



ANNUAL REPORT

2010

Foreword

The global economic crisis has hit hard the economy of the Republic of Moldova in 2009 and demonstrated our vulnerability to external economic shocks. The decrease in external demand and in the volume of remittances from abroad by 30.0 percent have generated significant pressure on the exchange rate of the national currency and decreased the domestic demand and consumption. Budget revenues have also decreased significantly, mainly as a result of the reduction in revenue from customs duties and VAT, so that the budget deficit constituted 6.9 percent of Gross Domestic Product (GDP) at the end of 2009. In turn, GDP declined by 6.0 percent in real terms. The annual inflation of 0.4 percent in 2009 was driven largely by the sharp contraction of the economic activity and by people's reduced purchasing power.



Taking into account the significant fiscal constraints in 2009, caused by the alarming fiscal deficit, the only immediate solution to support the economy in the fall could come only from easing the monetary policy. Thus, the NBM has injected significant liquidity of about 2.2 billion lei in the banking sector by reducing the reserve requirements from 17.5 percent to 8.0 percent and has reduced the base rate (the interest rate for the main short-term monetary policy operations) from 12.5 percent to 5.0 percent. NBM has granted loans to banks in the amount of EUR 1.6 billion lei to increase the liquidity and to ensure the integrity of the banking sector and injected in the market additional liquidity amounting to 1.4 billion lei by purchasing in December 2009 from the foreign exchange market the amount of about USD 116.4 million. With these actions, the NBM has pursued to ensure the stability of the banking sector and to support the lending to the real sector, including by reducing the interest rates on deposits and loans.

In 2010, we witnessed a spectacular revival of the economy, beyond our expectations. GDP grew in real terms by 6.9 percent, so that the domestic economy neared its potential level of development. The decreases recorded in 2009 were recovered in all sectors with exception of industrial production, constructions and transport. Exports grew by 12.8 percent and imports by 13.7 percent. Domestic consumption grew by 9.0 percent and the budget deficit was reduced to 2.5 percent of GDP. The annual inflation rate was 8.1 percent, over the medium-term objective of the NBM of 5.0 percent \pm 1.5 percentage points, but much less than the annual average of 12.0 percent recorded in the years before the crisis. Thus, it was demonstrated that a credible and consistent monetary policy, based on a flexible exchange rate, contributes to a more rapid recovery from the crisis and to an easier adjustment of the economy to new circumstances.

In the first quarter of 2010, the annual inflation rose rapidly to the level of 8.1 percent, mainly due to the shocks coming from the energy prices, regulated prices and exchange rate volatility of the national currency. Promptly anticipating the inflationary pressures, the NBM increased the base rate from 5.0 percent to 7.0 percent in the first months of the year. The partial tightening of the monetary policy was aimed to anchor the inflation expectations and to reduce the second-round effects of price increases that are not under the NBM control. Stabilizing the inflation in the second, third and fourth quarter near the level of 8.0 percent shows the correctness of decisions taken by the NBM at the beginning of the year. Throughout 2010, the NBM has firmly managed the liquidity excess in the banking sector. The average daily balance of NBM certificates issued for the sterilization constituted 3.28 billion lei. The adaptive nature of the monetary policy has allowed achieving a high rate of growth in terms of an inflation kept under control.

In December 2010, the base rate was increased again, up to the level of 8.0 percent. Also, the NBM informed at the end of the year about the imminent increase of the required reserves of banks. Thus, in



January 2011, the minimum level of required reserves was increased from 8.0 percent to 11.0 percent of the volume of deposits, thus intensifying the fight against inflation. The NBM forecasts indicate an acceleration of inflation in the third and fourth quarters of 2011 and a slowdown in inflation by the end of 2012. The inflationary pressures remain persistent, and the main inflationary risks were determined by the increase of energy and food products prices in international markets.

The crisis affected indirectly the banking sector. The economic contraction in 2009 caused a significant increase in the share of nonperforming loans in total loan portfolio from 5.9 percent to 16.4 percent. Sudden increase in credit risk has led banks to restrict the lending activity and to significantly increase the risk fund to cover losses from loans. As a result, the banking sector ended 2009 with a net loss of 173.0 million lei, although some banks have recorded profit even during that year.

In 2010, the banking sector has recovered from the crisis, simultaneously with the national economic recovery. The loan portfolio increased by 3.1 billion lei, or by 13.7 percent. The volume of new loans increased by 64.5 percent compared with 2009. The total volume of deposits increased by 3.5 billion lei, or by 14.1 percent. It should be mentioned that the average weighted rate of loans in national currency decreased from 18.63 percent to 14.76 percent in 2010 and the rate on deposits in national currency fell from 9.79 percent to 6.54 percent. The share of nonperforming loans decreased to 13.3 percent at the end of 2010. Thus, the banking sector recorded a net profit of 219.0 million lei in 2010. Some banks recorded losses in 2010 because they continued to improve their balance sheets. For 2011, the NBM estimated to continue the process of improving the quality of loan portfolio and to increase the profitability of the banking sector. Also, the process of granting loans and attracting deposits will accelerate in 2011. It can be said that the increased level of liquidity and the more than comfortable capitalization of the banking system will ensure financial stability in the next period.

Although affected by the crisis in 2008 - 2009, the economy of the Republic of Moldova has good prospects for development. Rapid recovery of domestic consumption was the first and the main impetus for the economic growth in 2010. However, a sustainable economic growth in the Republic of Moldova can be ensured in the future only by switching from the growth based mainly on imports and consumption to a growth based on production and export. Thus, encouraging the inward investment, attracting foreign investors and increasing the exports will constitute the main challenges for Moldova in the upcoming years.

Dorin Drăguțanu
Governor



LIST OF ABBREVIATIONS

AIPS	Automated Interbank Payment System
BES	Book-Entry System of Securities
CHIBID	Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan lei from other banks
CHIBOR	Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan lei from other banks
CIS	Commonwealth of Independent States
CPI	Consumer Prices Index
DNS	Designated-Time Net Settlement System
ECF	Extended Credit Facility
EFF	Extended Fund Facility by IMF
EU	European Union
EUR	European Union Currency
GDP	Gross Domestic Product
ICS	Internal Control System
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
IPPI	Industrial production price index
IS	Information System
IT	Information Technology
MDL	Moldovan lei
NAER	National Agency for Energy Regulation
NBC	National Bank Certificates
NBM	National Bank of Moldova
NBS	National Bureau of Statistics of the Republic of Moldova
NEER	Nominal effective exchange rate of the national currency
REER	Real effective exchange rate of the national currency
REPO	Agreement of securities trading with repurchase there of on a determined date and price
RTGS	Real-Time Gross Settlement System
SB	State Bonds
SS	State Securities
TB	Treasury bills
TRC	Total Regulatory Capital
USA	The United State of America
USD	U.S. dollar
VAT	Value added tax
WB	World Bank
XDR-SDR	Special Drawing Rights



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Summary

The economic achievements recorded in 2010 indicate that the Republic of Moldova has gradually recovered and overcame the consequences of the global financial crisis. In this context, the National Bank of Moldova undertook the significant task of implementing the inflation targeting regime, which aims at maintaining price stability in a market-based financial system, thus supporting the general economic policy of the state.

The need for calibration of monetary policy based on inflation forecast, and not on an intermediate target, as a result of distortion of the relationship between the inflation rate and monetary aggregates development and the persistence of risks related to capital account liberalization, determined the National Bank of Moldova to end the monetary aggregates targeting regime by the end of 2009. As a result, NBM has set a medium term objective of inflation of 5.0 percent with a probable deviation of ± 1.0 percentage points, which is indicated in the Monetary Policy Strategy of the National Bank of Moldova for 2010-2012.

The regulated prices, fuel prices and food prices had an impressive contribution to the formation of inflation in 2010. Their evolution was influenced by the price volatility in world markets and by the deviation from the norm of weather conditions, factors affecting the supply and, thus, their control through monetary policy actions of the National Bank of Moldova is not justified. As a result, the annual inflation rate constituted 8.1 percent in December 2010, while the core inflation was 4.4 percent and ranked within the stated objective. However, the significant discrepancy between the CPI and core inflation confirms the high impact of non-monetary factors on inflation process in Moldova.

Moldova's economy in 2010 recorded an increase of 6.9 percent compared to the previous year, as a result of improving the situation in all sectors of the economy. Quarterly evolution of this indicator shows a sharp recovery in the third quarter of 2010, increasing by 8.0 percent compared to 4.7 and 6.4 percent in the first and second quarters of 2010, respectively. The exports have increased as compared to 2009, due to economic stabilization of the main trading partners of the Republic of Moldova. The growth of remittances, overlapping with the restoration of optimistic expectations of the population and economic agents, has stimulated the increase in consumption and imports, so that the domestic demand was the main determinant of GDP growth in 2010. It should be mentioned that the construction sector recorded an improvement after a long period of decline. Despite the economic recovery, the situation on the labor market shows deterioration, the unemployment rate constituting 7.4 percent in 2010, which reveals low labor market flexibility.

Quantifying the macroeconomic situation, the trends and forecasts of macroeconomic indicators in the medium term, the inflation outlook in the short and medium term, with probable uncertainties and in order to anchor the inflationary pressures, the NBM has promoted an adaptive monetary policy during 2010, thus contributing to the macroeconomic and financial stability.

After a series of downward key adjustments of the interest rates on monetary regulation instruments conducted during 2009, in response to the global financial crisis, the National Bank of Moldova increased consecutively in February and March 2010 the interest rates on monetary regulation instruments by 1.0 percentage points, up to the level of 7.0 percent, which contributed to the symmetrization of interest rates corridor on loans and deposits attracted in 2010, so that the balance of loans and deposits experienced a general upward trend initiated at the beginning of 2010.

It should be mentioned that, in order to anchor the inflation expectations, within the last meeting of 2010 of the Council of Administration of the National Bank of Moldova was decided to increase the base rate by 1.0 percentage point, up to the level of 8.0 percent.



A prerequisite of implementing the direct inflation targeting regime is to maintain a flexible exchange rate. Thus, NBM has limited its interventions on the foreign exchange market to the amounts necessary without resisting the long-term trend of exchange rate of MDL.

It should be mentioned that, amid the persistence of inflationary pressures and pronounced recovery of economic activity in 2010, the National Bank of Moldova has undertaken measures to support banks' liquidity and to credit the national economy. As a result, the adaptive nature of the monetary policy of the NBM, by keeping the required reserves ratio to the level of 8.0 percent during 2010, contributed to the decrease of interest rates on the market and to further widening the lending opportunities of the real sector of the economy.

In order to continuously encourage the lending process to the real sector of the economy, initiated in August - September 2009, the National Bank of Moldova has prolonged in April 2010 credit lines to banks with a term of 1 year. In 2010, the National Bank of Moldova has opened four additional credit lines for banks, which have not previously received credit from the NBM for the stated purpose.

The conjuncture of 2010, characterized by the liquidity excess in the monetary market and increased inflationary pressures, has determined the National Bank of Moldova to return to the firm management of liquidity excess in the banking system. In 2010, the weighted average rate of sterilization operations amounted to 6.74 percent annually, compared to 10.62 percent recorded in 2009. The operating mode of the standing facilities offered to the NBM a greater flexibility in achieving its monetary policy and allowed banks to manage their liquidity efficiently in conjunction with the rules stipulated by the banking legislation.

In this context, the long-term liquidity of the banking sector constituted 0.7 percent as of December 31, 2010, and the current liquidity - 34.6 percent.

At the same time, in accordance with the Regulation on Risk Weighted Capital Adequacy, starting with December 31, 2010 the amount of share capital constituted 100.0 million lei. All banks have complied with this requirement, holding the appropriate amount of share capital. The average risk-weighted capital adequacy (the ratio of total regulatory capital and the risk-weighted assets) remained at a high level - 30.1 percent (the minimum regulated level in Moldova constituting 12.0 percent), indicating a high degree of safety of banks, determined by the existence of a potential of making risky operations without affecting the capital, thus ensuring the financial stability.

Reticence of licensed banks and their increased capacity to respond to financial crisis manifested by reducing the weight of nonperforming loans (substandard, doubtful and loss) in total loans, which accounted for 13.3 percent or 3.1 percentage points less as of December 31, 2010 compared to the end of 2009.

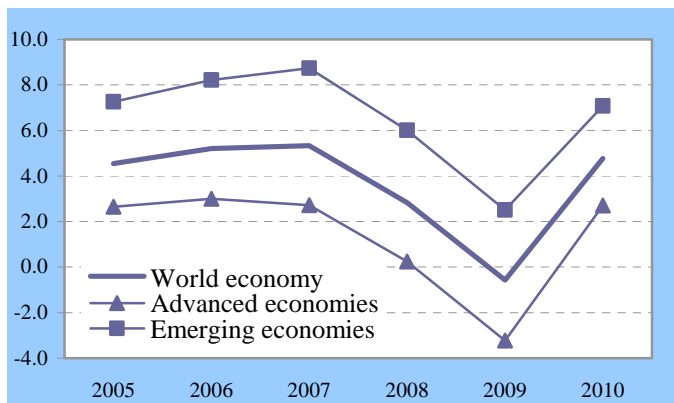
The NBM intervened on the foreign exchange market mainly as a seller of foreign exchange in the first half of 2010 and as a buyer in the second half of 2010, the interventions being made to alleviate the excessive fluctuations of the exchange rate of national currency against the U.S. dollar and providing liquidity in the foreign exchange market.

The NBM will maintain the prudent monetary policy by continuing to vigorously monitor the internal and international economic environment developments, so that by the use of appropriate monetary policy instruments to ensure the correlation between maintaining price stability on medium term and the economic growth on long term.

World economy in 2010

In 2010, the world economy emerged from recession, but the pace of recovery has been slow, unevenly distributed by countries and full of risks. Production and world trade recovered faster than originally anticipated and the financial conditions have improved. However, the developed countries have experienced massive growth in debt implications, and developing countries have sought to rebalance their own economies. Also, 2010 may be called the year of global price increases. The pace of development in emerging economies, combined with raw material needs of countries that have gradually emerged from recession, led to increased prices of goods and services.

Chart no. 1. Annual growth in world economy, %

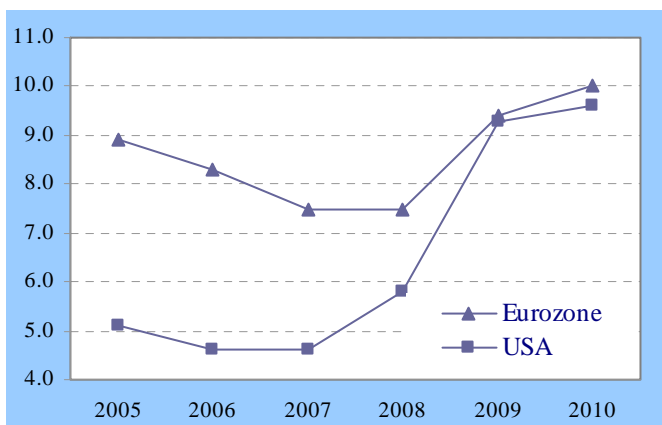


Source: IMF, World Economic Outlook Update – January 2011

Monetary Fund in the second half of 2010 constituted the disturbances recorded in the bonds markets, which considerably increased the pressure on public finances, resulting in a loss of confidence in the markets and causing another significant decrease in the budgets of the states still in recession, which resulted in slowing down the process of emerging from crisis. It also increased the risk of further deterioration in the U.S. real estate market and uncertainty about the magnitude of support of the global growth of countries with highly advanced economy.

During 2010, the emerging economies have contributed to the recovery at the global level, their growth being lower in the second half of this year due to the economic slowdown in developed countries. The lowest increases were registered in countries where the fiscal austerity and high unemployment rate have inhibited the domestic demand. This is particularly true in countries such as Greece, Ireland, Portugal and Spain, which had to solve their debt problems.

Chart no. 2. Unemployment rate in advanced economies, %



Source: Eurostat

Thus, in January 2011, the International Monetary Fund announced a global growth of 5.0 percent in 2010 compared to 2009, higher than the forecast of 4.8 percent. In advanced economies, the economic growth was 3.0 percent in 2010, the earlier forecasted value being of 2.7 percent. The emerging economies grew by 7.1 percent in 2010, according to earlier forecasts.

One of the concerns of the International Monetary Fund in the second half of 2010 constituted the disturbances recorded in the bonds markets, which considerably increased the pressure on public finances, resulting in a loss of confidence in the markets and causing another significant decrease in the budgets of the states still in recession, which resulted in slowing down the process of emerging from crisis. It also increased the risk of further deterioration in the U.S. real estate market and uncertainty about the magnitude of support of the global growth of countries with highly advanced economy.

On one hand, the U.S. economy has accelerated in the last months of 2010 (on the background of the development of private consumption as well as of investment and exports), with favorable impact on the conditions of the labor market and of the profits made by companies. Also, the increasing evolution of orders from industry and services sectors and the resistance of the German economy to external shocks have shown up in the EU, as demonstrated by the business climate.

On the other hand, some indicators draw attention to the sustainability and pace of global economic recovery. In this context, it should be mentioned that the consumers confidence indicators have

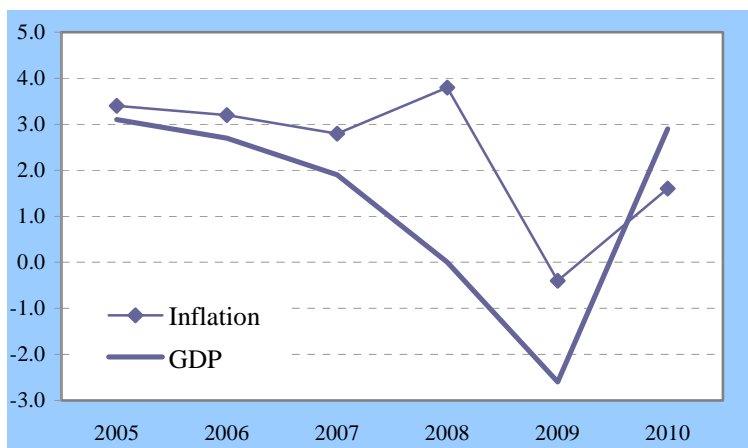
worsen both in the United States and the euro zone. In addition to this, it should be mentioned the difficult conditions on the labor market and the increase of the inflationary pressures with negative impact on the retail trade.

