insurance
Expense related to fixed assets
Other non-interest expense
Defalcations to risk fund

Non-interest incomes totalled 791.7 million lei or 33.8% of total incomes. Within total non-interest incomes, commission-related

incomes formed the largest share, amounting to 439.3 million lei or 18.8% of total incomes; and incomes from foreign currency transactions – to 256.8 million lei or 11.0% of total incomes.

The total value of banks' expenses constituted 1777,5 million lei, of which interest expenses totalled 791.8 million lei or 44.6%; non-interest expenses – 901.9 million lei or 50.7%; and payments on credit loss provisions (risk fund) – 83.8 million lei or 4.7%.

Chart no. 85. **Dynamics of net interest margin, return on assets and equity (ROA and ROE) in 2005 (%)**



Return indicators kept on recording high rates (*chart no. 85*). *Return on assets*, which is characterised by the ratio on annualised net income to average assets, accounted for 3.2% in 2005. *Return on equity* within the banking sector, which represents the ratio between annualised net income and average equity capital, constituted 17.3%.

Against data registered as of 31 December 2004, these indicators denoted insignificant reduction – by 0.5 percentage point as a result of higher growth of assets and equity capital as compared to income growth rate. To mention, such income, generated mainly from lending activity, experienced in 2005 the reduction of related interest, thus conditioning a broader lending of the national economy.

The net interest margin, which represents the ratio between net annualised interest income and average interest-bearing assets, accounted for 6.4%, diminishing by 2.1 percentage points from 2004.

The augmented income base was due to the enlargement over 2005 of interest-bearing assets by 3744.9 million lei (36.5%), which totalled 14015.8 million lei. The continuous increase of interest-bearing assets, as well as the significant weight of 77.8% of them in total assets of the banking system points to commercial banks' ability to generate further incomes.

Payments System

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

Interbank Payments System

With the view to duly fulfilling relevant legislatively vested attributions and tasks assigned under the Strategy of the Government and the National Bank of Moldova on the development of the financial sector of the Republic of Moldova for the years 2005 – 2010, and for purposes of bringing the interbank payments system of the Republic of Moldova in line with relevant international standards and practices and of accelerating non-cash payments within the country, in 2005 the National Bank initiated the implementation of the new automated interbank payments system.

Within the implementation stage of the new automated interbank payments system, the National Bank of Moldova has revised, as well, the concept of non-cash payment instruments use and of remote electronic servicing.

Under this scope, NBM worked out new regulations on remote banking servicing systems, credit transfer, direct debiting and incontestable collection and specified the payment instruments and documents to be used upon performance of non-cash payments within the territory of the Republic of Moldova.

The number of payment documents has been reduced for purposes of bettering the use of above-mentioned instruments. Thus, credit transfer shall be performed based on payment orders, direct debiting – based on payment request, and incontestable collection – based on collection order.

NBM enlarged, as well, the application scope of remote banking servicing with the view to ensuring a broader range of services rendered to banks' clients within these systems.

The interbank payments system processed over 2005 10.6 million payment documents, totalling 120300.4 million lei. As compared to the previous year, the number of processed payment documents raised by 27.3%, and the value of thereof – by 26.7%.

Systems of Payments by Card

In 2005 the National Bank of Moldova approved new regulations in the field of banking cards.

These regulations have been approved with the view to improving the normative basis related to the activity of commercial banks and clients of thereof within payments systems by banking cards as in accordance with EU norms.

NBM has paid special attention to the updating of requirements related to conclusion by commercial banks of rules on banking cards' usage and of documents confirming performance of transactions by banking cards, rights and obligations of banks, as well as of holders of banking cards. The National Bank has also improved supervision and reporting procedures related to banks' activity within payments systems by card.

As in accordance with new regulations, cards issued by issuing banks have been classified, depending on use purpose, into personal cards and business cards. Such classification significantly stimulated the process of performing payments by banking cards by legal entities.

The number of banking cards in circulation as of 31 December 2005 totalled 432.5 thousand units, surpassing by 27.1% the number in the previous year.

Over 2005 year holders of banking cards issued by authorised banks conducted in the territory of the Republic of Moldova 6.6 million transactions in a total value of 3771.1 million lei, denoting a 28.3%-increase in volume terms and a 31.2%-increase in value terms as compared to 2004.

Holders of banking cards issued abroad performed 351.8 thousand transactions within the territory of the Republic of Moldova, totalling 653.5 million lei, which is by 8.6% and by 31.3%, respectively, more than the number and value registered in 2004.

Commemorative and Jubilee Coins

For purposes of executing the Decision of the Government of the Republic of Moldova and of the National Bank of Moldova no. 262 of

9 March 2005 on Minting and Issuance of Jubilee and Commemorative Coins and based on Art. 60 of the Law on the National Bank of Moldova no. 548-XIII of 21 July 1995, the National Bank issued and put into circulation four jubilee and commemorative coins dedicated to notorious personalities and cultural and historical events within the local national environment, as well as to completion of "Red Book" series as follows:

On 29 August 2005
Burebista – the King of Dacians Ag
100 lei

On 29 August 2005
Grigore Ureche – 415 years of birth Ag
50 lei

On 06 June 2005
European Chess Female Championship
Chisinau – 2005 CuZnNi
10 lei

"Red Book of Moldova" series:

On 29August 2005
Aquila Heliaca Ag
10 lei

Issued jubilee and commemorative coins have numismatic features and represent, at the same time, legal tender accepted within the national economy at the face value of thereof.

NBM Personnel and Professional Training

As of 31 December 2005 the staff of the National Bank of Moldova was completed at the level of 96.7% (445 employees out of 460). There are 9 persons with doctorates in economics and technical sciences employed at the National Bank of Moldova.

In 2005, 36 employees have been promoted; around 64.0% of them are under 30 years old. Young employees constituted the NBM staff base: 235 employees are under 40 years old, accounting for 52.8% of staff.

Over the reported year 83 employees of the National Bank participated at training courses. The participation of over 33.0% of NBM personnel at various training events contributed to the improvement and the modernisation of the activity of the National Bank of Moldova.

Internal Audit

The activity of internal audit is organized and performed as in accordance with the Regulation on the Activity of Internal Audit, in compliance with the International Standards on Internal Audit Professional Practice issued by Internal Auditors Institute, as well as the standards issued by Information Systems Audit and Control Association (ISACA).
Over the reported year the Internal Audit Department conducted the following organizational activities: i) development of methodological basis related to NBM internal audit; ii) implementation of internal audit management software - AutoAudit; iii) pilot implementation of integrated audit (financial audit, operational audit and IT audit); iv) elaboration and application of a risk procedure aimed at annual planning of audit activities; v) improvement of the monitoring process of findings and recommendations provided in relevant reports of previous audits; and vi) initiation of recording of incidents, irregularities and errors in the NBM subdivisions' activity processes.

The Internal Audit Department conducted over 2005 audit activities, special investigations, and evaluations of NBM financial statements.

3. Financial Statement of the National Bank of Moldova

COMMENT

On the Financial Statements of the National Bank of Moldova As of 31 December 2005

The Internal Audit Department has, based on the Law on the National Bank of Moldova, Art. 33(4) d) and the Regulation on Activity of Internal Audit Department approved following the Decision of the Council of Administration of the National Bank of Moldova no. 260 of 13 October 2004, verified the financial statements of the National Bank of Moldova as of 31 December 2005, which include: balance sheet; income statement; cash flow statement; Bank's capital; as well as explanatory notes.

Following the above-mentioned verification, the Internal Audit Department states as follows:

- The balance sheet amounted, as of 31 December 2005, to 12 789 807 thousand lei.
- The Bank's capital totalled 200 000 thousand lei.
- Special Fund has, based on provisions of Art. 20 (1) of the Law on the National Bank of Moldova, been increased in 2005 from 277 024 thousand lei up to 319 175 thousand lei following the 20%-transfer from Bank's income.
- Foreign exchange unrealised losses related to the reported year amounted to 198 163 thousand lei, of which 72 200 thousand lei have been covered with Special Reserve means from unrealised incomes from foreign exchange transactions.
- Incomes and expenses related to banking operations and resulted from operational activity as in accordance with the calculation method amounted, respectively, to 383 328 thousand lei and 173 224 thousand lei.
- The net profit available for distribution amounted to 210 751 thousand lei, which has been adjusted with the realised surplus from revaluation of fixed assets – 647 thousand lei.