A worldwide problem in 2010 was the high level of unemployment. According to data published by Eurostat, the unemployment rate in euro zone was by 10.0 percent or by 0.6 percentage points more in 2010 than in 2009. In the United States of America, the unemployment rate increased by 0.3 percentage points in 2010 compared to 2009, reaching the level of 9.6 percent. Even if the countries with developed economy, following the incentives from the labor market, have seen little progress, they were marred by significant unemployment rates in countries still in recession. In Europe, the highest unemployment rate of 20.1 percent was recorded in Spain. The employment markets of Ireland and of the Baltic countries were also in a precarious situation. In 2010, the Russian Federation has registered an unemployment rate at 7.5 percent.

United States of America

According to the U.S. Bureau of Economic Analysis, the gross domestic product of the United States

Chart no. 3. The annual rate of inflation and GDP in the U.S.A., %



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

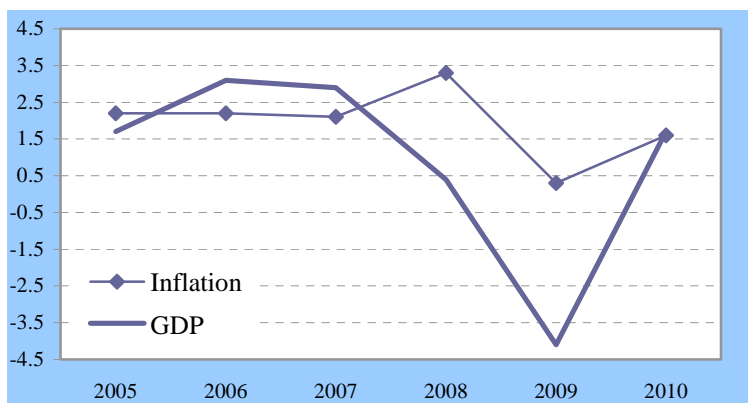
increased by 2.9 percent in 2010, which is higher than previous forecasts of the IMF. The economic growth in 2010 primarily reflects the positive contribution of personal consumption expenditures, private investment, non-residents investment, exports and federal government expenditures that were partly offset by the negative contribution of residents' investment and imports.

In 2010, the annual average inflation of the U.S.A. constituted 1.6 percent. The food and energy resources had the biggest influence on the consumer price index increase.

Euro zone and European Union

In 2010, according to Eurostat data, the real GDP of the European Union and the euro zone recorded an increase of 1.8 and 1.7 percent respectively, as compared to 2009. The contributions to the economic growth were largely due to sustainable growth in domestic demand and net exports. The official statistical data show uneven recovery in the economies of member countries. The highest increases were registered in

Chart no. 4. The annual rate of inflation and GDP in the euro zone, %

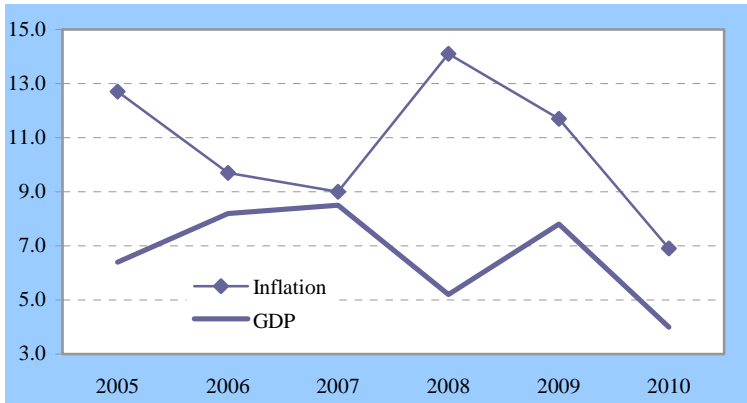


Sursa: Eurostat

Sweden (5.5 percent), Slovakia (4.0 percent) and Poland (3.8 percent). At the same time, the difficulties of financing fiscal deficits and austerity programs introduced in recent months in Greece, Spain and Ireland have negatively affected the recovery of the economies of those countries. The most economic regression is estimated at 4.5 percent in Greece. The lack of uniformity reflects differences in production patterns, productivity, increase of issues related to the adaptation to new economic conditions and rebalances that continue to take place in the euro zone.

As regarding the price developments, according to Eurostat, the annual average inflation rate in the European Union was 2.1 percent and in the euro zone and 1.6 percent in 2010 compared to 2009. Achieving

Chart no. 5. The annual rate of inflation and GDP in the Russian Federation, %

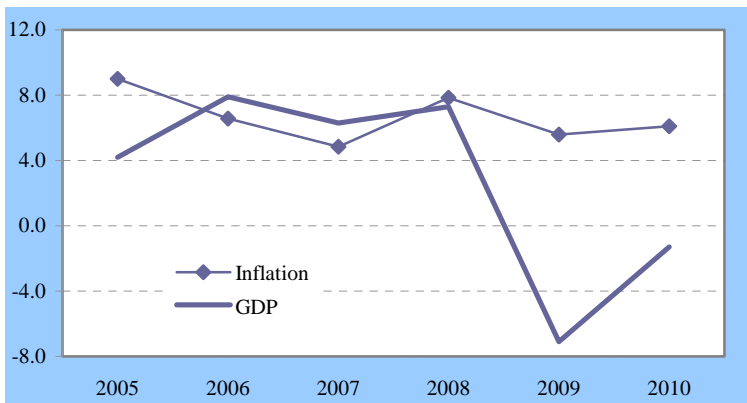


Source: Russian Federal Service of State Statistics

while the largest reductions in activity were recorded in the financial, agriculture and construction sector. Also, the increase in imports, amid an insignificant increase in exports, is another factor that contributed to lower gross domestic product.

The drought of July-August 2010 has caused an inability to meet the domestic demand, which has directed

Chart no. 6. The annual rate of inflation and GDP in Romania, %



Source: Romania National Institute of Statistics

domestic product by 1.3 percent compared to 2009. It was characterized by the reduction of activity volume and, consequently, of the gross value added in construction, agriculture and services. Also, the household final consumption and expenditure for government final consumption have decreased, as a result of the austerity measures, which have provided lower retirement benefits by 15.0 percent, wages in the budgetary system by 25.0 percent and drastic reduction in remittances that recorded in 2010 the lowest level in the last five years.

Romania National Institute of Statistics announced at the beginning of 2011 an annual inflation of 8.0 percent (December 2010 / December 2009). The average price increase was 6.1 percent in 2010 compared to 2009, as a result of increase in VAT (from 19.0 percent to 24.0, starting with July) and in certain food products, fuel, tobacco and services. The Romanian leu depreciation in the second half of the year and the revitalization of global commodity prices constituted other reasons for price increases.

this level was largely due to the developments in raw material prices, prices for transportation and housing. The highest annual average inflation in 2010 was recorded in Iceland (7.5 percent), Romania (6.1 percent), Greece and Hungary (4.7 percent each). Deflations were recorded in Ireland (1.6 percent) and Lithuania (1.2 percent).

Russian Federation

The annual growth of Russian economy was 4.0 percent in 2010. The sectors that registered the largest increases and showed a recovery to pre-crisis level are manufacturing and extractive industries, while the largest reductions in activity were recorded in the financial, agriculture and construction sector. Also, the increase in imports, amid an insignificant increase in exports, is another factor that contributed to lower gross domestic product. The drought of July-August 2010 has caused an inability to meet the domestic demand, which has directed the manufacturers, particularly those from the food segment, to assure the supply of raw materials from the overseas markets. Another consequence of the drought of summer 2010, and of the global price growth, constituted the prices increase, especially in agricultural products. For 2010, the Federal Statistics Service of Russia announced an average annual inflation of 6.9 percent, the prices for cereals, leguminous plants, fruits and vegetables contributing the most.

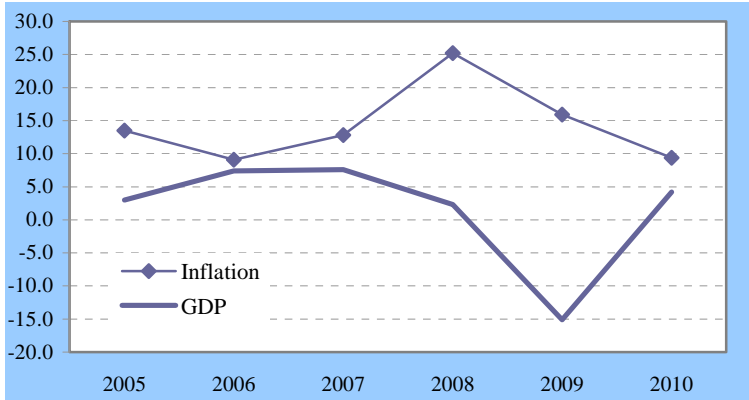
Romania

The economic decline continued in 2010 in Romania, registering a decrease of gross

Ukraine

According to State Statistics Committee of Ukraine, in 2010 the economic growth in Ukraine was 4.2

Chart no. 7. The annual rate of inflation and GDP in Ukraine, %



Source: State Statistics Committee of Ukraine

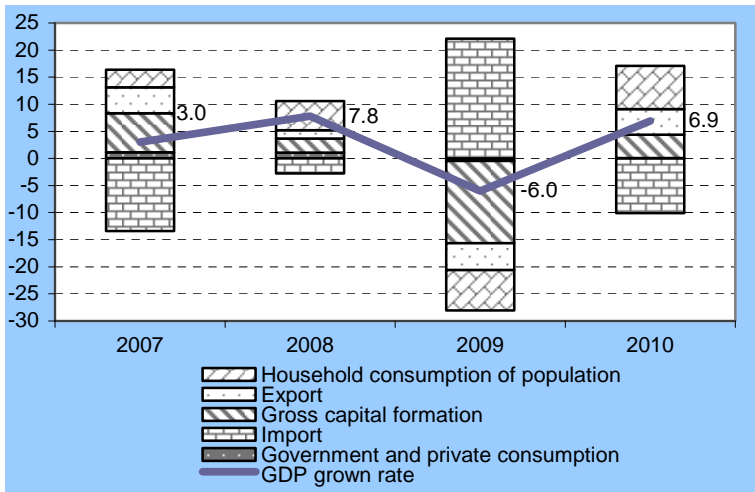
percent, by 0.5 percentage points more than the IMF forecast. Manufacturing, energy production and distribution of gas and water supply, transport and communications are the sectors that have continued with a stable rate of growth. Significant increases occurred in retail trade, health and social care, while the construction sector recorded increases at the end of 2010 for the first time in the past two years. The financial sector recorded declines.

In Ukraine, the average annual inflation for 2010 was 9.4 percent, while in 2009 constituted 15.9 percent.

I. Economic situation of the Republic of Moldova in 2010

1.1 Real sector

Chart no. 1.1. Contribution of demand components to GDP growth, percentage points

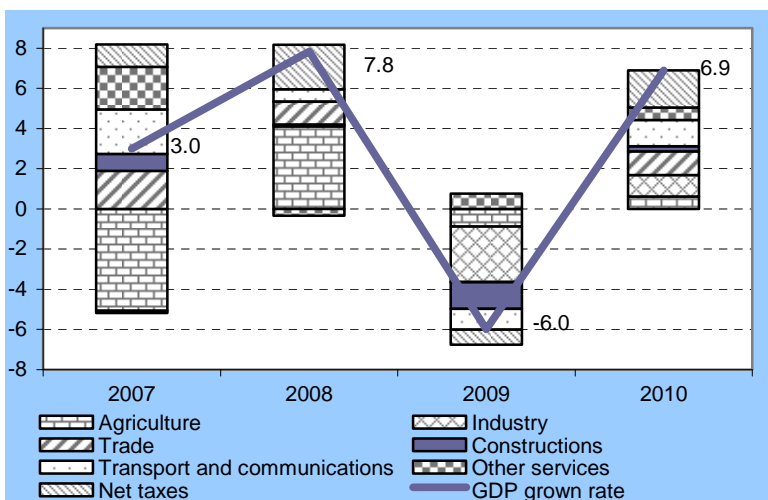


Source: NBS, NBM calculations

consumption rose by 9.0 percent in 2010, generating the largest contribution to GDP growth. Similar causes have determined the gross capital formation growth by 18.7 percent, giving a significant contribution to the evolution of GDP. Within the structure, the gross capital formation has increased mainly due to gross fixed capital formation increase by 17.2 percent, because although it experienced a significant increase (81.0 percent), the contribution of component “inventories variation” was less significant.

Final consumption of general government recorded a modest increase (0.3 percent) and thus did not cause significant changes in GDP growth. The exports rose by 12.8 percent, stimulated by the economic recovery

Chart no. 1.2. Contribution of economic sectors to GDP growth, percentage points



Source: NBS, NBM calculations

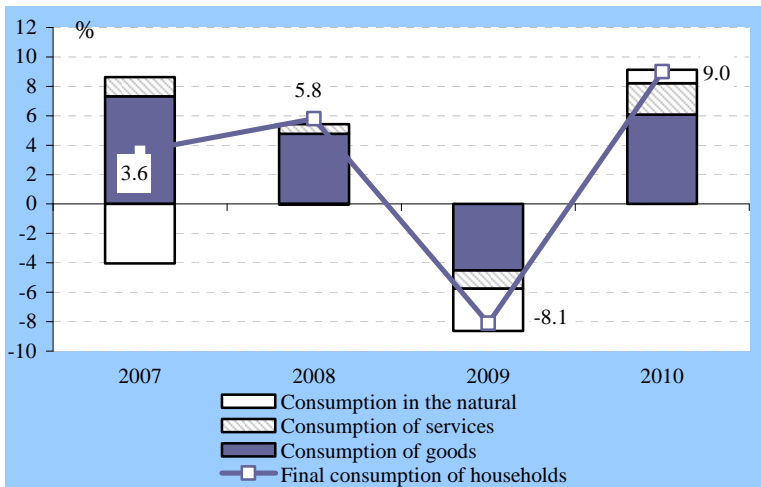
Gross Domestic Product

Preliminary data of the National Bureau of Statistics on gross domestic product for 2010 reflects a pronounced recovery in the economy that occurs after severe economic decline registered in 2009 as a result of global economic crisis in the country. The GDP grew in real terms by 6.9 percent in 2010 compared with the last year. Taking into account that in 2009, the GDP contracted by 6.0 percent, shows that the Moldovan economy has reached the level before the economic crisis.

In terms of uses (Chart no. 1.1), the domestic demand was the key factor in GDP growth. Thus, following the restoration of expectations on the development of national economy and the increase of funding sources, the household consumption rose by 9.0 percent in 2010, generating the largest contribution to GDP growth. Similar causes have determined the gross capital formation growth by 18.7 percent, giving a significant contribution to the evolution of GDP. Within the structure, the gross capital formation has increased mainly due to gross fixed capital formation increase by 17.2 percent, because although it experienced a significant increase (81.0 percent), the contribution of component “inventories variation” was less significant. Final consumption of general government recorded a modest increase (0.3 percent) and thus did not cause significant changes in GDP growth. The exports rose by 12.8 percent, stimulated by the economic recovery of Moldova's main trading partners. However, the export growth was surpassed by that of imports that rose by 13.7 percent compared with 2009, due to the increased domestic demand. Thus, the imports have dropped a considerable part of the positive contribution of the components above mentioned. Thus, a significant portion of domestic demand is directed towards goods from outside, due to lower competitiveness of domestic products, which constitute a major impediment to economic recovery in Moldova.

By categories of resources (Chart no. 1.2), the positive developments in all sectors have helped the economy to emerge from crisis. The largest contribution to GDP growth comes from net taxes increase on

Chart no. 1.3. Contribution of household final consumption components, percentage points



Source: NBS, NBM calculations

products by 11.6 percent. The gross value added increased by 6.1 percent in 2010, as a result of “goods” and “services” components increase by 7.8 and 6.2 percent respectively compared with 2009. After several periods of negative development, a significant positive contribution from industry has been recorded in 2010, which grew by 8.1 percent, but this component was affected the most by the crisis and has not yet reached the level of 2008. Agriculture grew by 7.2 percent compared with 2009. Construction, after severe decline of 2009, with an increase of just 7.3 percent in 2010, is another sector that has not yet reached the level before the economic crisis. The most significant contributions to GDP growth in the reference period are generated by the development of trade, transport and communications that have increased by 8.9 and 11.0 percent respectively compared with 2009.

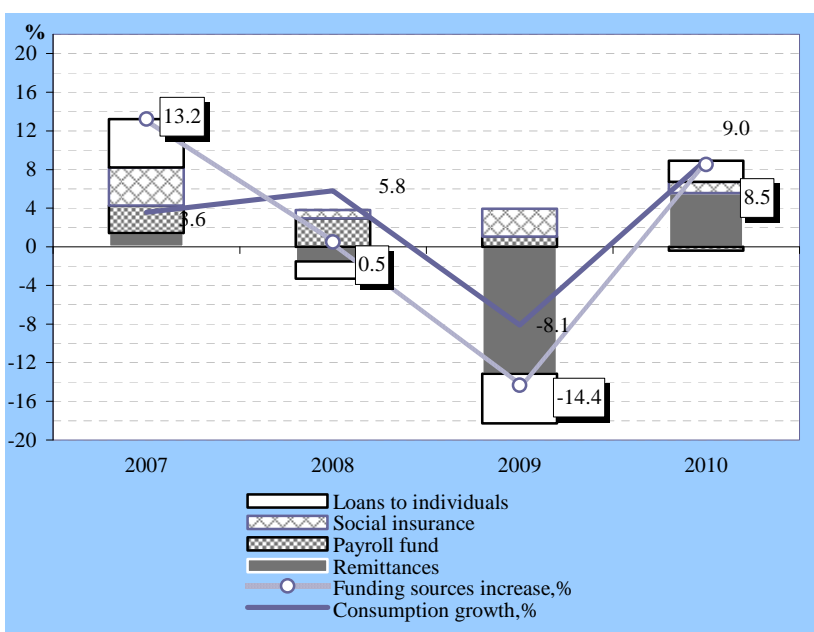
transport and communications that have increased by 8.9 and 11.0 percent respectively compared with 2009.

Household final consumption

The increase of domestic demand was the main factor of economic growth during 2010. Thus, the household final consumption growth constituted 9.0 percent compared to 2009, as a result of its funding sources increase and of the restoration of people's expectations regarding the development of the national economy. Thus, its increase generated a significant contribution to GDP growth.

The expenditure related to the procurement for final consumption goods increased by 10.7 percent and has contributed the most to the growth in household consumption in 2010. This development is due mainly to the increase in non-food retail sales, which with a share of 68.1 percent of total sales, rose by 11.2 percent in 2010 as compared to the previous year. However, the expenditure related to the procurement of services recorded an increase in real terms of 7.6 percent, but their influence on final consumption growth was more modest. The final consumption growth was also determined by the increase of final consumption of goods and services in kind by 6.0 percent compared to 2009. This evolution was mainly due to gross agricultural output growth in households. It rose by 7.9 percent in 2010 compared to 2009.