Based on above-stated, the Internal Audit Department confirms the authenticity of the NBM bookkeeping data in all significant aspects: balance sheet; income statement; cash flow statement; Bank's capital; and reserve fund as of 31 December 2005.

Deputy Controller General

AUDITORS' REPORT

To the National Bank of Moldova

We have audited the accompanying financial statements of the National Bank of Moldova ("the Bank"), which comprise the balance sheet as of 31 December 2005 and the income statement, statement of changes in equity and cash flow statement for the year then ended. These financial statements are the responsibility of the 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above give a true and fair view of the financial position of the Bank as of 31 December 2005 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young SRL

15 March 2006
Chisinau, Republic of Moldova

	Notes	2005	2004
		MDL '000	MDL '000
ASSETS			
Cash and cash equivalents	**5**	5,055,450	4,726,954
Due from International Financial Institutions	**6**	2,259,667	2,384,910
Due from the Moldovan Government	**7**	2,625,861	2,740,993
Securities due from the Moldovan Government to be issued	**8**	125,963	-
Loans granted to banks and individuals	**9**	56,349	34,775
Investment securities	**10**	2,610,643	1,383,044
Other assets	**11**	4,198	4,103
Tangible and intangible fixed assets	**12**	51,676	43,185
TOTAL ASSETS		**12,789,807**	**11,317,964**
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
National currency issued into circulation		5,148,887	4,094,327
Due to the Moldovan Government	**13**	349,372	60,504
Due to banks	**14**	2,970,846	2,454,788
Certificates issued by the National Bank of Moldova	**15**	141,554	-
Due to International Financial Institutions	**6**	3,489,795	3,965,432
Other liabilities	**16**	167,240	190,546
Total liabilities		**12,267,694**	**10,765,597**
Capital and reserves			
Statutory fund		200,000	200,000
Reserve fund		319,175	277,024
Special reserve		-	72,200
Other reserves		2,938	3,143
Total capital and reserves	**17**	**522,113**	**552,367**
TOTAL LIABILITIES, CAPITAL AND RESERVES		**12,789,807**	**11,317,964**

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

The financial statements were authorized for issue on 15 March 2006:

Mr. Leonid Talmaci
Governor

Mrs. Aliona Stratan
Head of the Budget, Finance and Accounting Department

	Notes	2005	2004
		MDL '000	**MDL '000**
Interest income from deposits and availabilities	**19**	150,310	69,391
Interest income from securities	**19**	74,075	57,999
Interest income from loans	**19**	84,201	226,761
		308,586	354,151
Interest expenses arising from loans received	**20**	(32,734)	(32,189)
Interest expenses arising from availabilities	**20**	(39,443)	(34,213)
Interest expenses arising from transactions with securities and Repo agreements	**20**	(10,881)	(10,616)
		(83,058)	(77,018)
Net Interest Income		**225,528**	**277,133**
(Losses)/gains from foreign exchange transactions and foreign exchange rates differences	**21**	(170,028)	75,143
Losses from the revaluation of securities	**22**	(8,180)	(1,649)
Other income	**23**	7,472	6,775
Operating expenses	**24**	(76,125)	(60,430)
Release from loan loss provision		33,274	4,347
Operating (Losses)/Gains		**(213,587)**	**24,186**
Net profit for the year before release of unrealised losses on exchange rate differences		**11,941**	**301,319**
Release of unrealised losses on exchange rate differences in accordance with the Law on the National Bank of Moldova	**8**	**198,163**	**-**
Net profit for the year		**210,104**	**301,319**

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

The financial statements were authorized for issue on 15 March 2006:

Mr. Leonid Talmaci
Governor

Mrs. Aliona Stratan
Head of the Budget, Finance and Accounting Department

	Notes	2005 MDL '000	2004 MDL '000
Interest receipts		303,135	356,732
Interest payments		(90,330)	(67,773)
Gains from dealing and other foreign exchange transactions		(178,219)	674
Losses from securities available for sale		-	(517)
Other receipts		7,010	6,297
Staff and suppliers costs paid		(66,080)	(50,961)
Profit before changes in assets and liabilities		**(24,484)**	**244,452**
Decrease in net amounts due to/from International Financial Institutions		125,236	35,817
Increase in securities		(1,211,865)	(442,677)
Decrease/(increase) in amounts due from Government		1,037	(615,615)
Decrease in loans granted to banks and individuals		11,700	10,348
Decrease/(increase) in other assets		822	(1,300)
Increase in assets		**(1,073,070)**	**(1,013,427)**
Increase in the national currency issued into circulation		1,054,561	1,112,133
Increase in due to Government and banks		811,763	1,564,699
Increase in certificates issued by the National Bank of Moldova		141,276	-
Decrease in due to International Financial Institutions		(474,925)	(323,215)
Decrease in other liabilities		(6)	(5,909)
Increase in liabilities		**1,532,669**	**2,347,708**
Net cash from operating activities		**435,115**	**1,578,733**
Tangible and intangible fixed assets additions		(18,550)	(12,304)
Net cash flow from investing activities		**(18,550)**	**(12,304)**
Profit payments to the State		(191,901)	(5,833)
Revaluation Differences		126,405	32,283
Increase in cash and cash equivalents		**351,069**	**1,592,879**
Cash and Cash equivalents at 1 January		**5,107,291**	**3,514,412**
Cash and Cash equivalents at 31 December		**5,458,360**	**5,107,291**

		2005	2004
Analysis of Cash and Cash equivalents			
Cash in foreign currency	**5**	1,423	1,533
Nostro account in foreign currency	**5**	36,423	306,219
Term deposits in foreign currency	**5**	5,017,604	4,288,463
Restricted deposits in foreign currency	**5**	-	5,529
Other placements in foreign currency	**5**	-	125,210
Securities issued by the Government	**7**	402,910	380,337[1]
Cash and Cash equivalents, gross		**5,458,360**	**5,107,291**

[1] In 2004 financial statements securities issued by the Government were not included in "Cash and Cash equivalents". In 2005 due to the fact that those securities are short term and liquid, they were included in "Cash and Cash equivalents".

	Statutory fund	Reserve fund	Special reserve	Other reserves	Retained earnings	Total equity
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Balance as at 1 January 2004	200,000	231,072	-	3,790	-	434,862
Net profit for the year 2004	-	-	-	-	301,319	301,319
Transfer from revaluation reserve of fixed assets	-	-	-	(647)	647	-
Transfer to special reserve (see note 8)	-	-	72,200	-	(72,200)	-
Transfer to reserve fund	-	45,952	-	-	(45,952)	-
Profit disbursed to State Budget	-	-	-	-	(183,814)	(183,814)
Balance as at 31 December 2004	**200,000**	**277,024**	**72,200**	**3,143**	**-**	**552,367**
Balance as at 1 January 2005	200,000	277,024	72,200	3,143	-	552,367
Net profit for the year 2005	-	-	-	-	210,104	210,104
Transfer from revaluation reserve of fixed assets	-	-	-	(647)	647	-
Decrease in special reserve (see note 8)	-	-	(72,200)	-	-	(72,200)
Differences from revaluation	-	-	-	442	-	442
Transfer to reserve fund	-	42,151	-	-	(42,151)	-
Profit distributed to State Budget	-	-	-	-	(168,600)	(168,600)
Balance as at 31 December 2005	**200,000**	**319,175**	**-**	**2,938**	**-**	**522,113**

1. Corporate information

The National Bank of Moldova (the Bank or NBM) was established in 1991. The activities of the Bank are as follows:

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

The activity of the Bank is regulated by the Law on the National Bank of Moldova approved by the Parliament in 1995. In accordance with the Law on the National Bank of Moldova the Bank is an autonomous organization that reports to the Parliament of the Republic of Moldova. The Bank in cooperation with the Government of the Republic of Moldova formulates and implements the monetary and foreign exchange policy.

As at 31 December 2005 the number of positions available at the Bank, including vacancies, was 460 (31 December 2004: 468), out of which the number of employees was 445 persons (459 persons as of 31 December 2004).

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

2. Basis of preparation

The financial statements are presented in Moldovan lei ("MDL"), the currency of the country in which the Bank operates. The Bank maintains its books and records in accordance with the International Financial Reporting Standards and the Law on the National Bank and prepares its statements in accordance with them. The financial statements are prepared under the historic cost convention as modified by the revaluation of property, plant and equipment, the fair valuation of the financial assets at fair value through profit and loss, and finnacial assets available for sale.

3. Significant accounting policies

a. Basis of accounting

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

The Bank has not applied IFRS 7 "Financial Instruments-Disclosures" that has been issued but is not yet effective. This Standard supersedes IAS 30 and disclosure requirements of IAS 32 and is effective for annual periods beginning on or after January 1, 2007.

3. Significant accounting policies (continued)

b. Revaluation of foreign exchange stocks and transactions

Foreign currency transactions are recorded at the exchange rate on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. The year end and average rates for the period were:

	2005		2004	
	USD/MDL	**EUR/MDL**	**USD/MDL**	**EUR/MDL**
Average for the period	12.6003	15.6978	12.3283	15.3286
Year end	12.832	15.195	12.4600	16.9542

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

c. Comparative figures

The financial statements presentation for some items has changed in 2005. Accordingly, the comparatives have been amended to reflect the presentational changes. The following notes were amended- notes 7, 10 with the amount of MDL 000'380, notes 21,22 - MDL'000 2,269, notes 23, 24 - MDL'000 477.

d. Use of estimates

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

e. Cash and cash equivalents

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

f. Due from banks

These are stated at amortized cost, less any provisions for impairment.

g. Due from International Financial Institutions

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

h. Financial assets

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

3. Significant accounting policies (continued)

h. Financial assets (continued)

Financial assets at fair value through profit and loss account

Financial assets at fair value through profit and loss account are securities, which were either acquired for generating a profit from short term fluctuations in price, or are securities included in a portfolio in which a pattern of short term profit taking exists. After initial recognition at fair value, trading securities are remeasured at fair value based on quoted bid prices. All related realised and unrealised gains or losses are recognised in trading income. Interest income on trading securities is included in interest income. All purchases and sales of treasury securities that require delivery within the time frame established by regulation or market convention are recognised at settlement date.

The Bank includes in this category securities issued by non-residents with coupon or discount and purchased from the foreign markets.

Available for sale financial assets

All the financial assets, which are not classified at fair value through profit and loss account, as held to maturity or as originated by the Bank, are included in available for sale securities. All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognised at settlement date. Available for sale assets are recognised initially at fair value (including transaction costs). Subsequent to initial recognition, they are remeasured at their fair value unless fair value cannot be determined in which case they are carried at amortised cost.

Fair values are based on quoted bid prices or amounts derived from cash flow models and ratios which reflect the specific circumstances of the issuer.

A gain or loss on an available-for-sale financial asset are recognized directly in equity through the statement of changes in equity, except for impairment losses until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

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

The Bank includes in this category treasury bills issued by the Ministry of Finance.

Loans originated by the Bank

Loans originated by the Bank represent loans where money is provided directly to the borrower and are recognized when the cash is advanced to borrowers. They are initially recorded at cost, which is the fair value of the cash disbursed, and are subsequently measured at amortized cost using the effective interest rate method.

Held to maturity investments (HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than a significant amount of HTM assets, the entire category would be tainted and reclassified as available for sale.

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

3. Significant accounting policies (continued)

i. Provisions for impairment of the loans

If there is objective evidence that the Bank will not be able to collect all amounts due (principal and interest) such loans are considered impaired.

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

The provision for impairement of loans covers also the situation when objective evidences that probable losses shall occur wth regard to credit portfolio elements as of the balance sheet date.

The carrying amount of the asset is reduced to its estimated recoverable amount by a charge to income statement through the use of a provision for loan impairment A write off is made when all or part of a loan is deemed uncollectable. Write offs are charged against previously established provisions and reduce the principal amount of a loan. Recoveries of loans written off in earlier periods are included in income.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan losses expense.

j. Sale and repurchase agreements

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

k. Property and equipment

Property and equipment are stated at cost or revalued amount less accumulated depreciation and any impairment loss.

In 1996 the Company has restated the items of property, plant and equipment that were acquired prior to 1 January 1996 by applying the set of indices elaborated by the Moldovan Government. The indices provided by the Ministry of Finance of the Republic of Moldova are applied to the net book value of assets in order to reflect changes in prices. The indices varied according to asset type and acquisition date. No residual value has been considered.

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

Where the carrying amount of an asset is greater than the estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and are taken to income.

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

3. Significant accounting policies (continued)

k. Property and equipment (continued)

	% per year
Buildings	5%
Equipment	30%
Computer hardware	30%
Motor vehicles - cars	20%
Motor vehicles – heavy vehicles	10%
Other assets	20%

l. Intangibles

Intangibles represent costs incurred for acquisition of computer software, amortised using the straight-line method over their estimated useful lives ranging from 1 to 5years.

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

m. National currency issued into circulation

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

n. Due to banks

Due to banks include among other the mandatory reserves required to satisfy the obligatory reserve requirements of the NBM, in compliance with its prudential requirement, curent accounts and deposits placed by the Moldovan banks in the National Bank of Moldova.

The mandatory reserves are determined by applying the set percentages to the average daily balances of deposit accounts and other similar liabilities of the commercial banks, specified for that reason by the Regulation on Mandatory Reserves Regime.

o. Due to International Financial Institutions

Due to International Financial Institutions are initially recognized at fair value, being equal to their issue proceeds. Subsequently they are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period to maturity using the effective yield method.

p. Capital and reserves

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

q. Income tax

In compliance with the art 73 of the Law on the National Bank of Moldova no.548 - XIII dated 21 July 1995 the National Bank of Moldova is not subject to any income or profit taxes.

3. Significant accounting policies (continued)

r. Interest income and expenses

Interest income and expense are recognized in the income statement for all instruments measured at cost using the effective interest method.

The effective interest method is a method for computing the amortized cost of a financial asset or a financial liability and to allocate the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options). The calculation includes all fees and commissions paid or received between the parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

s. Revaluation of foreign currency assets and liabilities

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

In line with best international practices, it is considered that distribution of unrealized gains or losses from foreign exchange currency at the end of the year is not prudent for national banks.

In accordance with the art.54 of the Law on the National Bank of Moldova no.548 - XIII dated 21 July 1995, the unrealized net gains or losses from foreign exchange currency resulting from revaluation of assets and liabilities in foreign currency against MDL are recorded with a corresponding amount in the special reserve. The amount recorded in the special reserve corresponding to the net foreign exchange losses is guaranteed by negotiable receivables at a market interest rate, issued by the Government of the Republic of Moldova, and held by the Bank in a special account; within four months after each financial year, the aggregate total amount of such receivables held by the National Bank is to be increased or decreased in order to restore the equivalency between that amount and the amount recorded in the special reserve as net foreign exchange losses as at the end of that financial year.

t. Fiduciary activities

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

3. Significant accounting policies (continued)

u. Contingencies

Contingent liabilities are not recognised in the financial statements but they are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

v. Provisions

The Bank recognizes provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events and a reasonable estimate of the obligation can be made.

w. Pension costs and employees' benefits

The Bank makes contributions to the funds set up by the State of Moldova for pensions and health care calculated on the basis of salaries of all employees of the Bank. The Bank does not operate any other retirement schemes and has no obligation to provide further benefits to current or former employees.

x. Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle or realize on a net basis.

y. Events subsequent to the balance sheet date

Post-year-end events that provide additional information about the Bank's position at the balance sheet date (adjusting events) or those that indicate that the going concern assumption is not appropriate are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

z. Fair value of financial instruments

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

The National Bank of Moldova's short term assets are carried in the financial statements at cost which approximates to their fair value as these instruments have short maturity terms, they are convertible into cash and are settled without significant transaction costs. The National Bank of Moldova's loans and advances are reported at amortized cost less an estimate for impairment. The securities of non-residents are classified as "fair value financial assets through the income statement" the gain or loss from their revaluation to market value is reported in the income statement. The State Treasury bills are classified as "available for sale" and are reported at fair value.