Chart no. 1.4. Contribution of funding sources to the growth of real household consumption, percentage points



Source: NBS, NBM calculations

contributed the most to the growth in household consumption in 2010. This development is due mainly to the increase in non-food retail sales, which with a share of 68.1 percent of total sales, rose by 11.2 percent in 2010 as compared to the previous year. However, the expenditure related to the procurement of services recorded an increase in real terms of 7.6 percent, but their influence on final consumption growth was more modest. The final consumption growth was also determined by the increase of final consumption of goods and services in kind by 6.0 percent compared to 2009. This evolution was mainly due to gross agricultural output growth in households. It rose by 7.9 percent in 2010 compared to 2009.

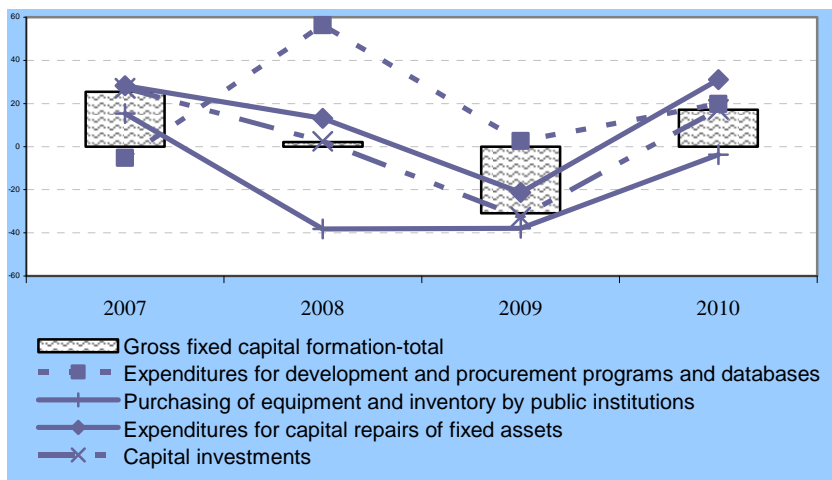
Household consumption increase was mainly driven by the growth of its main funding sources¹ (Chart no. 1.4). Thus, in 2010 they have reflected an upward dynamic, registering an increase of 8.5 percent in real terms² compared to 2009, mainly due to the increase in remittances by 17.4 percent compared to 2009. At the same time, a significant positive contribution was generated by the increase of 72.6 percent of new loans to households. Social insurance payments volume grew by 5.8 percent, but its contribution to the development of funding sources of consumption in the reference period was insignificant. The main funding source, in the analyzed period, remains to be the total labor cost (wage fund) with a share of 41.4 percent of total funding sources. The total labor cost recorded a decrease of only 0.9 percent in real terms, generating a slight negative contribution to the funding sources growth.

Gross capital formation

Gross capital formation increased in real terms by 18.7 percent in 2010 compared to the previous year, after the strong decline registered in 2009.

In 2010, the gross fixed capital formation increased in real terms by 17.2 percent compared to the previous year. The positive growth rate of gross fixed capital formation indicates that the investment process is recovering and the investors' optimistic expectations about the future development of the country's economic situation are restoring.

Chart no. 1.5. Gross fixed capital formation (% versus the same period of the previous year)



Source: NBS, NBM calculations

development and procurement of programs and databases” and “expenditure for general overhaul of fixed assets”. At the same time, the “procurement of equipment and inventory by budget institutions” and the component “other³” decreased but their contribution to the evolution of gross capital formation was insignificant (Chart no .1.5).

Investment in fixed capital

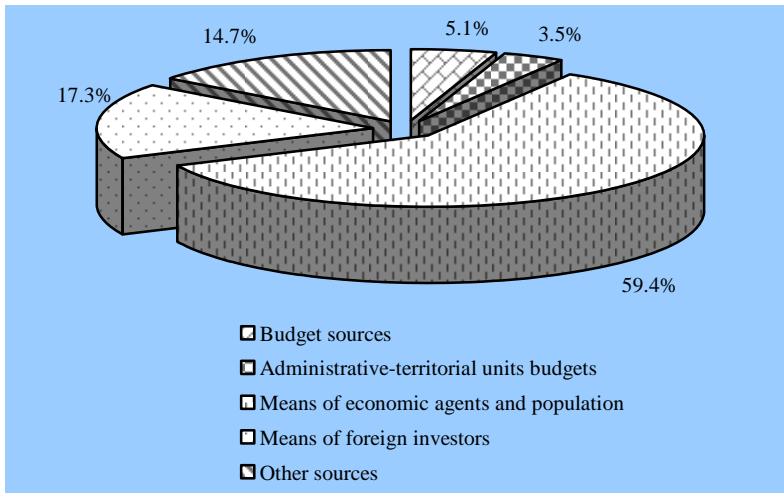
In 2010, the investments in fixed assets by enterprises and organizations at the expense of all funding sources have increased in real terms by 16.7 percent compared to the previous year.

Construction and assembly works in the total investment represented 50.1 percent of total investment. Compared with 2009, the volume of total investment rose in real terms by 7.4 percent.

Main financing sources of investment activity (Chart no. 1.6) remain to be the economic agents and population’s own means (59.4 percent), which increased in real terms by 20.0 percent compared to the same period last year. Foreign investment is another important financing source of investment in fixed capital,

¹ Main funding sources are approximated by the sum of the wage funds, social transfers, transfers in the form of remittances of workers from abroad
² In 2000 prices
³ Amount of the components “fixed capital value growth in cattle”, “inventories variation of unmounted equipment”, “procurement of books for libraries”, “expenditure for geological prospecting” and “procurement of literary and artistic original books”

Chart no. 1.6. Structure of investments in fixed capital by funding sources in 2010



Source: NBS

previous year. The share of investment in fixed capital used to purchase equipment, machinery and vehicles accounted for 43.1 percent of total used funds.

Within the structure of investment in fixed capital by ownership, 33.5 percent are attributed to economic agents with public ownership, the major share (66.5 percent) being attributed to non-state economic sector of national economy, which achieved about 62.6 percent of total volume of construction and assembly works and 100.0 percent of dwellings in service.

Agricultural production

According to the information provided by the National Bureau of Statistics, the gross agricultural output in all categories of households increased by 7.9 percent in 2010 compared to the same period last year. This was due to increased livestock production by 13.6 percent and vegetable production by 5.2 percent.

In 2010, the state of the livestock sector has been driven by positive growth trends of animal production in most types of products. Thus, during the reference period, the production of “cattle and poultry” increased by 21.4 percent, as the productivity and average herd of cattle and poultry has increased. Also in 2010, the production of eggs and milk increased by 13.1 and 2.0 percent respectively compared to the previous year, contributing to increase in livestock production by 0.7 percentage points.

It should be mentioned that the increase in vegetative production in 2010, compared to 2009, was driven both by increasing the sown areas and increasing the average yield of major crops. Thus, the largest vegetable production volume increases were recorded for sugar beet cultivation and collection (2.4 times), soya (2.3 times), sunflower (34.1 percent) and maize grain (24.6 percent).

Industrial production

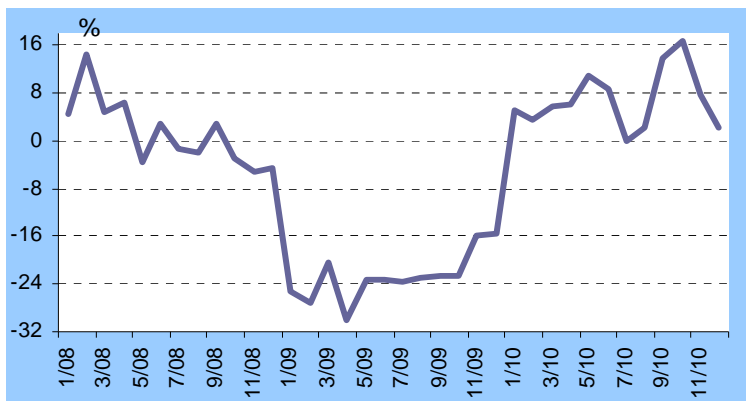
In January-December 2010, according to data provided by the National Bureau of Statistics, the industrial production in all forms of property has increased in real terms by 7.0 percent compared to the same period last year.

The increase in industrial output was determined by the increase in manufacturing output by 8.0 percent, in extractive industry by 5.6 percent and in the energy sector by 1.0 percent, as compared to 2009.

constituting 17.3 percent and fell by 6.2 percent compared to 2009. At the expense of budgetary means (both from the state budget and administrative-territorial units) were made 8.5 percent of total fixed capital investment.

The specific structure of fixed capital investment for a major share was focused on construction of buildings and edifices, which accounted for 39.9 percent of the total volume of acquired investments (including 17.6 percent - residential buildings). Investment for construction of residential buildings rose by 19.4 percent, and investment for construction of buildings for purpose other than housing and edifices were reduced by 4.8 percent compared to the

Chart no. 1.7. The evolution of industrial output in real terms (% , compared to the previous year)



Source: NBS

the analyzed period, compared with the same period of 2009, there were recorded reductions in production volume of the following components: “manufacture of vegetable and animal oils and fats”, “manufacture of fabricated metal products, except machinery and equipment” and “production of rubber and plastic articles”, which have reduced the annual rate of overall production index by 0.6, 0.3 and 0.2 percentage points, respectively.

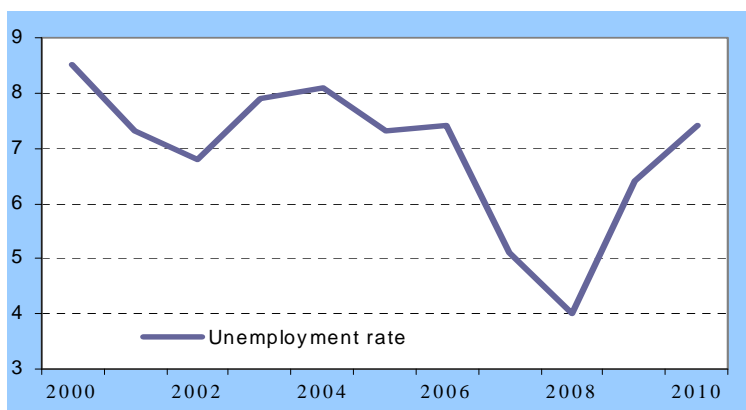
Labor market

Work force

Indicators published by the NBS for 2010 reflect deterioration in the labor market situation in Moldova compared with 2009. Thus, the economically active population declined by 2.4 percent compared to the previous year. At the same time, the number of people employed in this period declined by 3.5 percent compared to 2009, which is determined by the decrease of population employed in agriculture, industry and construction. Within the structure of the active population, the employment share constituted 92.6 percent, decreasing by 1.0 percentage points compared to the previous year, which contributed to the increase of unemployment at the country level up to 7.4 percent. This situation on the labor market indicates a delay in the process of creating new jobs in Moldova's economy, despite the economic signals of the current year on the economic recovery.

The information contained in the Beveridge curve reveals an increase in the number of registered unemployed of about 11.0 thousand people in 2010 compared to the previous year. The number of vacancies fell by 2200 jobs. The number of unemployed has increased by 40300 persons, while the number of vacancies fell by 5700 jobs, compared with 2008, the period before the economic crisis. This shows a lack of flexibility in the labor market in Moldova, and also a significant gap between the professional qualifications of the unemployed and the professional requirements of the available jobs. Another reason for this situation lies in the unwillingness of the unemployed to take into account the available options because of low wages.

Chart no. 1.8. The evolution of unemployment rate, %



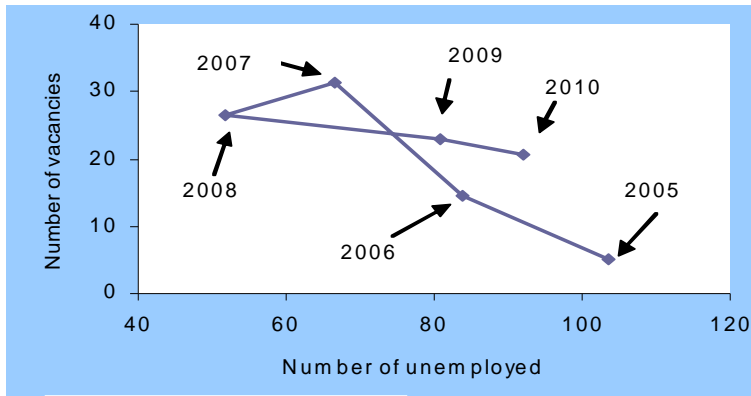
Source: NBS, NBM calculations

The increase in manufacturing output was determined by the increase of industrial production in the following activities: “food and beverages”, “manufacture of wearing apparel, dressing and dyeing of fur”, “production of tobacco items” and “production of leather, leather articles and footwear”, which have contributed to the increase of industrial production by 3.5, 0.9, 0.6 and 0.4 percentage points, respectively.

The high degree of influence in the food and beverage industry was due to the increase of 2.5 times of the volume of sugar produced in the respective period, driven by triple sugar beet harvest in 2010. At the same time, during

vacancies fell by 2200 jobs. The number of unemployed has increased by 40300 persons, while the number of vacancies fell by 5700 jobs, compared with 2008, the period before the economic crisis. This shows a lack of flexibility in the labor market in Moldova, and also a significant gap between the professional qualifications of the unemployed and the professional requirements of the available jobs. Another reason for this situation lies in the unwillingness of the unemployed to take into account the available options because of low wages.

Chart no. 1.9. Beveridge curve, thousands persons



Source: NBS, NBM calculations

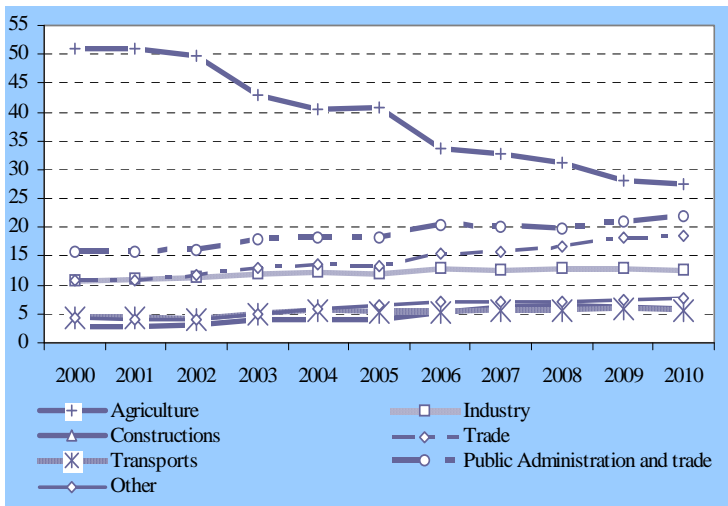
Within the distribution by the activities of the national economy, the largest concentration of population employed is registered in agriculture. Its share was 27.5 percent in 2010, decreasing by 0.7 percentage points compared with last year and recorded a downward trend in the recent years. The percentage of persons employed in “public administration, education, health and social welfare” and “trade” has increased compared to 2009, recording values of 0.9 and 0.3 percent respectively. The share of employment in “construction” and “industry” has decreased as compared to the last year, recording values of 5.9 and 12.8 percent

respectively. The “transport and communications” sector has the lowest concentration of the employed population, and its share in 2010 was 5.6 percent.

Wages

According to the National Bureau of Statistics, the average wage of a worker in the national economy in 2010 amounted to 2971.7 lei, increasing by 8.2 percent, while in real terms recorded an increase of 0.7 percent compared to the previous year.

Chart no. 1.10. Distribution of employed persons by the activities of national economy, %



Source: NBS, NBM calculations

The greatest increase in average real wage in 2010 was made in the field of financial activity, where the growth was 5.2 percent compared to 2009. Construction, health and social welfare are two fields that have experienced the largest reductions in real average wages - minus 1.1 percent for each field. The construction sector has outlined a less favorable outlook due to low activity of this branch (the number of housing put into use in 2010 is less compared to 2009). The most significant share of Moldova's population works in agriculture, the annual growth rate of real wages in this sector recorded a 3.9 percent increase compared to the previous year, a fact explained by the increase in agricultural production in 2010. Emoluments received by employees of

educational institutions recorded an increase of 2.9 percent in real terms compared to 2009. Analyzing the average nominal wages of “agriculture” and “education” activities, it was found values below the average in the country. The industrial sector also recorded increases in the average real wages by 1.9 percent compared to the previous year, largely due to the rebound in industrial sectors, particularly in manufacturing, electricity, heating, gas and water supply. In 2010, the number of employees in industry decreased by 4079 persons compared to 2009, which means that employment fell by 4.0 percent, while the industrial production rose by 7.0 percent. In 2010, labor productivity in industry increased in annual terms by 11.5 percent, due to the recovery of some industrial sectors: extractive industry (extraction of sand, clay and gravel), manufacturing (meat production, sugar production), chemical industry, machinery and equipment manufacturing.

1.2 Inflation

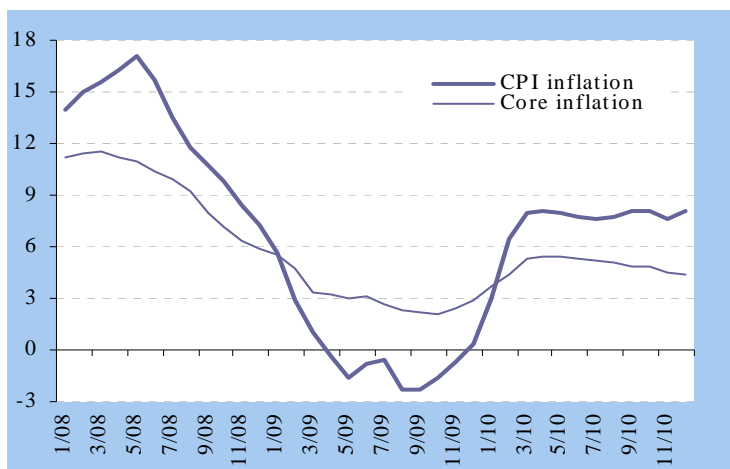
Consumer price index

In 2010, the CPI inflation has been influenced by the following factors:

- Increases in tariffs for electricity, gas and heating supply conducted in January and May.
- The evolution of domestic currency on the foreign exchange market against major currencies of reference - the U.S. dollar and euro.
- Deviation from the norm of climatic conditions and fluctuations in food prices worldwide, which led to significant increases in food prices.
- Increase in international oil prices, which generated increased import prices for petroleum products.
- Increased excise duties on petroleum products recorded at the beginning of 2010.
- Second-round effects caused by increases in tariffs and fuel prices, which have conditioned the growth of goods and services related to core inflation.
- Recovery of economic activity both internally and externally (aggregate demand).