The gains and losses arising from a change in the fair value of the State Treasury bills is recognised directly in equity, through the statement of changes in equity, except for impairment losses, until the State Tresury bills are derecognised at which time the cumulative gain or losses previously recognised in equity is recognised in profit and loss.

The estimated fair values of financial instruments have been determined by the National Bank of Moldova using available market information and appropriate valuation methodologies, such as discounted cash flows techniques.

3. Significant accounting policies (continued)

z. Fair value of financial instruments (continued)

Where discounted cash flows techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date with similar terms and conditions. However, judgment is required to interpret market data to determine the estimated fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Bank could realize in a current market exchange. 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 realized under the current circumstances.

The carrying value of financial assets and financial liabilities carried at amortized cost approximates its fair value as of 31 December 2005 and 2004 since the iterest rates did not change significantly over the past years.

4. Financial risk management

Through its normal operations, the National Bank of Moldova is exposed to a number of risks and the principal risks are currency, operating, credit, interest rate, and liquidity risks. The structure of the assets and liabilities is primarily determined by the nature of the National Bank of Moldova's statutory functions, rather than commercial considerations. At the same time NBM continually manages its exposure to risk, through a variety of risk management techniques. Risk management of the National Bank of Moldova is regulated by its internal instructions, and is closely monitored by the Administrative Council of the Bank, that analyzes issues related to the monetary, investment and foreign exchange policy of the National Bank of Moldova, and sets limits for volumes of transactions.

Operating risk is the risk of loss arising from the breakdown of internal controls. The National Bank of Moldova manages this risk through its Internal Audit Department, which tests and expresses the opinion on the effective functioning of the internal controls system of the Bank. Segregation of duties among different departments of the National Bank of Moldova (front-office, middle-office and back-office) is also considered as one of the mechanisms of managing operating risk.

4.1 Credit risk

The National Bank of Moldova is subject to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. The Bank's maximum exposure to credit risk, excluding the value of collateral, is generally reflected in the carrying value of financial assets.

The credit risk relating to operational credit in national currency is monitored and controlled.

In order to control the exposure to credit risk where there are repo operations as part of open market operations of the Bank, there are the following control elements:

- settling the transaction insurance percentage (haircut) – when securities are sold at a higher interest rate than established on the market at that specific moment, the National Bank protects against the eventual non repayment by the counterpart bank;

4. Financial risk management (continued)

4.1 Credit risk (continued)

- requesting an additional pledge for maintaining the initial transaction insurance percentage, settled by the Bank, when the market price of the State securities purchased by the Bank as part of repo purchase transaction, has decreased significantly.

In order to decrease the credit risk exposure related to credits granted to comercial banks, the Bank monitors the quality of credit portfolio and debtors financial situation, and, periodically, evaluates the impairment provisions, and adjusts them to reflect best current estimates. In addition the balance of current accounts placed by commercial banks in the Bank serves as a collateral for those loans.

In order to decrease the credit risk exposure related to credits granted to the Bank's personnel (current and former), the Bank accepts as a collateral either the properties acquired with the loans or the salaries in case the loan was granted for personal needs. The collateral value represents 130% of the loan, covering principal and future interests.

4.2 Market risk

The market risk occurs when the value of financial instrument floats resulting from changes of market price, even when these changes are caused by factors specific to individual securities or factors that affect all securities on the market.

The State securities are evaluated quarterly at their fair value determined based on recent auction interest rate on the primary market and all the relevant amendments to market environment that may affect the related gains.

4.3 Interest rate risk

The National Bank of Moldova is exposed to interest rate price risk, principally as a result of interest rate fluctuation on market.

The fluctuation of interest rates on external market may affect the investment portfolio value in foreign currency as well as future cash flows. On external markets, the most vulnerable instruments to fluctuation of interest rates are the securities in foreign currency as the fluctuation of interest rates directly affects their price.

Consequently, due to fluctuations of interest rates on external markets the negative divergences may occur between the interest rates of investment portfolio in foreign currency and interest rates of the Bank's obligations in foreign currency.

While managing the interest rates risk influenced by changes on the external markets, special attention is paid to the principal of diversification of investment portfolio by maturity and currency.

The Bank is exposed to interest rate risk in case of the long term borrowings received from the IMF with the floating interest rate.

To the extent the interest bearing assets and liabilities come due or the related interest rate is changing in different periods or in different amounts, the Bank pursues the interdependence of the current market interest rates.

Meanwhile it should be mentioned that a positive yield is not always possible to achieve due to the fact that the levels of the assets and liabilities mentioned above are subject to the objectives of the monetary policy.

4. Financial risk management (continued)

4.3 Interest rate risk (continued)

Average rates applicable to the major components of the balance sheet have been disclosed within the notes relating to these components. Please see also the table below for the interest rate sensitivity analysis.

31 December 2005	0-3 months	3-6 months	6-12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	5,047,067	-	-	-	8,383	5,055,450
Due from International Financial Institutions	133				2,259,534	2,259,667
Due from the Moldovan Government	2,613,952	-	-	-	11,909	2,625,861
Securities due from the Moldovan Government to be issued	-	-	-	-	125,963	125,963
Loans granted to banks and individuals	1,706	1,699	3,366	49,578	-	56,349
Investment securities	195,677	262,636	1,137,192	991,290	23,848	2,610,643
Other assets	-	-	-	-	4,198	4,198
Tangible and intangible fixed assets	-	-	-	-	51,676	51,676
Total assets	**7,858,535**	**264,335**	**1,140,558**	**1,040,868**	**2,485,511**	**12,789,807**
Liabilities						
National currency issued into circulation	-	-	-	-	5,148,887	5,148,887
Due to the Moldovan Government	-	-	-	-	349,372	349,372
Due to banks	579,500	-	-	-	2,391,346	2,970,846
Certificates issued by the National Bank of Moldova	141,276	-	-	-	278	141,554
Due to International Financial Institutions	716,336	16,945	16,944	474,446	2,265,124	3,489,795
Other liabilities	-	-	-	-	167,240	167,240
Total liabilities	**1,437,112**	**16,945**	**16,944**	**474,446**	**10,322,247**	**12,267,694**
Interest rate gap	**6,421,423**	**247,390**	**1,123,614**	**566,422**	**(7,836,736)**	**522,113**
31 December 2004						
Total assets	7,616,008	319,639	567,259	344,925	2,470,133	11,317,964
Total liabilities	2,289,940	-	-	534,608	7,941,049	10,765,597
Interest rate gap	**5,326,068**	**319,639**	**567,259**	**(189,683)**	**(5,470,916)**	**552,367**

The interest bearing assets and liabilities of the Bank, mainly comprise cash and cash equivalents, loans and advances granted, investment securities, attracted deposits and certificates issued by the Bank, as well as loans granted by the International Financial Institutions. They bear fixed interest rates, except for the current accounts in the IMF and loan granted by the IMF (Extended Fund Facility) that bear floating interest rates set on a weekly basis by the IMF.

4. Financial risk management (continued)

4.4 Liquidity risk

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

Securities issued by Government of the Republic of Moldova and held by the National Bank of Moldova have a contractual maturity not longer than 98 days. However, at maturity, those securities are rolled over, being repurchased by the Government at current market rates and new securities are issued and purchased by the National Bank of Moldova.

Loans granted by the National Bank of Moldova to Government also have a contractual maturity not longer than 91 days. At maturity, interest accrued is paid to the National Bank of Moldova. They are rolled over and accordingly have "de facto" longer term duration.

31 December 2005	0-3 months	3-6 months	6-12 months	More than 1 year	No-fixed maturity	Total
Assets						
Cash and cash equivalents	5,055,450	-	-	-	-	5,055,450
Due from International Financial Institutions	136	-	-	-	2,259,531	2,259,667
Due from the Moldovan Government	2,625,861	-	-	-	-	2,625,861
Securities due from the Moldovan Government to be issued	-	-	-	-	125,963	125,963
Loans granted to banks and individuals	1,706	1,699	3,366	49,578	-	56,349
Investment securities	205,219	270,526	1,143,609	991,289	-	2,610,643
Other assets	4,198	-	-	-	-	4,198
Tangible and intangible fixed assets	-	-	-	-	51,676	51,676
Total assets	**7,892,570**	**272,225**	**1,146,975**	**1,040,867**	**2,437,170**	**12,789,807**
Liabilities						
National currency issued into circulation	5,148,887	-	-	-	-	5,148,887
Due to the Moldovan Government	349,372	-	-	-	-	349,372
Due to banks	2,970,846	-	-	-	-	2,970,846
Certificates issued by the National Bank of Moldova	141,554	-	-	-	-	141,554
Due to International Financial Institutions	121,627	34,139	133,482	940,596	2,259,951	3,489,795
Other liabilities	167,240	-	-	-	-	167,240
Total liabilities	**8,899,526**	**34,139**	**133,482**	**940,596**	**2,259,951**	**12,267,694**
Net liquidity gap	**(1,006,956)**	**238,086**	**1,013,493**	**100,271**	**177,219**	**522,113**
31 December 2004						
Total assets	7,634,459	320,800	569,581	384,831	2,408,293	11,317,964
Total liabilities	6,928,922	18,141	141,098	1,290,486	2,386,950	10,765,597
Net liquidity gap	**705,537**	**302,659**	**428,483**	**(905,655)**	**21,343**	**552,367**

4. Financial risk management (continued)

4.5 Currency risk

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

As at 31 December 2005, NBM held the following foreign exchange positions:

31 December 2005	MDL	USD	EUR	GBP	SDR	Other	Total
Assets							
Cash and cash equivalents	-	2,497,506	1,380,466	1,177,248	-	230	5,055,450
Due from International Financial Institutions	2,259,531	-	-	-	136	-	2,259,667
Due from the Moldovan Government	2,625,861	-	-	-	-	-	2,625,861
Securities due from the Moldovan Government to be issued	125,963	-	-	-	-	-	125,963
Loans granted to banks and individuals	56,349	-	-	-	-	-	56,349
Investment securities	-	1,280,863	900,434	429,346	-	-	2,610,643
Other assets	2,428	1,768	2	-	-	-	4,198
Tangible and intangible fixed assets	42,475	9,201	-	-	-	-	51,676
Total assets	**5,112,607**	**3,789,338**	**2,280,902**	**1,606,594**	**136**	**230**	**12,789,807**
Liabilities							
National currency issued into circulation	5,148,887	-	-	-	-	-	5,148,887
Due to the Moldovan Government	253,290	89,063	7,019	-	-	-	349,372
Due to banks	2,456,550	304,645	209,651	-	-	-	2,970,846
Certificates issued by the National Bank of Moldova	141,554	-	-	-	-	-	141,554
Due to International Financial Institutions	2,260,035	-	-	-	1,229,760		3,489,795
Other liabilities	167,203	-	37	-	-	-	167,240
Total liabilities	**10,427,519**	**393,708**	**216,707**	**-**	**1,229,760**	**-**	12,267,694
							-
Net position	**(5,314,912)**	**3,395,630**	**2,064,195**	**1,606,594**	**(1,229,624)**	**230**	**522,113**
							-
31 December 2004							-
Total assets	5,204,296	2,768,924	2,152,344	1,191,197	930	273	11,317,964
Total liabilities	8,935,522	161,284	90,309	-	1,578,482	-	10,765,597
							-
Net position	**(3,731,226)**	**2,607,640**	**2,062,035**	**1,191,197**	**(1,577,552)**	**273**	**552,367**

Other currencies are represented, mainly, by Japanese yen, Romanian Leu and Russian rouble.

5. Cash and cash equivalents

	31 December 2005	31 December 2004
Cash on hand	1,423	1,533
Nostro accounts	36,423	306,219
Term deposits	5,017,604	4,288,463
Restricted deposits	-	5,529
Other placements in foreign currency	-	125,210
	5,055,450	**4,726,954**

During 2005 "Cash and cash equivalents" increased by 6.95% mainly due to the increase of term deposits compared to 2004.

The term deposits in foreign currency hold the significant portion within this line (about 99.25%). As at 31 December 2005 the term deposits in foreign currency were placed at high rate counterparties (according to rating agency Standard & Poor's) including counterparts with ratings „AAA" – 26.61%, „AA" – 37.32%, „AA–" – 36.07% of total deposits.

The average interest rate of the term deposits in foreign currency placed during the year 2005 is 3.19% and it is above the compound benchmark related to the investment portfolio calculated for the same period, which represents 3.08%.

6. Due from/to International Financial Institutions

	31 December 2005	31 December 2004
Assets		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	2,259,531	2,383,980
Current account with International Monetary Fund	136	930
	2,259,667	**2,384,910**
Liabilities		
Availabilities of the International Monetary Fund	2,259,531	2,383,981
Other international organizations	420	2,970
Loans granted by International Monetary Fund	1,229,844	1,578,481
	3,489,795	**3,965,432**

The Republic of Moldova joined the IMF on August 12, 1992. The National Bank of Moldova acts as the fiscal agent for the conduct of the financial transactions with the IMF and as a depository for maintaining of the IMF's accounts. Membership in the IMF is quota based. A member's quota is determined upon its admission to the membership and is increased periodically under General Quota Reviews. The quota forms the basis for the member's financial and organizational relationship with the IMF and determines, among other things, a member's relative voting power, the maximum access to the IMF financing and the share of the member in any allocation of SDRs.

The IMF Quota Account reflects initial and subsequent quota payments and is an asset of the member. Up to 25% is payable by each member to the IMF in reserve assets specified by the IMF and the remainder is due in the member's own currency.

6. Due from/to International Financial Institutions (continued)

The local currency portion of the quota payment is deposited in the IMF No1 Account, the IMF No 2 Account and becomes the property of the IMF. The IMF No 1 account is used for the IMF's operational transactions (purchases, repurchases), whereas the IMF No 2 account is used for the payment of expenses incurred by the Fund in the member's currency.

The Quota of the Republic of Moldova can be used by the National Bank of Moldova only upon the official permission of the Government of the Republic of Moldova.

The amounts included in the NBM balance sheet as Due to International Financial Institutions mainly include the loans received by the NBM from the IMF. The loans are denominated in Special Drawing Rights ("SDR"), but disclosed in the balance sheet at the Moldovan Lei equivalent at the year-end.

As at 31 December 2005 the Bank's outstanding balance of loans due to the IMF is as follows:

- PRGF commitment – SDR'000 27,720
- EFF commitment – SDR'000 39,062

Poverty Reduction and Growth Facility (PRGF) represents the loan granted to the poor countries with the GDP of less then USD 895 per person. The IMF has granted the loan of SDR'000 27,720 for a period of 10 years with a grace period of 5.5 years. The loan bears an interest rate of 0.5% per annum.

Extended Fund Facility (EFF) represents the loan granted for economic growth support and is granted to economies suffering balance of payments deficits. The IMF has granted the loan of SDR'000 87,500 for a period of 10 years with a grace period of 4.5 years and a floating interest rate set on a weekly basis by the IMF.

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

As at 31 December 2005 for the balances with the International Financial Institutions, the assets reduced by 5.25%, and liabilities by 11.99% compared to 31 December 2004. This is the result of appreciation of the national currency rate against the SDR, as well as partial repayment of the loans granted by the International Monetary Fund.