As a result of pressures, mainly inflationary, exerted by these factors, the annual rate of inflation in December 2010 constituted 8.1 percent. Within the structure of inflation by components, the highest increase, as compared to December 2009, was recorded for services (9.7 percent), followed by non-food prices (by 7.7 percent), while food prices have recorded an increase of 7.1 percent.

Chart no. 1.11. The annual rate of CPI and core inflation, %



Source: NBS

On the other hand, the annual rate of core inflation⁴ was 4.4 percent in December 2010, with a difference of 3.7 percentage points compared with the CPI inflation rate, which reveals the increasing contribution of non-monetary factors in prices increase (Chart no. 1.11). In this respect, the regulated prices, fuel and food prices had important contributions, which are influenced by the prices of goods on world markets and weather conditions, factors that can not be controlled by monetary policy actions of the National Bank Moldova.

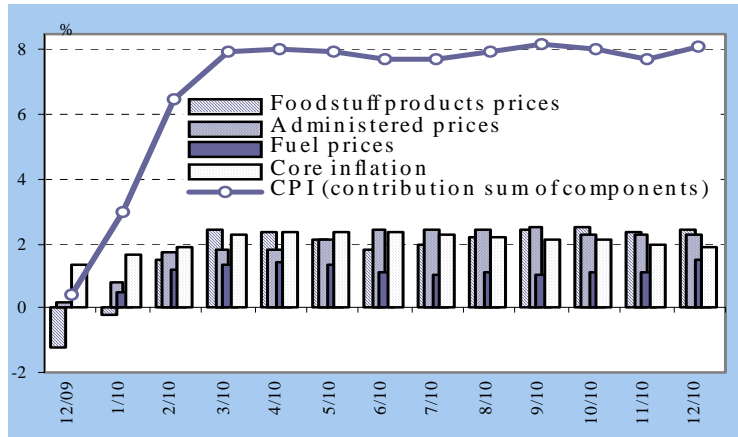
Thus, food prices (2.5 percentage points) have contributed the most to the formation of annual inflation rate in December 2010, as a result of weather deviations from the norm during the year and food price fluctuations on the world market. At the same time, the regulated prices had a major contribution (2.2 percentage points), as a result of changes in tariffs for services with regulated prices (gas, electricity, heating) made in January and May. The fluctuations in oil prices on the world market and exchange rate developments of December 2010 have led to fuel prices increase, which have contributed to annual inflation by 1.5 percentage points. Increase in fuel prices resulted in increased contribution of this component compared with previous periods. The increase in core inflation has contributed with 1.9 percentage points to the formation of CPI inflation (Chart no. 1.12).

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

Core inflation index⁵

For the third consecutive quarter, the annual rate of core inflation continued its downward evolution started in the first half of the year, so that it fell from 5.4 percent in May to 4.4 percent in December 2010 (Chart no. 1.12.).

Chart no. 1.12. The evolution of annual inflation and subcomponents contribution, %



Source: NBS

By groups of goods, clothing, catering and medicines had the largest contributions, whose prices in December rose by 3.4, 9.5 and 5.4 percent, respectively compared with December 2009. The price increases of components “detergents” (by 6.9 percent), “footwear” (by 3.1 percent) and “building materials” (by 3.2 percent) had significant contributions, but of a lower amplitude, as compared with December 2009.

On one hand, this development was driven mainly by the second-round effects, as a result of higher fuel and food prices, which led to

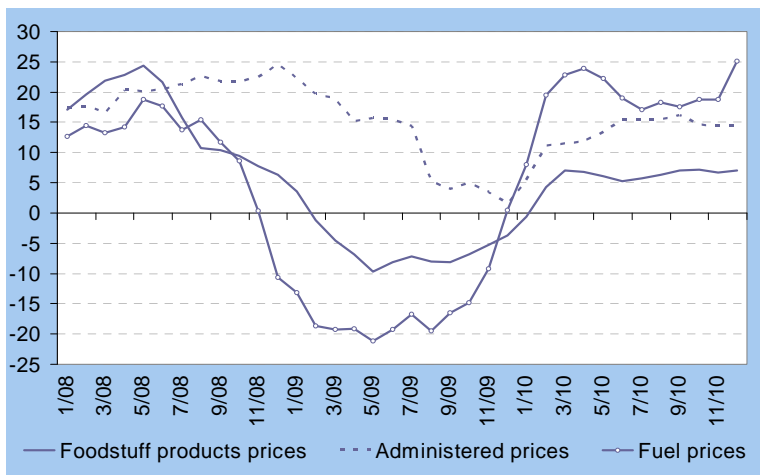
increased transport and production costs. On the other hand, the inflationary pressures on goods and services, included in the calculation of core inflation, have been exercised by the depreciation of national currency against the currencies of major trading partners of 2010 compared with 2009, which influenced the purchase price of many goods of this component.

Food prices

In the first quarter of 2010, the food prices has recorded an increase in annual growth rate (from minus 0.6 percent in January to 7.0 percent in March), (Chart no. 1.13).

Vegetables and sugar had a significant contribution to this increase. The main factors that caused the

Chart no. 1.13. The annual rate of inflation subcomponents, %



Source: NBS

increase in sugar prices have been the increasing prices in the region and the fuel price increase in January and February. The price of vegetables has been affected by severe weather conditions at the beginning of the year, which led to higher storage costs. The annual rate decreased in summer reaching a minimum rate of 5.3 percent, as a result of reduced contribution from vegetables and lower prices for potatoes and eggs, which were determined by favorable weather conditions and production volume increase. In the last four months, the annual growth of food prices has fluctuated around 7.0 percent. During this period, “milk and dairy products”, “vegetable oil”, “vegetables” and “miller’s products” components had significant contributions to the annual rate increase. Vegetable oil price increase was determined by higher raw material prices, triggered by the small harvest of the Black Sea region. An important factor that led to increase in price of “milk and dairy products” was the fuel price increase in

⁵ Index calculated by the method of exclusion (food, fuel, products and services with administered prices were excluded), based on the CPI calculated by the National Bureau of Statistics of the Republic of Moldova.

December, directly affecting the transport costs, but at the same time, the purchase price of raw materials has increased. The fresh vegetables prices increase was influenced both by lower production volumes and colder weather. The “miller’s products” prices increase was influenced by increased fuel prices and the effects of heavy rainfall during the harvest period, which affected the quality and volume of the wheat harvest. However, the food prices increase on the domestic market was influenced by the upward trend in world prices.

Regulated prices

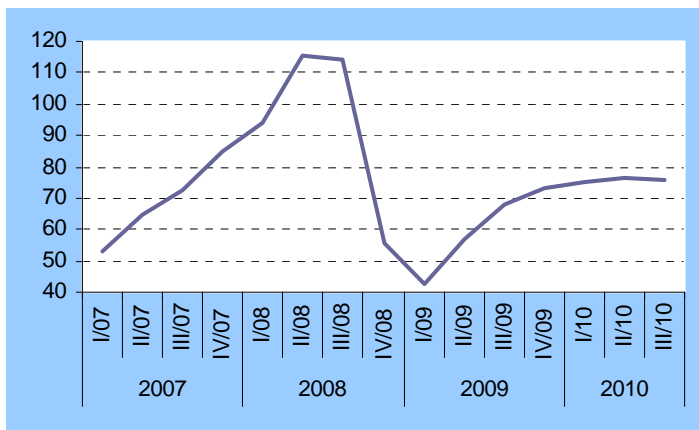
The annual rate of price increase for services with regulated prices recorded an increase in 2010 from 5.5 percent in January to 14.4 percent in December. This increase was driven by increases in tariffs made in January and May, the main cause being the increase in gas import prices, resulting in further increase in prices of related services. In this regard, in January 2010, as a result of higher purchase price of natural gas from Gazprom (the Russian Federation), the electricity purchased from Cuciurgan, and as a result of the influence of other objective factors on the costs borne by enterprises from energy sector, the Administrative Board of the National Agency for Energy Regulation (ANRE) has decided to increase the heating tariffs for city residents by almost 30.0 percent. Simultaneously, tariffs for electricity and gas have increased - on average by 20.0 and 14.0 percent respectively. In May, the price for natural gas has increased by over 13.0 percent and for heating by more than 15.0 percent.

Within the structure, in December 2010, the biggest contributions to higher prices for services regulated in annual terms were determined by the prices increase in electricity and natural gas supplied through the national grid with 20.4 percent and 26.2 percent respectively. The increase of centralized heating tariffs in annual terms by 25.3 percent had a significant contribution. Passenger transport has experienced a more modest increase (3.4 percent) in December 2010 compared with same the period last year, so that had a smaller contribution to the evolution of the above-mentioned indicator.

Fuel prices

Fuel prices rose by 25.1 percent in December 2010 compared with December 2009, which is determined mainly by the rising price of petroleum products on international markets. Thus, the price of Urals brand oil reached weekly values over U.S. \$ 90.0 a barrel in December, registering the maximum value in the last 26 months. These developments in international markets have created prerequisites for the increase in import prices of petroleum products on the domestic market. However, the dynamics of fuel prices on domestic market was influenced by the developments on the domestic foreign exchange market. The increase in excise duty on petroleum products at the beginning of 2009 constituted another cause that led to fuel price increase in annual terms.

Chart no. 1.14. Fuel price evolution (U.S. dollars per barrel)¹



¹ Source: NBM, Energy Information Administration (Official statistics of the government of the USA).

Within the structure of fuel prices increase, the increases in earth coal (by 22.2 percent) and fuel (by 25.7 percent) in December 2010 compared to December 2009 had the largest contributions to this dynamic. The bottled gas price increase of 29.8 percent had a smaller contribution.

Oil prices

Restoration of global oil markets after the crisis of 2009 was faster and stronger, mainly due to improving the macroeconomic situation in the countries of Asia and the U.S.A., which contributed to raising the oil futures quotes. Taking into account the volatility of oil prices, it should be mentioned that the following contradictory factors impact had a significant

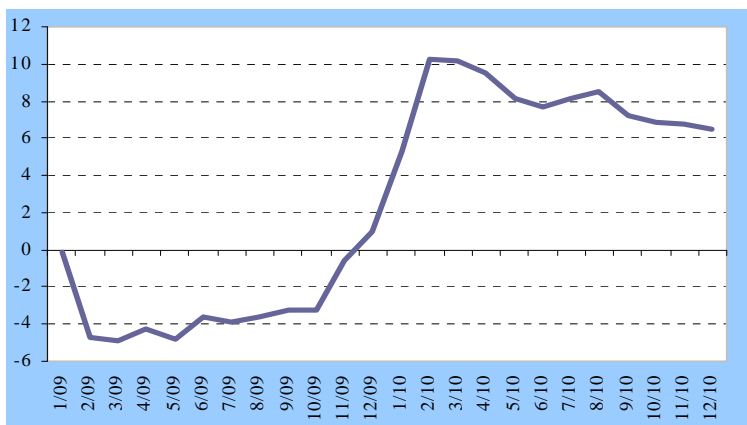
contribution: the tense situation in the U.S. oil market, sustainable growth in oil demand from China, creating oil reserves in some countries.

In 2010, the global demand for oil was 87.9 million barrels per day, increasing by 3.4 percent compared to 2009⁶. The upward trend of oil demand growth contributed to the increase in oil price (Urals brand). Thus, the average oil price constituted 78.0 U.S. dollar/barrel in 2010, recording an increase of 29.2 percent compared to 2009. However, the oil market was influenced by the dynamics of U.S. dollar exchange rate against the major world currencies, affecting the prices of petroleum products denominated in U.S. dollars. Global price increases in oil prices caused the Platt's price increase on petrol and diesel. Therefore, Platt's annual average price for gasoline rose by 25.6 percent, and Platt's annual average price for diesel increased by 28.7 percent. In 2010, the average retail price of gasoline has increased by 32.3 percent, Diesel oil - by 25 percent, and liquefied gas – by 10.4 percent⁷, as compared to 2009.

Industrial production price index

According to the NBS, the annual industrial producer price index had a downward trend during 2010,

Chart no. 1.15. The annual rate of IPPI, %

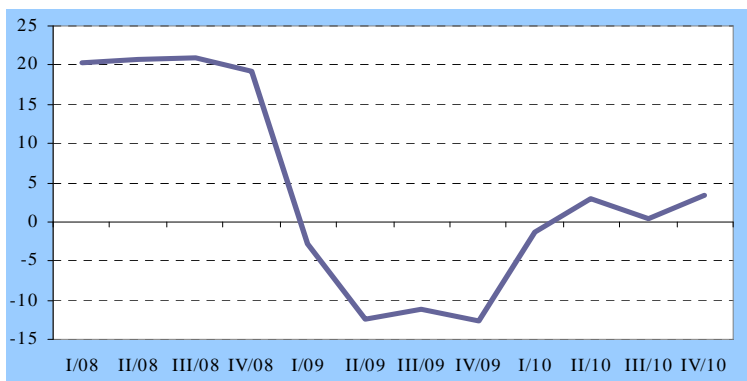


Source: NBS

constituting 6.5 percent in December 2010 (Chart no. 1.15). Within the structure, the largest increase was recorded in the prices of the energy industry - by 18.4 percent higher compared with December 2009, while the prices in manufacturing and extractive industry have registered similar growth rates in annual terms (by 4.4 percent and 4.9 percent). The industrial production prices increases in annual terms was driven by higher prices for raw materials and food products in international markets and the exchange rate of MDL against the currencies of major trading partners of Moldova.

Construction prices

Chart no. 1.16. Evolution of construction price index (% , compared to the same period of previous year)



Source: NBS

In the last three quarters of 2010, the annual rate of price increase in construction has returned to a positive track after a period of more than a year of negative values as a result of global economic crisis on the construction sector of the Republic of Moldova. According to the National Bureau of Statistics, prices of construction and assembly in the fourth quarter of 2010 rose by 3.5 percent compared with the same period of 2009.

Within the structure, by national economy sectors, the biggest price increases in the fourth quarter of 2010 compared to the same period of 2009 were recorded in construction

and assembly works in telecommunications (17.4 percent), other constructions (9.7 percent), electrical power (9.5 percent) and forestry and wood processing industry (6.8 percent).

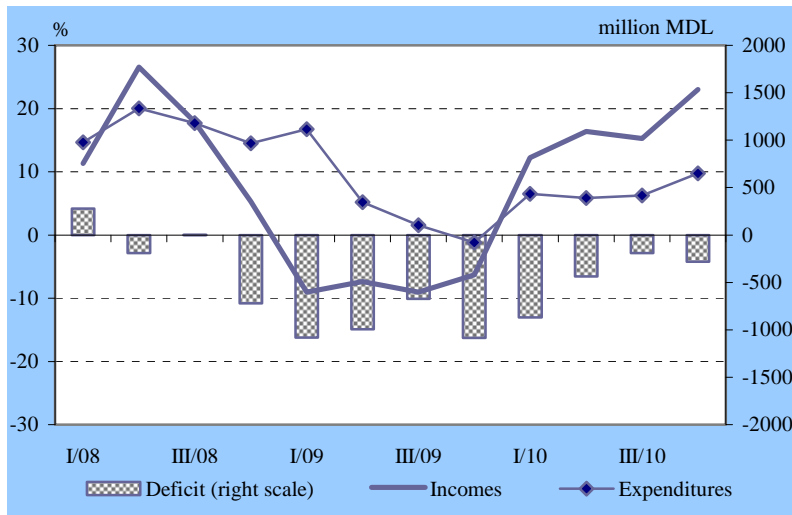
⁶ <http://omrpublic.iea.org/currentissues/Russ.pdf>

⁷ ANRE, Report on oil market of the Republic of Moldova in 2010

1.3 Financial situation⁸

After a year of recession, the 2010 year was characterized by a more pronounced economic recovery. As a result of undertaken actions, during the reference period, in all sectors of national economy was recorded an increase, the business environment has been improved and the public sector has become more efficient, which had a direct impact on the collection of revenues. As the public revenues are highly dependent on the economic activity and household final consumption, the domestic demand has had a positive impact on the budget.

Chart no. 1.17. Indicators of national public budget



Source: Ministry of Finance, NBM calculations

According to the information provided by the Ministry of Finance during January - December 2010, the revenue growth in the budget recorded an upward trend, registering an annual growth rate of 17.1 percent (up to the level of 27550.9 million lei), being on a positive track as compared to 2009 (Chart no. 1.17).

The collected revenue to GDP for 2010 constituted 38.3 percent or 0.6 percentage points less than in 2009.

In the recent years, the budget dependence on household consumption continued to increase due to increase in the share of indirect taxes in total government revenue, while the increase

in imports has led to increased accumulation of financial resources for national public budget from payment of import duties. Tax revenues continue to hold the major part of revenues, the main source of income remained to be, as in previous years, the domestic taxes on goods and services, including the revenues accruing from VAT. However, the share of direct tax revenue has declined starting with 2008 due to the implementation of a “zero” income tax return for reinvested profit of legal persons, peasant households (farms) and private entrepreneurs. However, the latest information of the Ministry of Finance shows that taxes on income in January - December 2010 rose by 6.3 percent compared to the same period of the previous year, and the domestic taxes on goods and services - by 23.0 percent. The national insurance contributions, increasing by 7.1 percent versus the previous year, had a significant contribution to revenue increase. As a result of these indicators increase, the tax revenues increased by 15.4 percent.

Unlocking the financial assistance programs in 2009, from development partners, has allowed the budget to attract in 2010 financial support in the form of external grants - totaling U.S. \$ 153.3 million (1904.8 million) and loans - totaling U.S. \$ 212.0 million (2619.2 million). The assistance provided to Moldova by international financial organizations and donor countries constitutes a substantial contribution and is crucial to the economic recovery and to the implementation of reforms needed to modernize and re-launch the Republic of Moldova.

During January - December 2010, the allocation dynamic of budget expenditures registered an upward trend, noting an annual rate of 7.2 percent (the level of 29328.9 billion lei.) compared to 2009. The increase of expenditure volume was mostly determined by the expenditure increase on education (16.0 percent), insurance and social assistance (12.8 percent), and on health care (3.9 percent).

⁸ Based on preliminary information of the Ministry of Finance of the Republic of Moldova



Within the structure of the major public expenditure, for social-cultural programs were directed – 73.0 percent, for national economy – 10.9 percent, for defense, public order and national security - 5.3 percent, and for government service general purpose - 4.6 percent.