7. Due from the Moldovan Government

	31 December 2005	31 December 2004
Loans granted to Government	2,222,951	2,360,656
Securities issued by Government	402,910	380,337
	2,625,861	**2,740,993**

Compared to 31 December 2004, the carrying amount of the state debt to the Bank as at 31 December 2005 (the principal and accrued interest) has decreased by MDL'000 137,705 or 6% mainly due to the decrease of the balance of loans granted to the Government as a result of reimbursement of MDL'000 127,000 (the amount stipulated in the State budget for the year 2005) and decrease in interest rates in 2005, compared to 2004.

7. Due from Government (continued)

The interest rate of the loans as at 31 December 2005 varied from 3.56% to 5.20% per year, comparing to 6.56% – 9.04% per year as at 31 December 2004.

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

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

As at 31 December 2005, the balance of state securities held in the Bank portfolio comprises state securities issued and remitted to the Bank as a result of prior conversion into state securities of internal state debts purchased from the Bank during the previous years.

These securities are classified as available for sale and are recorded at their fair value. . In 2004 financial statements the securities issued by Government were classified as investment securities available for sale. In 2005 financial statements the management of the Bank decided to disclose them together with other amounts due from Government.

During the year 2005, the balance of state securities increased by 5.9%, due to the fact that no securities from the Bank's portfolio were sold within this period.

The average weighted interest rate for the state securities from the Bank's portfolio re-issued during 2005 is 3.03% per annum (in 2004: 10.43% per annum), maximum interest rate – 6.11% per annum (in 2004: 15.71% per annum), minimum interest rate – 1.09% per annum (in 2004: 6.56% per annum).

As at 31 December 2005 the average interest rate for state securities portfolio was 4.53% per annum and the market interest rate for similar state securities was 3.22% per annum.

8. Securities due from the Moldovan Government to be issued

Securities due from the Moldovan Government to be issued represent the value of the securities to be provided by the Government of the Republic of Moldova according to art. 54 of the Law on the National Bank of Moldova no. 548 – XIII dated 21 July 1995 in order to cover the net unrealized losses on foreign exchange differences related to the revaluation of assets and liabilities in foreign currency compared to MDL recorded by the Bank during the year. In determining the amount of securities to be issued the net unrealised losses on foreign exchange differences recorded in the current year have been reduced by the recorded net unrealised gain on foreign exchange differences, which in the prior year have been transfered to a special reserve as required by art. 54 of the Law on the National Bank of Moldova no.548 – XIII dated 21 July 1995.

9. Loans granted to banks and individuals

	31 December 2005	31 December 2004
Loans granted to banks	51,688	62,279
Loan granted to other individuals	4,671	5,780
Subtotal	***56,359***	***68,059***
Less: Impairment Provision	(10)	(33,284)
	56,349	**34,775**

Loans granted to banks and individuals include loans granted to commercial banks during the years 1993-2000 in order to complete the construction of houses by the building construction cooperatives and loans granted to the Bank' employees.

The increase of MDL'000 21,574 or by 62% is mainly due to the decrease in the impairment provision by MDL'000 33,274. During the analyzed period the gross loans balance decreased by MDL'000 11,700 due to partial reimbursement of the loans.

The movement in the provision for loan losses during the year is as follows:

	2005	2004
As at 1 January	**33,284**	**37,631**
Release of provisions during the year	(37,505)	(4,422)
Additions during the year	4,231	75
As at 31 December	**10**	**33,284**

10. Investment securities

	31 December 2005	31 December 2004
Securities issued by non-residents	2,610,643	1,383,044
	2,610,643	**1,383,044**

The securities issued by non-residents held by the National Bank of Moldova represent mainly securities issued by entities from the United States of America and European Union. As at 31 December 2005 all securities issued by non-residents held in the Bank's portfolio have the highest rating - „AAA".

Those securities are low risk assets and are classified as financial assets at fair value through profit and loss account. In 2004 financial statements those securities were classified as available for sale. In 2005 those securities were classified in financial assets at fair value through profit and loss account.

During 2005, the securities issued by non-residents increased by 88.76%, as a result of increase of foreign exchange reserves and, respectively, increase of securities portfolio in foreign currency.

During the reported period, the total amount of securities sold or matured denominated in foreign currency represented the total nominal value of USD 50 million, EUR 44.5 million and GBP 4 million respectively. Consequently, there were purchased securities denominated in foreign currency in the total nominal value of USD 105 million, EUR 66 million and GBP 15 million respectively.

11. Other assets

	31 December 2005	31 December 2004
Prepayments	108	124
Other receivables	1,858	3,117
Inventories	2,023	1,078
Goods and materials administered	428	480
Subtotal	***4,417***	***4,799***
Less: Provisions for slow moving inventory and doubtful debts	(219)	(696)
	4,198	**4,103**

The movement in the provisions for slow moving inventory and doubtful debts during the year is as follows:

	2005	2004
As at 1 January	**696**	**1,501**
Charge for the year	53	83
Release for the year	(530)	(884)
Revaluation of differences	-	(4)
As at 31 December	**219**	**696**

12. Tangible and intangible fixed assets

	Buildings	Equipment	Assets in progress	Intangible assets	Total
Cost					
As at 1 January 2005	36,644	67,977	2,331	8,181	**115,133**
Additions	12	5,907	10,962	1,669	**18,550**
Reclassification	(3)	3,976	(4,051)	78	**-**
Disposals	-	(1,685)	(25)	(56)	**(1,766)**
As at 31 December 2005	**36,653**	**76,175**	**9,217**	**9,872**	**131,917**
Accumulated depreciation					
As at 1 January 2005	16,434	50,100	-	5,414	**71,948**
Charge for the year	1,091	7,955	-	988	**10,034**
Charge for disposals	-	(1,685)		(56)	**(1,741)**
As at 31 December 2005	**17,525**	**56,370**	**-**	**6,346**	**80,241**
Carrying value					
As at 1 January 2005	**20,210**	**17,877**	**2,331**	**2,767**	**43,185**
As at 31 December 2005	**19,128**	**19,805**	**9,217**	**3,526**	**51,676**

13. Due to the Moldovan Government

	31 December 2005	31 December 2004
Due to Government	348,236	58,726
Other	1,136	1,778
	349,372	**60,504**

14. Due to banks

	31 December 2005	31 December 2004
Current accounts of commercial banks, including obligatory reserves	2,389,485	1,470,150
Deposits from local banks in national currency	581,361	672,500
REPO transactions with banks	-	312,138
	2,970,846	**2,454,788**

15. Certificates issued by the National Bank of Moldova

	31 December 2005	31 December 2004
Certificates issued by NBM	141,554	-
	141,554	**-**

During the year the Bank started to issue NBM certificates, which were sold to the commercial banks through auctions. The maturity of the certificates is 28 days. The minimum and maximum monthly average interest rates were 1.42% and 7.29% per annum respectively.

16. Other liabilities

	31 December 2005	31 December 2004
Due to the State Budget	160,512	183,814
Other liabilities	6,728	6,732
	167,240	**190,546**

Due to state budget represents net profit of the Bank for 2005 to be transferred to the State budget of the Republic of Moldova.

17. Capital and reserves

	31 December 2005	31 December 2004
Statutory fund	200,000	200,000
Reserve fund	319,175	277,024
Special reserve	-	72,200
Other reserves	2,938	3,143
	522,113	**552,367**

In accordance with art. 20 of the Law nr.548 – XIII dated 21 July 1995 on the National Bank of Moldova, the Bank has to distribute 20% of the profit available for distribution to the reserve fund on an annual basis, up to two times the value of the statutory capital. As at 31 December 2005 the amount of MDL'000 42,151 (2004: MDL '000 45,952) was transferred to the reserve fund.

Other reserves include reserves from the revaluation of tangible fixed assets of MDL'000 2,496 (31 December 2004: MDL'000 3,143) and available for sale securities revaluation surplus of MDL'000 442 (31 December 2004: MDL'000 0).