Public expenditure to GDP is 40.8 percent or 4.5 percentage points less than in 2009.

In the context of recovery of economic activity in Moldova, the major components of the general government were characterized by upward trends such as expenditure increase and greater total revenues. Thus, in January-December 2010, the consolidated budget execution resulted in a deficit much smaller, and constituted (minus) 1.8 billion lei, compared to (minus) 3.8 billion lei in January-December 2009. This deficit relative to GDP is 2.5 percent or 3.8 percentage points less than in 2009.

On December 31, 2010, the state debt amounted to about 18870.8 million lei. As a share of estimated GDP, this represents 26.9 percent compared to 24.2 percent in 2009. The balance of external debt increased by 44.3 percent compared with the balance of U.S. \$ 1116.2 million recorded on January 1, 2010. This increase was caused largely by inflows of foreign loans, which exceeded the repayments of external loans of about U.S. \$ 166.1 million. Domestic state debt increased by 3.9 percent and accounted for MDL 5304.9 million compared with the situation at the beginning of the year. The modification of internal debt occurred exclusively at the expense of raising the issue of state securities.

1.4 Balance of Payments of the Republic of Moldova for 2010 (preliminary data)

Table no. 1.1. Balance of payment of Moldova (main aggregates) (USD, million)

	2008	2009	2010
CURRENT ACCOUNT	-987.13	-464.61	-482.27
Goods and services	-3224.53	-1988.17	-2259.19
Goods	-3223.17	-1944.19	-2178.88
Export (FOB)	1645.97	1331.57	1631.08
Import (FOB), including: energy (excluding electricity)	-4869.14	-3275.76	-3809.96
	-903.24	-652.99	-732.77
Services	-1.36	-43.98	-80.31
Export	837.28	668.88	689.79
Import	-838.64	-712.86	-770.10
Income	598.60	302.93	471.17
inflow, of which:	905.01	590.00	741.25
compensation of residents from abroad labor	842.00	563.42	722.82
outflow, of which:	-306.41	-287.07	-270.08
dividends and branches distributed profits	-37.84	-136.85	-124.47
reinvested income and branches undistributed profit	-98.70	11.56	-22.05
interest on loans	-73.22	-83.80	-57.96
Current transfers	1638.80	1220.63	1305.75
inflow, of which:	1750.29	1323.99	1391.15
personal transfers	1046.02	635.21	635.03
outflow	-111.49	-103.36	-85.40
CAPITAL AND FINANCIAL ACCOUNT	900.97	406.84	411.40
Capital transfers	-14.61	-17.54	-28.36
Direct investment	696.69	121.08	195.40
of which: in the national economy	712.77	127.84	198.90
equity capital and reinvested earnings	540.40	150.00	175.72
intragroup loans	172.37	-22.16	23.18
Portfolio investment	6.38	-5.82	5.64
Assets *	-0.04	-0.25	-0.20
equity securities	-0.03	-0.25	-0.20
debt securities	-0.01		
Liabilities **	6.42	-5.57	5.84
equity securities	11.36	2.39	5.84
debt commitments	-4.94	-7.96	
Financial derivatives –banks (net)	0.94	0.34	-0.63
Other investment	663.58	108.23	533.72
Assets *	52.14	-210.56	75.46
trade loans	76.30	44.86	21.24
currency and deposits	-25.96	-259.62	61.61
loans	1.80	4.20	-7.39
Liabilities **	611.44	318.79	458.26
trade loans	131.16	90.70	128.62
long-term loans	364.72	-9.88	253.33
usage	702.23	308.87	607.29
reimbursement	-337.51	-318.75	-353.96
short-term loans	32.79	-48.90	29.73
deposits of non-residents within the national banking system	53.12	-46.64	-69.59
other liabilities	29.65	149.31	116.17
SDR allocation		184.20	
Reserve assets *	-452.01	200.55	-294.37
Errors and omissions	86.16	57.77	70.87
Informative:			
Foreign money transfers for individuals through banks from Moldova	1660.09	1182.02	1244.14

*(-) increase, (+) decrease

** (+) increase, (-) decrease

and USD 3429.95 - private non-guaranteed debt.

Current account

Current account of the balance of payments registered a deficit balance in 2010 amounting to USD 482.27 million, the GDP share was 8.3 percent.

During 2010, the economic recovery of the partner countries led to increase in foreign demand for products exported from the Republic of Moldova.

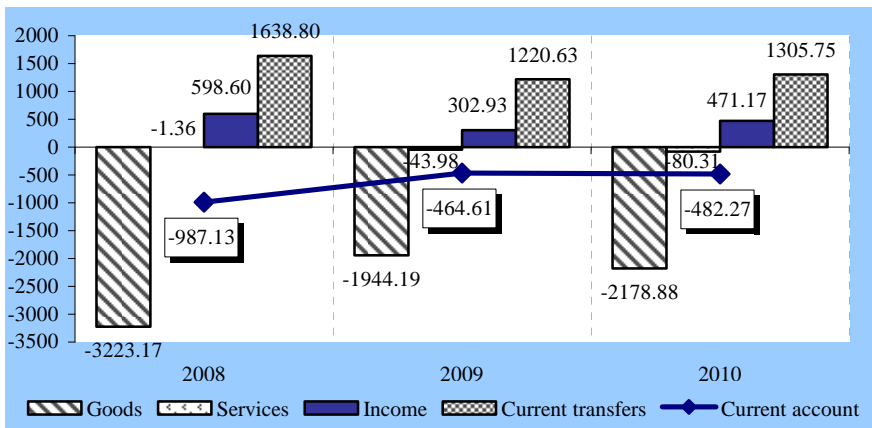
The *current account* of the balance of payment recorded a deficit of USD 482.27 million, increasing by 3.8 percent compared to the previous year. It should be mentioned that the growth rate of *goods exports* was higher than the goods imports.

Capital and financial account of the balance of payments ended in 2010 with a surplus amounting to USD 411.40 million, determined by the foreign loans.

Moldova's *international investment position* at the end of 2010 remained net debtor and constituted USD 4546.43 million: the foreign commitments increased by USD 587.03 million and claims - by USD 132.96 million.

Moldova's *foreign debt* totaled USD 4778.72 million on December 31, 2010, of which USD 1348.77 million representing public and publicly guaranteed debt

Chart no. 1.18. Current account – main components (million, USD)

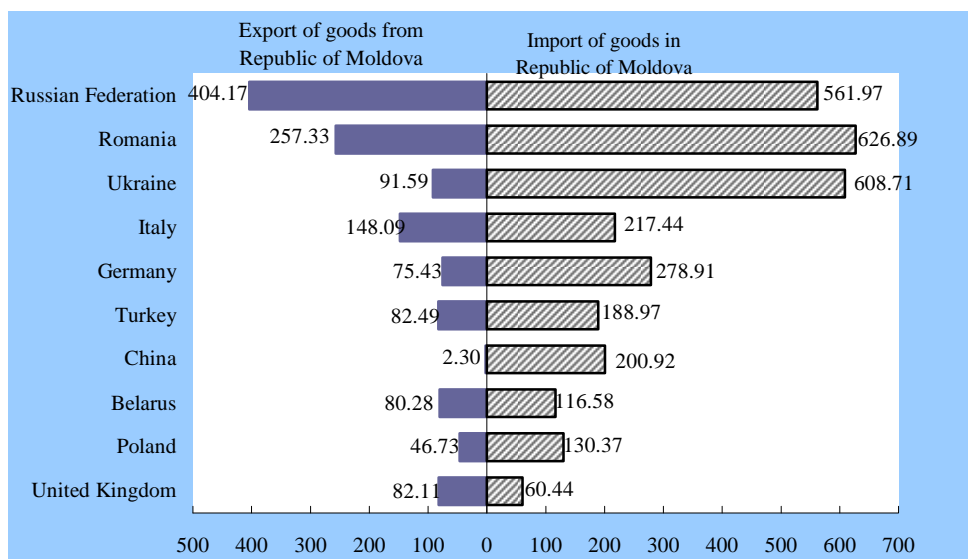


The evolution of current account deficit was driven by increased foreign trade in goods (Chart no. 1.18). Its negative effect was partly offset by the cumulative surplus of current transfers, which covered the foreign trade deficit in goods and services at a rate of 78.7 percent.

In 2010, the volume of *foreign trade in goods and services* increased by 15.2 percent compared to the previous year, the coverage of imports by exports constituted 50.7 percent.

Foreign trade in goods registered a growth both in exports (22.5 percent) and imports (16.3 percent), the exports totaled USD 1631.08 million and imports - USD 3809.96.

Chart no. 1.19. Main trading partners of the Republic of Moldova in 2010 (million, USD)



It should be mentioned that the trade deficit in absolute terms exceeded the exports of goods.

According to the National Bureau of Statistics (NBS)¹, Moldova's foreign trade with most of its trading partners recorded negative balances in 2010 (Chart no. 1.19).

Among the main countries of destination of goods in Moldova are: the Russian Federation, Romania, Italy, Ukraine, Turkey, United Kingdom, Belarus, Germany, Poland and

Kazakhstan. Cumulative volume of **exports** to these countries accounted for 82.1 percent of the total.

Within the structure of exports the following have prevailed: *agro-food products* – with a share of 48.8 percent, and *textile materials and articles thereof* - with a share of 16.9 percent.

Exports of agro-food products was USD 772.60 million, increasing by 26.8 percent compared to the previous year, of which: *alcoholic beverages* - USD 175.84 million, *edible fruits and nuts* - USD 167.62 million; *cereals* - USD 100.32 million.

Exports of alcoholic beverages rose by 11.8 percent compared with 2009, totaling USD 175.84 million (11.1 percent of total exports). *Wine exports* totaled USD 138.47 million and the *cognac exports* - USD

¹ The NBS data do not include the adjustments to the external trade in goods made by the Balance of Payments Division of the National Bank of Moldova, such as exports / imports of individuals, repair of goods, goods procured in ports by carriers, etc.. The imports are valued in c.i.f. prices by countries based on the principle of country of delivery.

32.71 million. The main markets remained to be Russian Federation, Belarus, Ukraine and Kazakhstan, it should be mentioned that the exports to China, USA, Czech Republic and Azerbaijan have increased.

Total export value of *textile materials and articles thereof* constituted USD 267.69 million, of which: *apparel and clothing accessories* accounted for USD 229.04 million, *carpets and other floor coverings* - USD 24.13 million.

Other significant exports were: *machinery, appliances and electrical equipments* - USD 112.06 million; *pharmaceuticals* - USD 60.52 million, *base metals and articles thereof* - USD 58.26 million.

Exports of processed goods (lohn) - constituted USD 410.57 million, 26.0 percent of total exports, the main destination countries being Romania and Italy. It should be mentioned that the exports of processed goods in the United Kingdom increased by 27.6 percent, in Belgium - by 34.0 percent and Bulgaria – by 13.9 times.

According to the NBS, in 2010, the main suppliers of goods to the Republic of Moldova were: Romania, Ukraine, Russian Federation, Germany, Italy, China, Turkey, Poland, Belarus, Hungary, these countries have made up a share of 78.2 percent of total **imports**.

The imports of goods by sections, the *mineral products* held the major share (20.9 percent), whose import was USD 807.10 million, of which: *petroleum and oils obtained from bituminous minerals* totaled USD 417.14 million, while the *petroleum gas and other gaseous hydrocarbons* –USD 340.40 million.

Machinery and apparatus were imported in the value of USD 576.47 million, representing 15.0 percent of the total, of which *electrical telephone apparatus* were USD 78.96 million, *cable and other insulated electric conductors* - USD 64.49 million.

Significant values were also recorded for imports of: *products of chemical industry* - USD 404.33 million

(including *medicines* - USD 164.91 million), *food, beverages and tobacco* - USD 308.62 million, and *textile articles and thereof* - USD 282.33 million.

In 2010, the imports of *energy resources* rose by 12.2 percent compared with 2009 and amounted to USD 732.77 million (Table 1.2.). The main energy suppliers were Russian Federation (41.6 percent of total imported energy resources), Romania (26.5 percent), Ukraine (14.7 percent) and Belarus (6.3 percent).

In 2010, the **services balance** recorded a deficit amounting to USD 80.31 million (Table no. 1.3).

Table no. 1.2. Imports of energy resources (f.o.b. prices)

	Unit of measure	2008	2009	2010	Share in total	2010
					of 2010	versus 2009
%						
Energy resources - total	(USD, mil.)	903.24	652.99	732.77	100.0	112.2
From CIS	(USD, mil.)	546.79	435.87	467.96	63.9	107.4
Coal	(USD, mil.) (thou, tons)	19.28 148.50	10.48 132.88	19.53 179.61	2.7	186.4 135.2
Natural gas	(USD, mil.) (mil. m ³)	256.50 1,226.90	267.45 1,126.27	267.39 1,187.85	36.5	100.0 105.5
Fuel	(USD, mil.)	271.01	157.94	181.04	24.7	114.6
Fuel oil	(USD, mil.) (thou, tons)	6.35 14.00	14.25 45.83	8.90 18.01	1.2	62.5 39.3
Diesel	(USD, mil.) (thou, tons)	178.85 188.04	92.71 176.47	107.59 153.47	14.7	116.1 87.0
Automobile gasoline	(USD, mil.) (thou, tons)	18.69 21.70	11.52 21.30	7.12 10.35	1.0	61.8 48.6
Other	(USD, mil.)	67.12	39.46	57.43	7.8	145.5
From the rest of the world	(USD, mil.)	356.45	217.12	264.81	36.1	122.0
Coal	(USD, mil.) (thou, tons)	13.12 57.32	0.20 1.35	0.24 1.87	-	120.0 138.5
Fuel	(USD, mil.)	343.33	216.92	264.57	36.1	122.0
Fuel oil	(USD, mil.) (thou, tons)	0.60 0.77	0.22 0.42	0.15 0.24	-	68.2 57.1
Diesel	(USD, mil.) (thou, tons)	160.70 163.27	82.98 142.72	121.06 166.92	16.5	145.9 117.0
Automobile gasoline	(USD, mil.) (thou, tons)	167.06 189.75	123.81 196.53	133.22 174.19	18.2	107.6 88.6
Other	(USD, mil.)	14.97	9.91	10.14	1.4	102.3

Table no. 1.3. Services

	2008	2009	2010	2010 versus 2009
	USD millions			%
Balance of services	-1.36	-43.98	-80.31	182.6
<i>Exports</i>	837.28	668.88	689.79	103.1
<i>Imports</i>	-838.64	-712.86	-770.10	108.0
Transport	32.12	-3.29	-40.68	12.4 times
<i>Exports</i>	357.04	253.48	244.45	96.4
<i>Imports</i>	-324.92	-256.77	-285.13	111.0
Travel	-75.73	-74.75	-103.83	138.9
<i>Exports</i>	211.96	168.29	162.10	96.3
<i>Imports</i>	-287.69	-243.04	-265.93	109.4
Communication services	67.19	66.06	87.92	133.1
<i>Exports</i>	114.56	105.21	126.05	119.8
<i>Imports</i>	-47.37	-39.15	-38.13	97.4
Other services	-24.94	-32.00	-23.72	74.1
<i>Exports</i>	153.72	141.90	157.19	110.8
<i>Imports</i>	-178.66	-173.90	-180.91	104.0

Transport services have registered a negative balance amounting to USD 40.68 million: those provided for non-residents amounted to USD 244.45 million, while imports - USD 285.13 million.

Travel services balance recorded a deficit amounting to USD 103.83 million, by 38.9 percent higher compared with 2009, determined also by the adjustments made to the expenditure of migrants abroad.

Communication services registered a surplus of USD 87.92 million (an increase of 33.1 percent).

The **income balance** recorded a surplus amounting to USD 471.17 million.

Input value of income was USD 741.25

million, increasing by 25.6 percent compared with last year.

The income from residents working abroad was estimated at USD 722.82 million, which represents 97.5 percent of total revenue inflows. It should be mentioned the revenue from the Russian Federation and Ukraine have been adjusted following recent consultations with host countries (the previous periods will be adjusted in September 2011).

Investment income recorded a negative balance of USD 192.30 million.

The proposed payments for the interest related to: NBM loans - USD 0.55 million, government loans - USD 14.59 million, commercial banks - USD 10.60 and loans of companies from other sectors - USD 32.70 (including intra-group loans - USD 8.29 million).

Table no. 1.4. Current transfers

	2008	2009	2010	2010 versus 2009
	USD, millions			%
Balance of current transfers	1638.80	1220.63	1305.75	107.0
Credit	1750.29	1323.99	1391.15	105.1
Debit	-111.49	-103.36	-85.4	82.6
<i>Grants and technical assistance</i>	276.44	246.62	275.50	111.7
Credit	277.71	247.56	276.98	111.9
Debit	-1.27	-0.94	-1.48	157.4
<i>Education and staff trading</i>	35.40	28.47	42.02	147.6
Credit	35.68	28.96	42.72	147.5
Debit	-0.28	-0.49	-0.70	142.9
<i>Humanitarian aid</i>	59.37	21.42	40.97	191.3
Credit	59.41	21.43	40.99	191.3
Debit	-0.04	-0.01	-0.02	by 2.0 times
<i>Fees in international organizations</i>	-5.82	-5.00	-4.94	98.8
Credit	0.09	0.02	0.04	by 2.0 times
Debit	-5.91	-5.02	-4.98	99.2
<i>Worker's remittances</i>	1032.77	627.24	618.88	98.7
Credit	1046.02	635.21	635.03	100.0
Debit	-13.25	-7.97	-16.15	by 2.0 times
<i>Other current transfers</i>	240.64	301.88	333.32	110.4
Credit	331.38	390.81	395.39	101.2
Debit	-90.74	-88.93	-62.07	69.8

Dividends were paid to foreign investors in the amount of USD 127.11 million.

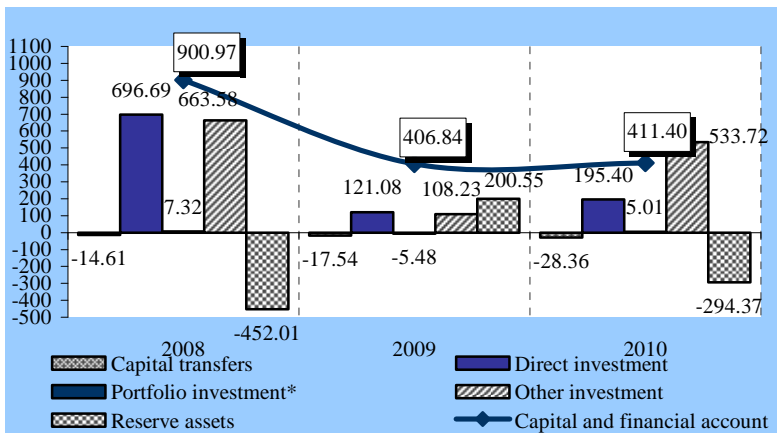
Current transfers recorded a surplus amounting to USD 1305.75 million, the inflows increasing by 5.1 percent (Table no. 1.4).

The value of grants and technical assistance given to Moldova by international organizations and foreign governments has been estimated at USD 276.98 million.

Humanitarian aid inflows recorded by customs statistics have been valued at USD 40.99 million, up by 91.3 percent compared with 2009.

Current transfers made by people working abroad for many years

Chart no. 1.20. Capital and financial account, main components (USD, millions)

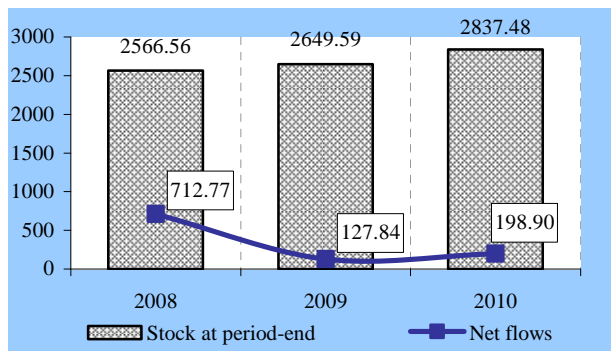


* including financial derivatives

Table no. 1.5. External assets and liabilities, net flow

	2008	2009	2010
	USD, millions		
Financial account	915.58	424.38	439.76
External assets	-416.05	-17.10	-223.24
Direct investment	-16.08	-6.76	-3.50
Portfolio investment	-0.04	-0.25	-0.20
Financial derivatives	-0.06	-0.08	-0.63
Other investments	52.14	-210.56	75.46
commercial credits	76.30	44.86	21.24
loans	1.80	4.20	-7.39
currency and deposits	-25.96	-259.62	61.61
Reserve assets	-452.01	200.55	-294.37
External liabilities	1331.63	441.48	663.00
Direct investment	712.77	127.84	198.90
Portfolio investment	6.42	-5.57	5.84
Financial derivatives	1.00	0.42	
Other investments	611.44	318.79	458.26
commercial credits	131.16	90.70	128.62
loans	397.51	-58.78	283.06
currency and deposits	53.12	-46.64	-69.59
other liabilities	29.65	149.31	116.17
SDR allocations		184.20	

Chart no. 1.21. Foreign direct investment in the national economy, annual growth rate (million USD)



investment per capita equaled to USD 797.0 million.

were estimated at USD 635.03 million compared to the previous year.

Membership fees in international organizations paid totaled USD 4.98 million.

Capital and Financial Account

Capital and financial account of balance of payments registered a surplus in 2010 amounting to USD 411.40 million (Chart no. 1.20).

Capital transfers recorded net outflows in the amount of EUR 28.36 million, mainly related to permanent residence emigration.

Financial operations have resulted in a surplus of EUR 439.76 million (Table no.

1.5). Foreign assets (receivables) increased primarily due to the growth of official reserve assets of the state. Foreign debts (liabilities) increased as a result of new loans attracted from outside the country, of FDI inflows in the national economy and as a result of providing commercial loans granted to domestic economic agents by the partners from abroad.

Inflows of foreign direct investment in the national economy constituted USD 360.48 million during 2010 (of which share capital - USD 183.05 million), remaining at the previous year level, while outflows were USD 161.58 million, less by 30.4 percent compared to the previous year (Table no. 1.6).

The reinvested income of non-residents was estimated at USD 22.05 million.

Within the intra-group lending, the resident economic agents have used loans from foreign investors in the amount to USD 152.67 million, most on long term. According to the schedule, it had to be repaid loans in the amount of USD 125.40 million, actually paid were USD 111.10 million.

Foreign direct investment stock accumulated at December 31, 2010 was valued at USD 2837.48 million (Chart no. 1.21), of which: equity contributions and reinvested earnings - USD 2180.64 million and intra-group loans (other capital) - USD 656.84 million. The foreign direct

The geographical distribution of FDI accumulated in share capital shows that the investors from European Union countries had the major share (53.3 percent), which increased in 2010 due to investments in Romania (banking sector), Cyprus and the Netherlands (other sectors). CIS investors held 11.7 percent of the stock of FDI in share capital and investors from other countries - 35.0 percent.

Table no. 1.6. **Direct investments** (USD, millions)

	2008			2009			2010		
	inflow	outflow	net	inflow	outflow	net	inflow	outflow	net
Direct investment	870.86	174.17	696.69	363.40	242.32	121.08	360.57	165.17	195.40
<i>abroad</i>	7.10	23.18	-16.08	3.39	10.15	-6.76	0.09	3.59	-3.50
<i>in domestic economy</i>	863.76	150.99	712.77	360.01	232.17	127.84	360.48	161.58	198.90
equity capital	481.21	39.51	441.70	209.53	47.97	161.56	183.05	29.38	153.67
banking sector	30.06		30.06	25.45		25.45	34.03		34.03
other sectors	451.15	39.51	411.64	184.08	47.97	136.11	149.02	29.38	119.64
reinvested earnings and non-distributed profits (+) /losses (-)	98.70		98.70	-11.56		-11.56	22.05		22.05
banking sector	22.68		22.68	-21.48		-21.48	-24.66		-24.66
other sectors	76.02		76.02	9.92		9.92	46.71		46.71
other capital (other sectors)	283.85	111.48	172.37	162.04	184.20	-22.16	155.38	132.20	23.18
claims to foreign investors	7.69	22.84	-15.15	10.28	0.10	10.18	2.71	6.80	-4.09
liabilities to foreign investors	276.16	88.64	187.52	151.76	184.10	-32.34	152.67	125.40	27.27
Structure of direct investment inflow in domestic economy (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
banking sector	6.1		7.4	1.1		3.1	2.6		4.7
other sectors	93.9	100.0	92.6	98.9	100.0	96.9	97.4	100.0	95.3

Portfolio investment recorded net inflows in the amount of USD 5.64 million resulting from the sale of shares in the banking sector.

Financial derivatives, including currency swaps performed by licensed banks, resulted in net outflows in the amount of EUR 0.63 million.

Other investments resulted in net capital inflows amounting to USD 533.72 million: foreign financial receivables (assets) dropped by USD 75.46 million, while the debts to non-residents (liabilities) increased by USD 458.26 million.

Table no. 1.7. **External loans** (USD, millions)

	2008		2009		2010	
	received	reimbursed	received	reimbursed	received	reimbursed
Loans of the monetary authorities (NBM from IMF)	37.56	25.43		14.86	61.34	8.41
Governmental loans	74.82	54.73	41.19	44.60	212.05	45.91
<i>of which: rescheduled</i>	31.52	21.74				
Bank loans	226.10	62.16	100.04	155.65	156.98	123.12
<i>long-term</i>	171.51	54.21	98.04	107.47	146.21	120.35
<i>short-term</i>	54.59	7.95	2.00	48.18	10.77	2.77
Loans of other sectors	476.22	274.87	184.72	169.62	217.75	187.62
<i>long-term</i>	418.34	203.14	169.64	151.82	187.69	179.29
<i>short-term</i>	57.88	71.73	15.08	17.80	30.06	8.33
TOTAL	814.70	417.19	325.95	384.73	648.12	365.06
<i>TOTAL without the rescheduled loans</i>	783.18	395.45	325.95	384.73	648.12	365.06

Reimbursement net payments for commercial credits previously extended by local economic agents to non-residents (assets) were estimated to USD 21.24 million and the net increase of commercial loans provided by foreign partners (liabilities) was valued at USD 128.62 million.

Net foreign assets, in the form of foreign currency and deposits, decreased by USD 61.61 million during 2010, of which licensed banks' assets - by USD 43.99 million, while those of economic agents from other sectors and individuals' assets - by USD 17.62 million.



Deposits of non-residents with the local licensed banks (liabilities) decreased by USD 69.59 million in net worth.

Capital flows related to the external *loans*, broken down by sector, are presented in Table no. 1.7.

In 2010, the National Bank of Moldova has used from the International Monetary Fund the amount of USD 61.34 million within the EFF facility and repaid USD 8.41 million from the previous loans.

The Moldovan Government has contracted new loans from abroad in the amount of USD 212.05 million (of which USD 122.09 million - from the IMF within EFF facility) and repaid USD 45.91 million.

Licensed banks have attracted from abroad USD 156.98 million, reimbursing USD 123.12 million from the contracted loans.

Economic agents from other sectors have borrowed USD 217.75 million. For reimbursement under the proposed schedule were USD 187.62 million, actually were paid USD 147.05 million, the unpaid amounts (arrears) being recorded in other liabilities.

Other liabilities (arrears and other unfulfilled obligations) increased in net worth by USD 116.17 million, resulting from the increase in arrears of economic agents from other sectors.

State official reserve assets amounted to USD 1717.69 million at the end of 2010. It should be mentioned that the state reserves have increased as a result of transactions recorded in the balance of payments by USD 294.37 million and decreased following the fluctuations of exchange rates of other currencies against the U.S. dollar by USD 52.55 million, as well as result of the price revaluation of financial instruments - by USD 4.39 million.

1.5 External debt of the Republic of Moldova

Table no. 1.8. Gross external debt of Moldova (USD, millions)

	31.12.2008	31.12.2009	31.12.2010
Governmental sector	778.26	957.50	1116.17
<i>long-term</i>	778.26	957.50	1116.17
Bonds and commitments	6.35		
Loans	771.91	773.63	934.89
SDR allocations		183.87	181.28
Monetary authorities	166.97	153.33	204.24
<i>long-term</i>	166.97	153.33	204.24
Loans	166.97	153.33	204.24
Banks	558.12	453.63	402.74
<i>short-term</i>	283.13	189.98	121.18
Loans	56.78	10.60	18.60
Currency and deposits	226.35	179.38	101.97
Other debt liabilities			0.61
<i>long-term</i>	274.99	263.65	281.56
Loans	274.99	263.65	281.56
Other sectors	1840.69	1995.54	2221.23
<i>short-term</i>	1071.02	1189.34	1431.07
Loans	16.74	14.00	35.40
Commercial credits	622.95	714.20	834.67
Other debt liabilities	431.33	461.14	561.00
Arrears	69.32	87.33	139.74
Other	362.01	373.81	421.26
of which the debt for energy	360.39	372.19	419.64
<i>long-term</i>	769.67	806.20	790.16
Loans	769.67	806.20	790.16
Direct investment: intra-group	749.73	804.06	834.34
Commitments to foreign investors	749.73	804.06	834.34
Arrears	53.47	151.28	167.40
Loans from foreign investors	696.26	652.78	666.94
TOTAL	4093.77	4364.06	4778.72

Gross external debt of the Republic of Moldova on December 31, 2010 amounted to USD 4778.72 million, increasing by 9.5 percent during 2010 (Table no. 1.8).

External debt breakdown by institutional sectors was as follows: the government sector - 23.4 percent, monetary authorities (NBM) - 4.3 percent, licensed banks - 8.4 percent, other sectors - 46.5 percent. Intra-group lending related liabilities represented 17.5 percent of total external debt.

Public and publicly guaranteed external debt increased by 18.3 percent during 2010, up to USD 1348.77 million, while the private non-guaranteed external debt - by 6.4 percent, up to USD 3429.95 million (Table no. 1.9).

Within the total external liabilities, the long-term ones represent 64.0 percent, totaling USD 3059.07 million, short-term ones - 36.0 percent, totaling USD 1719.65 million.

Table no. 1.9. Public external debt, publicly guaranteed and private non-guaranteed debt (USD, million)

	31.12.2008	31.12.2009	31.12.2010
Public and publicly guaranteed debt	957.46	1139.84	1348.77
<i>Short-term</i>	0.15	0.15	0.13
Other debt liabilities	0.15	0.15	0.13
Arrears (principal and interest)	0.15	0.15	0.13
of which: public corporate debt	0.15	0.15	0.13
<i>Long-term</i>	957.31	1139.69	1348.64
Bonds and commitments	6.35		
Loans	950.96	955.82	1167.36
of which: public corporate debt	1.14	20.43	21.86
SDR allocation from IMF		183.87	181.28
Private non-guaranteed debt	3136.31	3224.22	3429.95
<i>Short-term</i>	1354.00	1379.17	1552.12
Loans	73.52	24.60	54.00
Currency and deposits	226.35	179.38	101.97
Commercial credits	622.95	714.20	834.67
Other debt liabilities	431.18	460.99	561.48
Arrears (principal and interest)	69.17	87.18	139.61
Other	362.01	373.81	421.87
<i>Long-term</i>	1032.58	1040.99	1043.49
Loans	1032.58	1040.99	1043.49
Direct Investment: intra-group lending	749.73	804.06	834.34
Commitments to foreign investors	749.73	804.06	834.34
Arrears	53.47	151.28	167.40
Loans from foreign investors	696.26	652.78	666.94
TOTAL	4093.77	4364.06	4778.72

SDR allocations and loans totaled USD 3420.21 million, of which 39.2 percent are public sector liabilities, and 60.8 percent are loans (including intra-group loans) contracted by economic agents from private sector (Table no. 1.10).

Within the structure of external liabilities by the currency of loan contracts, 70.0 percent of liabilities of the government and monetary authorities are in SDR, and the majority of liabilities in other sectors - 62.0 percent - are in USD.

During 2010, the Republic of Moldova has received further support from the IMF; the NBM used USD 61.34 million, and the Government - USD 121.74 million.

Distribution of external debt by major creditors is shown in Table. 1.11. It should be mentioned that 37.8 percent of external liabilities are to international bodies. It is recorded an increase of 49.6 percent of state non-guaranteed private debt to international bodies.

Table no. 1.11. Loans, external debt commitments and SDR allocations - specifying creditors (USD, million)

	31.12.2008	31.12.2009	31.12.2010
Monetary authorities	166.97	153.33	204.24
IMF	166.97	153.33	204.24
Direct state debt	762.73	944.20	1106.09
<i>International bodies</i>	480.21	688.36	855.53
IBRD, IDA	436.40	441.16	479.41
EBRD	2.43	1.46	0.49
IFAD	31.65	37.18	42.31
BDCE	8.79	12.91	12.34
IEB	0.94	11.78	16.49
IMF		183.87	304.49
<i>Bilateral creditors</i>	276.17	255.84	250.56
USA	56.41	53.82	51.24
Japan	26.89	23.50	23.40
Russian Federation	133.51	121.30	109.09
Poland			15.00
other	59.36	57.22	51.83
<i>Debt commitments</i>	6.35		
Guaranteed debt assumed by state	15.53	13.30	10.08
<i>Other creditors</i>	15.53	13.30	10.08
Public corporate debt	1.29	20.58	21.99
<i>International bodies</i>	0.36	9.31	8.61
EBRD	0.36	9.31	8.61
<i>Other creditors</i>	0.93	11.27	13.38
State guaranteed private debt	10.94	8.43	6.37
<i>International bodies</i>	10.94	8.43	6.37
EBRD	10.94	8.43	6.37
Non-guaranteed debt assumed by state	1925.00	1956.83	2071.44
<i>International bodies</i>	161.24	143.03	219.22
<i>Other creditors</i>	1763.76	1813.80	1852.22
TOTAL	2882.46	3096.67	3420.21

Table no. 1.10. Loans, debt commitments and SDR allocations (USD, million)

	31.12.2008	31.12.2009	31.12.2010
Monetary authorities	166.97	153.33	204.24
Loans (from IMF)	166.97	153.33	204.24
Direct state debt	762.73	944.20	1106.09
Loans	756.38	760.33	924.81
Debt commitments	6.35		
SDR allocations from IMF		183.87	181.28
Guaranteed debt assumed by the government	15.53	13.30	10.08
Other sectors	15.53	13.30	10.08
Loans	15.53	13.30	10.08
Public corporate debt	1.29	20.58	21.99
Other sectors	1.29	20.58	21.99
Loans	1.14	20.43	21.86
Arrears on loans	0.15	0.15	0.13
State guaranteed private debt	10.94	8.43	6.37
Other sectors	10.94	8.43	6.37
Loans	10.94	8.43	6.37
Private non-guaranteed debt of state	1925.00	1956.83	2071.44
Banks	331.77	274.25	300.16
Loans	331.77	274.25	300.16
Other sectors	1593.23	1682.58	1771.28
Loans	1470.59	1444.12	1464.27
Arrears on loans	122.64	238.46	307.01
TOTAL	2882.46	3096.67	3420.21

II. Activity of the national Bank of Moldova in 2010

2.1 Achievements of the monetary and foreign exchange policy in 2010

The fundamental objective of the National Bank of Moldova is to ensure and maintain the price stability. Without prejudice to the fundamental objective, the National Bank of Moldova promotes and maintains a financial system based on market principles and supports the economic policy of the state.

In order to achieve this objective, the National Bank of Moldova shall establish and maintain the money market conditions, credit and foreign exchange that lead to the sustained and stable economic development of the state, and in particular, to the financial and currency system based on the market laws.

2.1.1 Regulatory framework of the monetary policy in 2010

The strategy for monetary policy for 2010-2012 was prepared under the Law on National Bank of Moldova, being completed in collaboration with the relevant financial and economic bodies of the Moldovan Government and approved by the Council of Administration of the National Bank of Moldova on December 29, 2009 and modified on December 30, 2010.

According to the strategy for monetary policy for 2010–2012, the National Bank of Moldova has set the inflation target for 2010, calculated by the Consumer Price Index (CPI), amounting to 5.0 percent annually with a possible deviation of ± 1.0 percentage points.

Quantifying the macroeconomic situation, trends and projections of macroeconomic indicators in the medium term, the inflation outlook in the short and medium term with possible uncertainties and challenges during the reference period, as well as to anchor the inflationary pressures, the National Bank of Moldova has promoted an adaptive monetary policy in 2010.

In addition, the Strategy determines the monetary policy regime, monetary instruments and their implementation, the transmission mechanism of monetary policy, the decision making process on the achieving the established objective, the communication and transparency of the monetary policy.

2.1.2 Macroeconomic analysis and forecasting activity

Achieving the NBM fundamental objective requires a developed analysis and macroeconomic forecasting framework. It is an indispensable element in the decision making process in circumstances where the monetary policy has a forward-looking behavior, anticipating the future macroeconomic developments by applying the available instruments in order to avoid inflation deviation from the target.