Special reserve created in 2004 represents net unrealised gains from foreign exchange differences that in accordance with art. 54 c) of the Law nr.548 – XIII dated 21 July 1995 on the National Bank of Moldova should not be included in the retained earnings for the year available for distribution to the State budget. The special reserve has been utilised in 2005 (see note 8).

18. Distribution of net profit

	31 December 2005	31 December 2004
Net profit	210,104	301,319
Transfer to special reserve	-	(72,200)
Transfer from fixed assets revaluation reserve	647	647
Retained earnings for the year available for distribution	**210,751**	**229,766**
Allocation:		
Reserve fund	42,151	45,952
State budget	**168,600**	**183,814**

19. Interest income

	31 December 2005	31 December 2004
Interest from deposits in foreign banks	102,988	52,262
Interest from securities with coupon and discount	60,416	22,424
Interest from deposits overnight	43,353	11,433
Interest from loans to the Government	78,063	219,153
Other interest income	23,766	48,879
	308,586	**354,151**

20. Interest expense

	31 December 2005	31 December 2004
Interest expenses from loans received from the IMF	32,734	32,189
Interest on certificates of the Bank	9,864	-
Interest on deposits placed by the Banks	26,800	14,001
Interest on mandatory reserves	12,643	20,212
Other interest expenses	1,017	10,616
	83,058	**77,018**

21. (Losses)/ gains from foreign exchange transactions and foreign exchange rate differences

	31 December 2005	31 December 2004
Realized gain from foreign exchange transactions	28,135	2,943
Unrealized gain/(loss) from foreign exchange rate difference	(198,163)	72,200
	(170,028)	**75,143**

In 2004 financial statements the losses from dealing with securities issued by non-residents in the total amount of MDL'000 2,269 were included in (losses)/income from exchange rate difference. In 2005 these losses were reclassified in losses from revaluation of securities.

22. Losses from the revaluation of securities

	31 December 2005	31 December 2004
Realized gain from securities	1,577	646
Unrealized loss from revaluation of securities at fair value	(9,757)	(2,295)
	(8,180)	**(1,649)**

In 2004 financial statements the losses from dealing with securities issued by non-residents in the amount of MDL'000 2,269 were included in (losses)/income from foreign exchange transctions and difference. In 2005 these losses were reclassified in losses from the revaluation of securities.

23. Other income

Other income mainly represents income from settlement transactions in Moldovan Lei performed with commercial banks of the Republic of Moldova.

In 2004 financial statements the release in provision for slow moving inventory of MDL'000 477 was included in operating expenses. In 2005 financial statements the release was reclassified to other operating income.

24. Operating expenses

	31 December 2005	31 December 2004
Staff costs	32,964	32,259
Expenses related to the production of the national currency	20,916	5,462
Depreciation of tangible and intangible assets	10,034	8,654
Communication expenses	4,271	4,146
Repair of property and equipment	1,692	1,735
Maintenance of the equipment	1,003	925
Other operating expenses	5,245	7,249
	76,125	**60,430**

The staff costs include mandatory state social contribution and mandatory medical insurance calculated at 27% and 2%, respectively, from salary and other awards.

In 2004 financial statements the release in provision for slow moving inventory of MDL'000 477 was included in operating expenses. In 2005 financial statements the release was reclassified to other operating income.

25. Related parties

During the year ended at 31 December 2005, the remuneration paid to the Bank management, including middle level management, was MDL'000 2,961 (2004: MDL'000 2,612).

The Bank has granted loans to its employees. The remaining balance of the loans granted to the management of the Bank, including middle level management, amounted to MDL'000 676 as at 31 December 2005 (31 December 2004: MDL'000 801).

26. Commitments and contingencies

Litigations

As at 31 December 2005 the Bank was involved a litigation against a former employee for the unreimbursed loan and litigation against the Bank. As at 31 December 2005 the Bank has recorded a provision for litigation of MDL'000 46, considering that the value of the provision is adequate to cover the future expenses related to the litigation against the Bank. For the litigation against the former employee the Bank has recorded a provision for loan losses as at 31 December 2005, covering 60% of the outstanding debt.

Credit related commitments

As at 31 December 2005, there were no outstanding credit related commitments.

4. ANNEXES

Table no.1. **DYNAMICS OF MACROECONOMIC INDICATORS**

	2002	2003	2004	2005
Nominal Gross Domestic Product (million lei)	**22555.9**	**27618.9**	**32031.8**	**36755.4**
– % change over the previous year in real terms	107.8	106.6	107.4	107.1
GDP deflator, %	109.8	114.8	108.0	107.2
Industrial Output (million lei)	**12624.1**	**15963.1**	**17591.1**	**21123.5**
– % change over the previous year in real terms	110.8	115.6	108.2	106.3
Industrial Wholesale Price Index (average)	104.7	107.8	105.6	105.3
Agricultural Output (million lei)	**9474.2**	**10354.0**	**11819.0**	**11937.0**
– % change over the previous year in real terms	103.4	86.4	120.8	101.0
Investments in fixed capital (million lei)	**2804.2**	**3621.7**	**5140.0**	**6548.3**
– % change over the previous year in real terms	111.0	107.0	108.0	109.0
Deficit (-), surplus (+) of public budget (million lei)	**-109.7***	**437.1***	**151.6**	**757.7**
- as % of GDP	-0.5	1.6	0.2	2.1
Prices				
Consumer Price Index (average)	105.2	111.6	112.4	111.9
Consumer Price Index (end period)	104.4	115.7	112.5	110.0
Labour Market				
Average number of employed persons at year-end (thousand persons)	685.3	668.3	666.0	662.5
Number of officially unemployed persons at year-end (thousand persons)	24.0	19.7	21.0	21.7
Unemployment Rate (ILO definition)	6.8	7.9	8.1	7.3
Average Wage, (lei)	**691.5**	**890.8**	**1103.1**	**1318.7**
– % change over the previous year in real terms	120.9	115.4	110.1	106.8
Arrears of wages, (mil. lei)	**137.8**	**148.0**	**134.9**	**96.0**
External Public Direct and Guaranteed Debt (million US$) **	**986.9**	**1008.4**	**879.5**	**773.7**
Total External Debt (million US$)	**1816.4**	**1925.0**	**1874.0**	**1991.0**
Domestic Debt (million lei)	**2821.4**	**2920.4**	**3714.1**	**3787.1**
– loans extended by NBM under SS collateral	1744.0	1744.0	2338.0	2211.0
– State securities in circulation	1077.4	1176.4	1376.1	1576.0
including SS in NBM portfolio	400.0	400.0	400.0	400.0

* information on consolidated budget execution
**balance at year-end
Source: National Bureau of Statistics, Ministry of Finance and National Bank of Moldova

Table no. 2 **INFLATION DYNAMICS**

	% change over previous month			% change over December of previous year			% change over same month of previous year		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
January	1.9	1.5	1.1	1.9	1.5	1.1	5.0	15.2	12.1
February	1.8	0.9	2.1	3.7	2.4	3.2	7.3	14.2	13.4
March	0.9	0.6	0.8	4.6	3.0	4.0	7.7	13.9	13.6
April	1.5	0.9	1.4	6.2	3.9	5.5	7.3	13.2	14.2
May	0.5	0.5	0.1	6.7	4.4	5.6	6.1	13.2	13.8
June	1.0	0.1	-0.8	7.8	4.5	4.7	11.0	12.2	12.7
July	1.3	0.3	-1.1	9.2	4.8	3.5	14.1	11.0	11.1
August	0.4	0.5	0.2	9.6	5.3	3.7	15.2	11.2	10.8
September	1.6	1.0	1.2	11.4	6.4	4.9	16.2	10.5	10.9
October	2.1	2.2	1.5	13.7	8.7	6.5	17.2	10.6	10.2
November	1.1	1.8	1.9	14.9	10.7	8.5	17.0	11.5	10.3
December	0.7	1.6	1.4	15.7	12.5	10.0	15.7	12.5	10.0