During 2010, the NBM has continued the development process of this system. Currently, the analysis and forecasting activity is applicable, in particular in the way of monetary policy. As regarding the organizational aspect, this process takes place within the Department of Monetary Policy and Research.

The main activity in this direction was the extension of the central design of medium-term inflation forecast. New behavioral equations have been incorporated in order to detail the own economic phenomena of the Republic of Moldova. For that purpose, the inflation process was explained by modeling the partial indices of prices, and the monetary transmission mechanism by adding new segments in the impulse drive chain from the monetary policy instruments to the final variables of interest, namely inflation. Such changes have been made gradually, using every time, rigorous testing techniques, such as impulse-response function analysis, making forecasts on historical samples, historical decomposition of the variables by optical model, etc. It should be mentioned that the revaluation of parameters by re-estimation and / or recalibration has a continuing character. These procedures are performed for a more precise representation of economic processes in Moldova, which are continually subject to both quantitative and qualitative changes, which are specific especially for developing economies and those in transition, in which the national economy is taking part.

To improve the short-term inflation forecasts were created econometric models parallel to the existing ones by using econometric techniques of Bayesian type. It has also been re-evaluated the performance of forecasting of linear regression models with a single equation and those with simultaneous equations.

In order to improve the effects assessment of the monetary policy measures and to separate more accurately the disturbances in the demand from the ones in the supply, the analysis of consumer price indices was fathomed by testing the statistical properties of the lower CPI indices.

Given that in 2010, there were made changes in indirect taxes, the NBM has succeeded in both ex-ante and ex-post analysis, on their impact on price developments. Also, there were made attempts to estimate their secondary effects on inflation.

As the agriculture of the Republic of Moldova is extensive, the impact of agro meteorological conditions is proving to be pronounced upon prices, which implies the consideration of further adverse developments in risk assessment process. Although these phenomena have a low predictability, they still shall be taken into account in drawing up the balance of risks that could deviate the inflation from the baseline. Thus, one of the directions of research in 2010 was agro meteorological conditions quantification impact on inflation. Also, the impact on economic activity was estimated, given that a negligible share of GDP is represented by agriculture-related activities, therefore the prices are influenced by the performance of this sector and the aggregate demand.

In 2010, the analytical capacity has been strengthened by establishing both formal and informal consultative relations with the institutions of providing statistical data and those whose decisions have a pronounced impact on price developments, especially those regulated.

2.1.3 Communication and transparency of monetary policy

The communication role of central bank with the public is very important in the successful promotion and implementation of monetary policy. In the case of direct inflation targeting strategy, unlike other monetary policy regimes, the communication and transparency play a decisive role. Through a better understanding of monetary policy measures to be adopted by the central bank, the economic agents, population and government may adopt and optimize their behavior. Sound knowledge and understanding of objectives and actions of the central bank by the markets and the public helps to build credibility, thus reinforcing the reputation of the institution.

In order to achieve the tasks stipulated in the Medium term strategy for monetary policy (2010-2012), as a result of the reorientation of the direct inflation targeting regime, the NBM has proposed a broad mediatization of its activities, a fact already confirmed at the beginning of 2010 by posting on the official website the schedule of the Council of administration meetings on the promotion of monetary and exchange rate policy, the schedule of publication of the Monetary Policy Reports for 2010, and on the NBM monetary policy operations for the respective year.

To ensure transparency of decision making, the National Bank of Moldova has published no later than the day after each meeting of the Council of administration a press release informing the public about monetary policy decisions, factors that have conditioned these decisions, and the national economy outlook in the context of monetary policy transmission mechanism.

Increasing the transparency of the NBM in 2010 was due to quarterly publication of Monetary Policy Report, which included the analysis and forecast of macroeconomic indicators and monetary policy measures taken by the NBM and the publication of a press release, the second day after announcing the inflation calculated by the National Bureau of Statistics, identifying the determinant factors of inflation and its insignificant deviations from the forecast horizon in 2010.

It should be mentioned that the Monetary Policy Reports publications were preceded by conferences with the participation of the NBM Governor and of the mass media representatives, within which the NBM

expressed its opinion on inflation forecasts and the external environment and national economy conditions that have contributed to the completion of assessed value.

Starting with 2011, the NBM will publish quarterly the Inflation Report, representing a continuation of the Monetary Policy Report, which will reflect a detailed analysis of the achievement of the set target in the context of potential risks that may affect the achievement of the target.

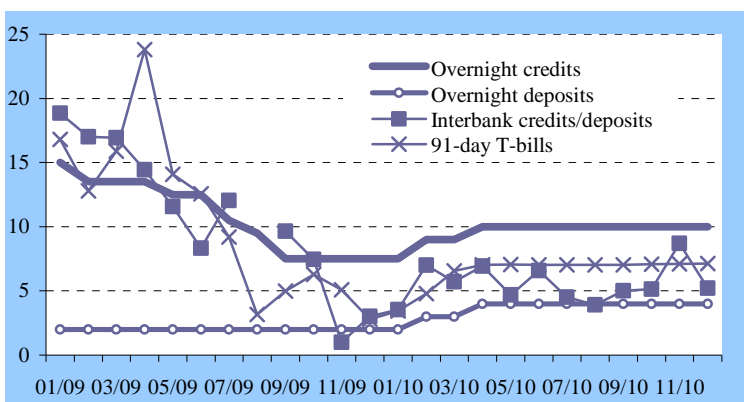
National Bank of Moldova will continue to improve the communication process and transparency of its decisions so as to ensure a predictable and integrated communication in order to achieve the objective set in the Medium term strategy for monetary policy.

2.1.4 Implementation and promotion of the monetary and foreign exchange policy in 2010

Anticipating the major inflationary pressures in 2010 has forced the National Bank of Moldova in the first quarter of 2010 to return to a prudent monetary policy. After a series of essential downward adjustments of interest rates to monetary regulation instruments, implemented in 2009 in response to the global financial crisis, the National Bank of Moldova increased the interest rates on monetary regulation instruments in the first months of 2010 from 5.0 to 7.0 percent, keeping them at the same level until the end of the year.

These measures taken by the NBM had a positive impact on interest rates on instruments with shorter maturities in the money market.

Chart no. 2.1. Evolution of interest rates corridor, %

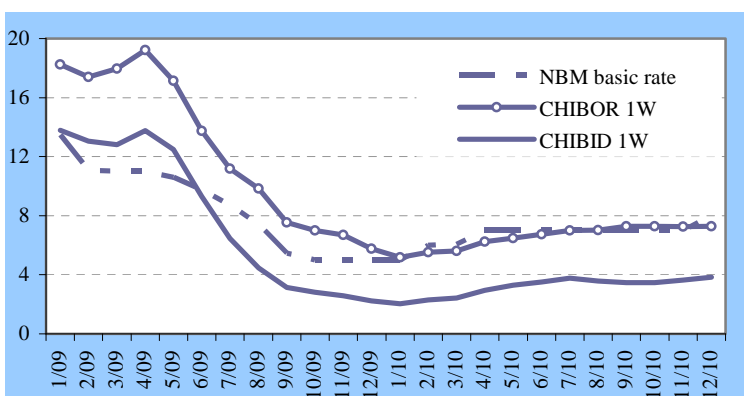


Source: NBM

The interest rates of state securities (SS) with a maturity of 91 days were the most receptive, which lined the base rate during the entire period, and from April until the end of 2010, the monthly average interest rate on government bonds placed on the primary market was almost identical to the NBM base rate, recording values between 6.56 percent (in March) and 7.12 percent annually (in December 2010) (Chart no. 2.1).

NBM monetary policy impulses have been less felt in the interbank market, the latter being characterized by a very limited number of transactions due to the high level of liquidity recorded in the money market. The average interest rate on interbank loans / deposits during 2010 ranged from one month to another between 3.53 - 8.70 percent annually, falling usually in the NBM corridor rates.

Chart no. 2.2. Evolution of the reference rates on the interbank market and the NBM base rate, %



Source: NBM

It should be mentioned that the reference rate of CHIBOR interbank market of one week (1W) was maintained throughout the year in close proximity to the base rate of the NBM, taking its upward adjustments (Chart no. 2.2).

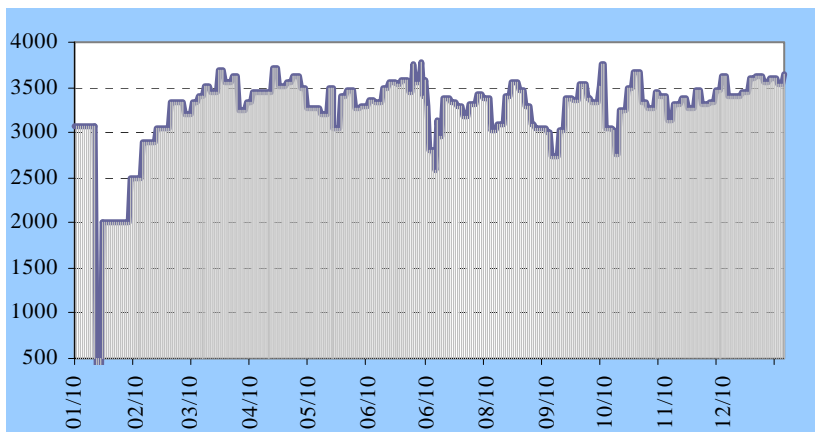
2.1.5 Monetary policy instruments

The 2010 conjuncture, characterized by liquidity excess in the money market and inflationary pressures increase has driven the National Bank of Moldova to return to firm management of liquidity excess in the banking system.

Open market operations

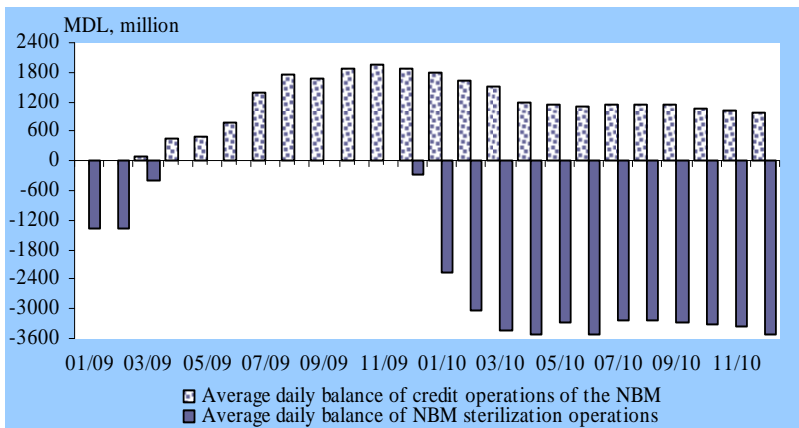
National Bank of Moldova conducted open market operations in accordance with the approved schedule published on its official website for 2010 announcing both the operations regarding the sterilization of liquidity excess in the banking sector, by selling NBM certificates (CBN) and the operations regarding the liquidity injection through state securities (SS) REPO-buying operations. The banks have only resorted to operations regarding the sterilization of liquidity excess.

Chart no. 2.3. Daily balance of NBM sterilization operations in 2010, million, lei



Source: NBM

Chart no. 2.4. NBM operations on monetary market during 2009-2010



Source: NBM

volumes of sterilization operations that led to the increase in the cost borne by the NBM to sterilize the liquidity excess from 32.8 million lei in 2009 to 217.0 million lei in the reporting year.

Lending activity

In 2010, with the persistence of a high liquidity excess, the National Bank of Moldova ceased being a net creditor of the banking system established in 2009.

In order to sell NBM certificates (CBN), the National Bank of Moldova has organized 99 auctions with the announcement of the maximum interest rate equal to the NBM base rate, which constituted 5.0 percent annually in the first month of the year, 6.0 percent annually - by the end of March and 7.0 percent annually - by the end of 2010. Participants requests were accepted in full, except for the first three auctions conducted at the beginning of the year.

Following that the interest rates indicated in the requests were usually equal to the maximum rate announced within the auctions, the NBM certificates were sold at a rate equal to the NBM base rate.

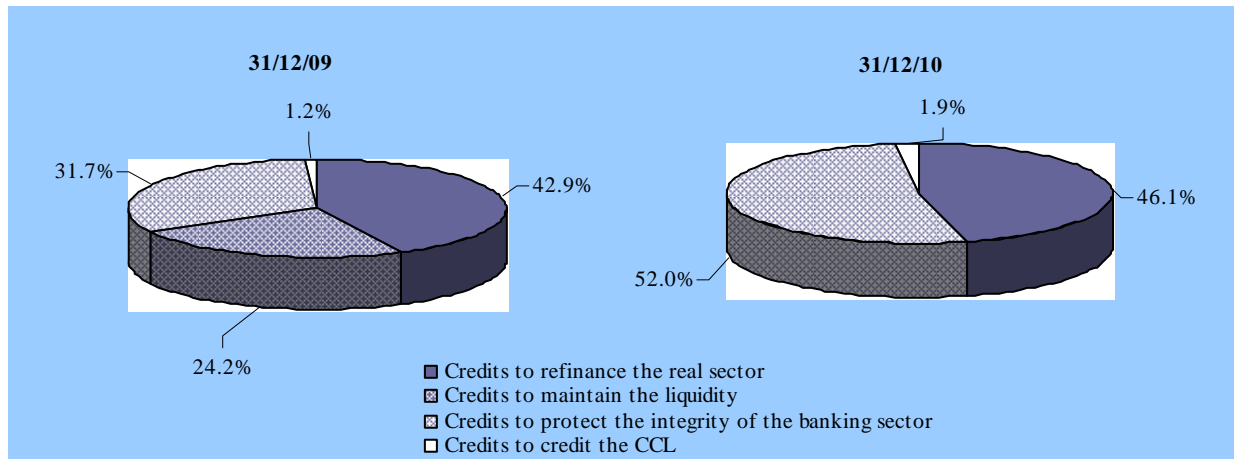
In 2010, the average weighted rate of sterilization operations amounted to 6.74 percent annually compared to 10.62 percent recorded in the previous year.

In the first two months of 2010, the National Bank of Moldova organized one weekly auction of selling CBN, and since March, the frequency of auctions has increased to two per week. The issued certificates had a maturity of 7 days, with some exceptions relating to public holidays.

The National Bank of Moldova started again in 2010 to make significant

In order to support the general economic policy of the state and taking into account the credit resources request by some creditor banks, the National Bank of Moldova continued in 2010 to allocate credit resources for onward lending to the economic agents from the real sector of the economy.

Chart no. 2.5. The structure of loans according to destination



Source: NBM

In this context, in April 2010, the credit lines opened to banks in 2009 for onward lending to the economic agents, were rolled-over for a period of one year. In 2010, the National Bank of Moldova has opened additional credit lines for 4 banks, which have not previously received credit recourses from NBM for the stated purpose. The full amount of credit lines opened to banks by the NBM in the reporting year amounted to 615.3 million lei.

The loans have been awarded and rolled-over with the base rate of the National Bank of Moldova, variable during the period of the credit agreements, increased with a margin of 0.5 percentage points. Taking into account the base rate development, in 2010 the interest rate on loans for onward lending to the economic agents from the real sector of the economy varied between the minimum of 5.0 percent annually and maximum of 7.5 percent annually.

In 2010, the credit portfolio of the National Bank of Moldova, along with the loans for onward lending to the economic agents from the real sector of the economy, included the loans to maintain the liquidity in 2009, to protect the integrity of the banking sector and loans granted to banks during 1992-2002 for crediting the housing construction cooperatives.

On December 31, 2010 the banks credit debt to the NBM constituted 976.4 million lei, decreasing by 883.4 million lei, or by 47.5 percent compared to the end of 2009. The balance decrease occurred as a result of the full payment of loans granted to maintain the liquidity in the amount of 450.0 million lei, partial payment of the loan granted to protect the integrity of the banking sector in the amount of 82.0 million lei, and early payment of term installment loans granted for the construction of housing cooperatives in the amount of 3.9 million lei.

In 2010, the pledge for the credit debts of the banks to the NBM were represented by state securities and funds within banks' required reserves in Moldovan lei and freely convertible currency held by banks at the NBM.

Compared with 2009, within the pledge structure there were made some positive changes. On December 31, 2010 the loans secured by state securities accounted for the largest share, representing 62.3 percent compared to 10.2 percent as of December 31, 2009.

Standing facilities

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

Overnight credit facility. In the context of a high liquidity excess in the banking system during 2010, the banks have not resorted to overnight credit facility.

Overnight deposit facility. Firm control over liquidity maintained by the National Bank of Moldova during 2010 through open market operations, led to a significant reduction in the volume of funds placed at the initiative of banks through deposit facility compared with 2009.

Overnight deposits placed by banks with the NBM in 2010, calculated as the average daily balance, constituted 455.6 million lei, decreasing by 2.3 times compared with 2009. During the year, the monthly average balance of overnight deposits was placed on a downward trend, registering a maximum of 1347.9 million lei in January 2010 and a minimum of 255.8 million lei in October 2010.

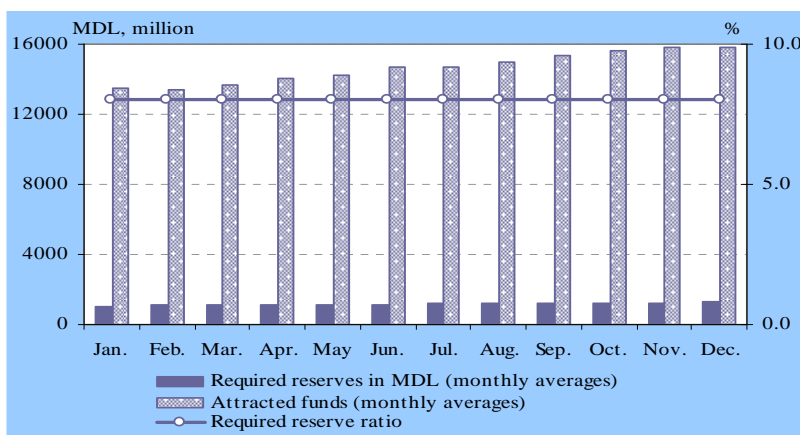
On December 31, 2010, the balance of overnight deposits placed by banks with the NBM amounted to 595.0 million lei.

Required reserves

The operational framework of required reserves policy in the reference period was characterized by a stable regime of required reserves formation. During 2010, the required reserves ratio remained stable, representing 8.0 percent of the funds attracted by banks both in MDL and in foreign currency. Maintaining the same level of required reserves ratio was possible due to the adaptive monetary policy of the NBM and to the management of liquidity excess in the banking system through market sterilization instruments.