Source: National Bureau of Statistics

Table no. 3. **GROSS DOMESTIC PRODUCT**

	Million lei, current prices		Real annual increase, %		Weight, %	
	2004	**2005**	**2004**	**2005**	**2004**	**2005**
Breakdown by resource category						
Gross Domestic Product	**32031.8**	**36755.4**	**7.4**	**7.1**	**100%**	**100%**
Gross Added Value, total	**27517.6**	**30745.4**	**8.3**	**4.5**	**85.9**	**83.6**
Goods	11101.8	11485.5	14.0	2.9	34.7	31.2
Agriculture	5633.4	5241.3	20.4	1.8	17.6	14.2
Industry	5468.4	6244.2	7.4	4.1	17.1	17.0
Services	17145.6	19981.9	4.0	5.1	53.5	54.4
Constructions	1101.2	1284.4	27.4	1.0	3.4	3.5
Wholesale trade	3383.9	3894.8	-4.1	2.1	10.6	10.6
Transportation and communications	3780.2	4440.5	5.2	6.8	11.8	12.1
Financial intermediation services indirectly measured	-729.8	-722.0	2.9	-8.9	-2.3	-2.0
Net taxes on goods and imports	**4514.2**	**6010.0**	**2.1**	**22.5**	**14.1**	**16.4**
Breakdown by use category						
Final consumption	**33297.7**	**39846.5**	**2.0**	**9.5**	**103.9**	**108.4**
Households	28125.2	33650.0	6.2	10.1	87.8	91.6
Public and private administration	5172.5	6196.5	-16.2	6.3	16.1	16.8
Gross capital formation	**8443.4**	**10950.9**	**-10.5**	**11.0**	**26.4**	**29.8**
Gross fixed capital formation	6786.9	8953.8	8.2	10.2	21.2	24.4
Change in inventories	1656.5	1997.1	19.7	14.5	5.2	5.4
Net exports	**-9709.3**	**-14042.0**	**-8.2**	**18.8**	**-30.3**	**-38.2**
Exports	16398.4	19526.2	11.0	17.6	51.2	53.1
Imports	26107.7	33568.2	3.6	18.1	81.5	91.3

Source: National Bureau of Statistics, National Bank of Moldova

Table no. 4. **MONETARY INDICATORS** (million lei, year-end)

	2002	2003	2004	2005
Monetary aggregates				
Reserve Money	**3262.7**	**3804.0**	**5313.1**	**7002.9**
M0, (currency in circulation)	**2288.6**	**2740.5**	**3699.9**	**4571.2**
Sight deposits	1056.9	1411.0	1864.3	2761.9
M1	**3345.5**	**4151.5**	**5564.2**	**7333.1**
Time deposits	1172.1	1469.6	2572.3	3792.4
Money market instruments	0.3	0.8	0.5	0.1
M2	**4517.9**	**5621.9**	**8137.0**	**11125.6**
Deposits in foreign currency	1993.6	2887.2	3582.7	4701.2
M3	**6511.5**	**8509.1**	**11719.7**	**15826.8**
Velocity (M2)	4.99	4.91	3.94	3.30
Multiplier (M2)	1.38	1.48	1.53	1.59
Deposits (total)	**4222.7**	**5767.8**	**8019.3**	**11255.5**
Deposits by legal entities	1835.7	2438.4	3207.4	4255.6
Including in foreign currency	716.6	975.2	1068.4	1296.6
Deposits by individuals	2387.0	3329.4	4811.9	6999.9
Including in foreign currency	1277.0	1912.0	2514.3	3404.7
Credits				
Credits to commercial banks	81.4	72.3	62.3	51.7
Non-governmental credits, total	4192.2	6055.2	7399.3	9990.5
in national currency:	2448.7	3468.8	4272.0	6255.1
– state enterprises	279.2	408.7	422.3	401.0
– private sector	1844.7	2571.6	3110.2	4219.5
– households	315.3	487.5	688.3	1100.9
– other financial institutions	9.5	1.0	51.2	533.7
In foreign currency	1743.5	2586.4	3127.3	3735.4

Source: National Bank of Moldova

Table no. 5. **AVERAGE WEIGHED INTEREST RATE ON DEPOSITS**

	Time deposits				
	total	in MDL		In foreign currency	
		value, million lei	interest, %	value, million lei	interest, %
Total 2004	**6832.5**	**3493.8**	**15.16**	**3338.7**	**5.01**
Total 2005	**10623.7**	**5642.3**	**12.99**	**4981.4**	**5.15**
January 2005	764.0	380.5	15.71	383.5	5.18
February	760.5	449.5	15.40	311.0	5.33
March	857.5	480.6	14.37	376.9	5.28
April	746.5	364.6	13.90	381.9	5.13
May	730.6	392.2	13.35	338.4	5.24
June	861.2	461.2	1319	400.0	5.08
July	830.5	440.7	12.96	389.8	5.13
August	989.2	438.4	12.78	550.8	5.11
September	953.5	469.3	12.29	484.2	5.04
October	865.0	440.5	12.28	424.5	5.06
November	951.3	517.9	11.80	433.4	5.14
December 2005	1313.9	806.9	10.55	507.0	5.18

Source: National Bank of Moldova

Table no. 6. **AVERAGE WEIGHTED INTEREST RATE ON CREDITS**

Period	Credits extended				
	total	in MDL		in foreign currency	
		value, million lei	interest, %	value, million lei	interest, %
Total 2004	**9194.1**	**5716.0**	**20.96**	**3478.1**	**11.39**
Total 2005	**13444.2**	**9026.4**	**18.93**	**4417.8**	**11.07**
January 2005	524.2	338.9	21.16	185.3	11.29
February	757.1	485.2	20.88	271.9	11.26
March	1048.8	656.0	20.70	392.8	11.45
April	1037.3	646.2	20.16	391.1	11.18
May	963.4	646.4	19.21	317.0	11.29
June	1096.5	769.4	19.36	327.1	11.06
July	957.2	660.8	19.32	296.4	11.18
August	1253.8	763.4	18.71	490.4	10.68
September	1686.6	1188.3	18.14	498.3	11.05
October	1244.1	873.0	18.21	371.1	11.07
November	1239.0	848.4	17.98	390.6	11.10
December 2005	1636.2	1150.4	17.30	485.8	10.64

Source: National Bank of Moldova

Table no. 7. **YIELDS ON SS ISSUED IN THE PRIMARY MARKET (%)**

	Average weighted monthly yields by types of SS			**Average weighted nominal monthly yield**
	91 days	**182 days**	**364 days**	
January 2005	5.68	6.81	9.4	**6.76**
February	1.99	3.09	5.12	**2.77**
March	1.21	1.98	3.72	**1.93**
April	1.62	3.89	5.06	**2.71**
May	1.24	2.98	4.34	**2.25**
June	2.32	3.10	4.67	**2.94**
July	3.32	3.40	4.90	**3.65**
August	3.08	3.30	4.79	**3.51**
September	2.88	3.19	4.57	**3.33**
October	4.89	5.31	6.23	**5.28**
November	4.58	5.02	6.12	**4.98**
December 2005	3.73	4.27	5.73	**4.27**
Annual nominal average weighted yield	**2.98**	**3.77**	**5.36**	**3.66**

Source: National Bank of Moldova

Table no. 8. **OFFICIAL EXCHANGE RATE** (lei)

	2003		**2004**		**2005**	
	year-end	annual average	year-end	annual average	year-end	annual average
USD (1$)	13.2200	13.9426	12.4600	12.3283	12.8320	12.6003
EUR (1€)	16.5256	15.7403	16.9542	15.3286	15.1950	15.6978
RUB (1)	0.4520	0.4543	0.4487	0.4280	0.4459	0.4455
ROL (1000)	0.4030	0.4200	0.4300	0.3790	0.4113	0.4333
RON (1)*					4.1129	4.3327

**As of 1 July 2005, the legal tender of Romania, Leu, has been denominated as 1 new Leu (RON) equals 10 000 old Lei (ROL). ROL shall be used as legal tender until 31 December 2006.*

Source: National Bank of Moldova