In November 2010, the Council of Administration of the NBM decided to reset the tracking periods and to

Chart no. 2.6. Evolution of attracted funds in MDL, of required reserves in MDL reserves and required reserves ratio in 2010



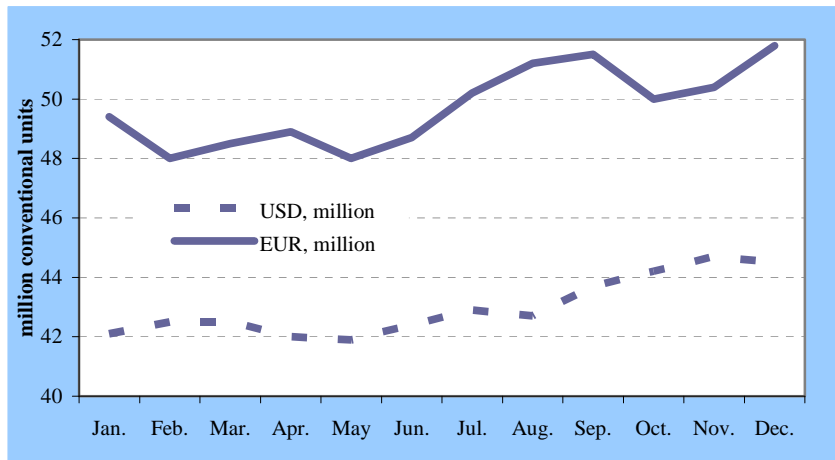
Source: NBM

maintain the required reserves by increasing their term to a month. This modification in required reserves regime aimed at improving the operational framework of the National Bank of Moldova, distributing more efficiently the liquidity within the banking system, reducing the fluctuations in interest rates on the interbank money market, and at aligning the reserve regime to the practices of central banks that have adopted the inflation targeting policy. The aforementioned modifications will be applied starting with January 8 to February 7, 2011, the attracted funds tracking period.

In 2010, the required reserves in national currency have increased gradually due to an increased volume of attracted funds, moving to the level of 1294.9 million lei at the end of December. The amount of required reserves in Moldovan lei of banks during the respective tracking period of December 6 to December 20, 2009 and maintained at the end of the year was up by 253.0 million lei, or by 24.3 percent compared with the same period last year.

Unlike the required reserves in MDL, the required reserves in foreign currency (U.S. \$ / euro) had a less pronounced positive behavior in 2010 as a result of a slower growth of attracted funds in those currencies.

Chart no. 2.7. Evolution of required reserves in USD and EUR during 2010



Source: NBM

On December 31, 2010, the amount of required reserves maintained by banks amounted to about USD 44.5 million and EUR 51.8 million, increasing by 6.5 and 6.6 percent respectively compared to December 31, 2009.

2.2 The results of monetary and exchange rate policy during 2010

The objective of the National Bank of Moldova for the end of 2010 was determined on the basis of medium and long term expectations. Short-term forecasts for 2010 were: revival in aggregate demand and a slight increase in real terms of GDP, as well

as the NBM forecast on world prices, particularly on electricity and fuel. The NBM forecasts on medium and long term were based on the continuous convergence of Moldova's economy towards its major trading partners, continuous growth of productivity in all sectors of the economy and structural changes in the national economy.

After a series of essential downward adjustments of interest rates on monetary regulation instruments made during 2009 in order to anchor the inflation expectations and after the creation of beneficial conditions for lending the privat sector with the purpose of restoration of economic activity, the National Bank of Moldova raised the interest rates on monetary regulation instruments to the level of 7.0 percent during 2010.

Thus, within the meeting of January 28, 2010, the Council of Administration of the National Bank of Moldova decided to increase the base rate applied to the main monetary policy operations in the short term by 1.0 percentage point from 5.0 to 6.0 percent annually. This decision was based on reversing the inflation trend back on the positive track, with a probable exceeding, but temporary, of the target range declared in 2010 by 5.0 percent \pm 1.0 percentage points. According to the NBM forecasts, the inflation rate was influenced mainly by the developments in the forex market, excise and tax increases, higher tariffs for natural gas, electricity and heating, prices increases of dependent or related goods and services. It was agreed that the probable exceeding of the declared target range of inflation rate in 2010 was temporary and of short duration.

However, after updating the medium-term macroeconomic forecasting with the developments in the external environment and information provided by the National Bureau of Statistics regarding the consumer price index for the first months of 2010 was denoted the high probability that the inflation will fall above the upper limit of the declared target range for 2010 by 5.0 percent \pm 1.0 percentage points.

The analysis of the factors that contributed most to inflation showed that the non-monetary factors, which are beyond the NBM control, had the major impact, such as price increases on products and services with regulated prices, worldwide price increases on fuel and food products, and increases in indirect taxes. The impact of listed non-monetary factors was temporary and would be absorbed gradually in subsequent periods, without significant manifestation in the medium term.

For these reasons the Council of Administration of the NBM decided to increase the base rate applied to the main monetary policy operations in the short term by 1.0 percentage points from 6.0 to 7.0 percent annually. This decision had the purpose of slowing the spread of inflationary impulses from the supply side (regulated prices and production costs) on inflationary expectations and of reducing the pace and magnitude of side

effects of increases in prices and tariffs, while the real growth rate of GDP did not show any significant deviations.

Anticipating the additional inflationary pressures by reason of risk factors: price increases on food products on the international market, oil prices reached the highest level in the last two years, delivery price increases on natural gas imported by the Republic of Moldova and intensification of global economic recovery, the Council of Administration of the NBM decided within last meeting of 2010 to increase the monetary policy rate by 1.0 percentage points up to the level of 8.0 percent. Under these conditions, the annual rate of inflation in December 2010 made up 8.1 percent and annual core inflation rate constituted 4.4 percent.

Thus, the base rate adjustment and firm management of liquidity in the money market have ensured the formation of monetary conditions appropriate to maintain the balance between price stability and national economic recovery.

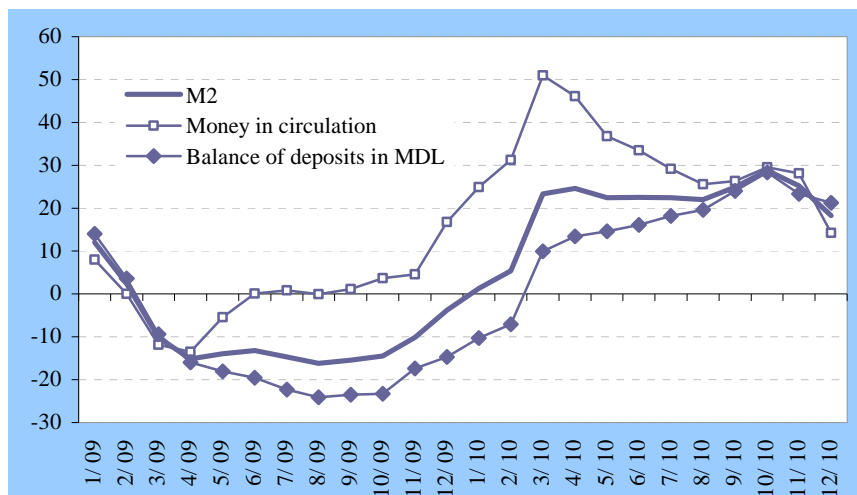
Dynamics of monetary indicators

The monetary indicators development in 2010 can be divided into three stages. The first stage is characterized by low annual rates of growth - from January to February, the second - a more robust and stable growth during March-October, the third - growth rates reduction - from November to December. The period of January-October 2010 was conditioned by the effect of easing the monetary policy from January-September 2009.

Money supply

During January-December 2010, the *money supply (M2)*¹ increased by 18.3%, compared to the decrease of 3.8% recorded in 2009. The annual dynamics of the M2 aggregate reflected positive trends throughout the year, recording the highest growth of 28.8 percent in October 2010. Revival of economic activity and of the process of lending money determined the increase of money multiplication, and respectively the deposits

Chart no. 2.8. Evolution of M2 money supply components
(increase versus the same month of the previous year, %)



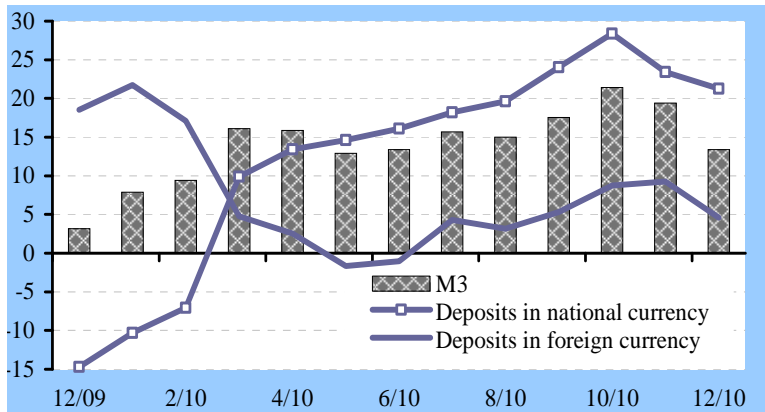
Source: NBM

growth in national currency, directly contributing to the increase in this period of M2 monetary aggregate. Thus, the components of M2 have recorded positive developments, the deposits increasing by 21.3 percent and money in circulation - by 14.2 percent. The deposits in MDL showed an active growth since March after returning from the negative track from January-February, with the reduction of growth rate in November and December. The money in circulation recorded an essential increase during January-March, in March was recorded the major growth of the year for this indicator (51.0 percent). During April-August 2010, the money in circulation trend has changed its trajectory, registering stabilization prerequisites only in August (Chart no. 2.8), while the deposits in MDL had a stable positive trend. Since November 2010, the dynamics of *monetary aggregate (M2)* has changed its trajectory, which is determined by the reduction of growth rate of money in circulation (*monetary*

¹ Money supply M2 includes the currency in circulation (M0), deposits in MDL and money market instruments

aggregate $M0^2$) and deposits in MDL. At the same time, the growth of *money supply* ($M3$)³ increased by 13.4 percent in 2010 versus 3.2 percent increase registered in 2009 (Chart no. 2.9).

Chart no. 2.9. Dynamics of main components of M3 money supply
(increase versus the same month of the previous year, %)



Source: NBM

The slower growth rate of M3 versus M2 money supply is explained by the upward trend of the dynamics of deposits in MDL and the official exchange rate appreciation of the national currency. The deposits in foreign currency, recalculated in MDL, demonstrated a moderate pace of growth during 2010 - 4.6 percent, while their growth in U.S. dollars during the same period - 5.9 percent - USD 55.9 million.

The highest growth rate of deposits in foreign currency, denominated in U.S. dollars, was recorded in January 2010 – by 21.7 percent, due to societal expectations of domestic currency depreciation amid the deepening economic crisis and as a result,

the preference to keep money in foreign currency has increased. The deposits in national currency in January-December 2010 recorded a higher rate compared to M0 - by 21.3 percent (in the similar period of 2009 decreased by 14.7 percent), contributing directly to the M2 growth and determined the positive trend of M2 dynamics in 2010.

The share of sight deposits in total deposits in national currency constituted 38.3 percent in December 2010, increasing by 2.2 percentage points during 2010. This change in the structure of the deposits in national currency in the favor of sight deposits indicates the need for access to funds with high liquidity, caused by their insufficiency both from the economic agents and from the public.

The total volume increase of term deposits attracted by banks during the year was driven by the increase in its components, the growth rate of deposits in national currency exceeding the deposits in foreign currency.

Also, it should be mentioned that during March to December 2010 there was a trend towards an increased interest regarding the savings in national currency as a result of current income growth and appreciation of national currency on the domestic market. As a result, the share of deposits in national currency within the structure of total deposits increased by 3.7 percentage points, determining the increase in share of deposits in national currency increased from 50.7 percent in 2009 to 54.4 percent in 2010.

The increase of the volume of term deposits attracted in national currency by 1101.0 million lei (6.0 percent) was influenced largely by the volume increase of term deposits of legal entities by 2044.6 million lei (36.1 percent), while the volume of individuals deposits decreased by 943.6 million lei (7.4 percent).

During the reporting year, the volume of term deposits attracted in foreign currency had an inverse dynamic than the deposits in national currency. Thus, the volume of deposits in foreign currency decreased by 2620.4 million lei (13.4 percent), being determined by the reduction of individuals' deposits by 2272.5 million lei (13.0 percent) and those of legal entities - by 167.9 million lei (8.2 percent).

Due to the economic environment that shows signs of improvement and appreciation of the national currency, the deposits in national currency on short term were preferred, particularly those with a period of 3 to 6 months, their share reaching 35.5 percent at the end of 2010 of total term deposits.

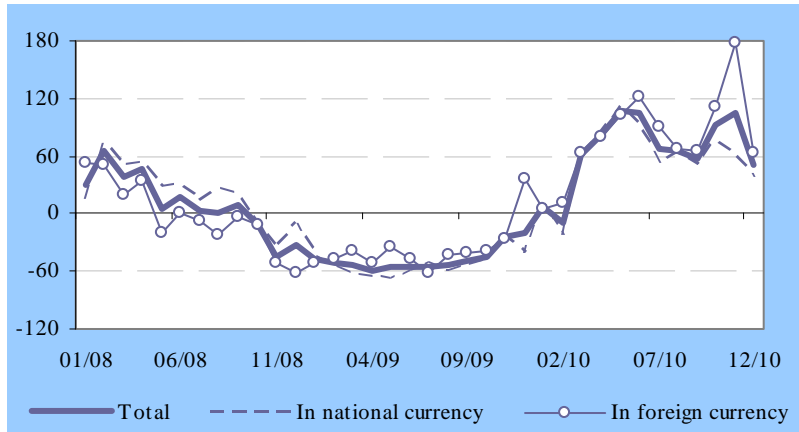
² Monetary aggregate M0- money in circulation; the cash emitted into circulation by the National Bank of Moldova, excluding the cash from the banks office and from the NBM office.

³ Money supply M3 includes money supply M2 and deposits in foreign currency of residents expressed in MDL.

Credits market

In 2010, the process of lending to the economy recorded an upward trend of 64.5 percent, recording the amount of 23429.8 million lei, compared with 48.8 percent decline registered in 2009. The positive trends in the growth of new loans was largely due to the signs of economic revival in 2010 and due to the base effect as a result of the drastic decline in lending in 2009, a period when the Republic of Moldova has experienced severe effects of the economic crisis.

Chart no. 2.10. Evolution of new loans
(annual increase, %)

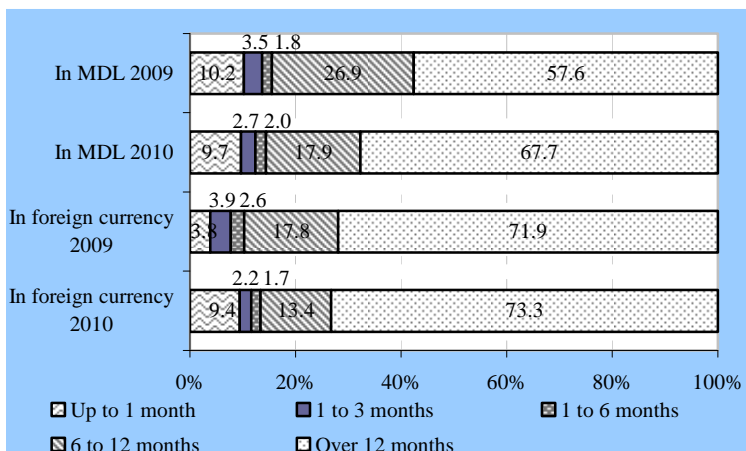


Source: NBM

legal entities to finance the foreign trade operations. The share of loans in foreign currency in the total of new loans in 2010 increased by 4.0 percentage points compared to the previous year (from 45.1 percent to 49.0 percent).

The volume of new loans in national currency had a more moderate increase, registering an annual growth rate of 52.5 percent compared to that recorded in 2009, reaching the level of 11939.9 million lei. This increase may be attributed mainly to loans granted to legal entities, which held 81.6 percent of total loans in national currency, whose volume increased by 46.7 percent compared to the previous year, reaching the level of 9747.7 million lei. The strongest boom of lending in national currency was recorded on loans granted to households, which in May - August 2010 recorded an increase over three times the previous year, registering an annual rate of 85.4 percent, up to the level of 2192.1 million lei.

Chart no. 2.11. Term structure of loans



Source: NBM

The developments of both components reflect positive dynamics. The development of the component in foreign currency was more pronounced than the component in national currency (Chart no. 2.10).

On a background of an increased demand, the volume of loans in foreign currency increased by 79.0 percent compared to that recorded in 2009, amounting at 11489.9 million lei (equivalent to USD 929.1 million). The increase of the volume of loans in foreign currency can be attributed mainly to the increase recorded in the longer-term loans (over 12 months) of

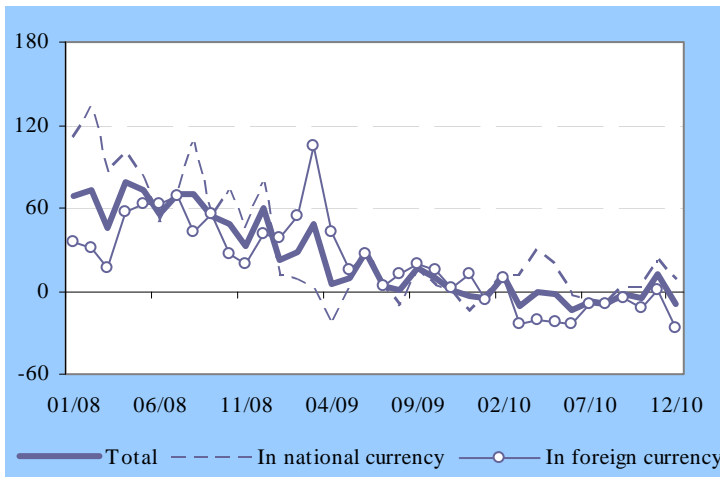
Term structure of new loans in the economy in 2010 still reflected the continuing trend of loans with terms over 12 months at the maximum rate for both loans in national currency (67.7 percent) and for loans in foreign currency (73.3 percent), thereby confirming the preference of traders to borrow for investment objectives and for the acquisition of durable goods (Chart no. 2.11).

Deposits market

During 2010, the process of depositing money in banks has manifested itself by recording an annual rate of decline of 4.0 percent, recording the amount of 36507.3 million lei, compared with 12.6 percent increase registered in 2009. On one hand, the reduction dynamic of new term deposits attracted was largely determined by the reluctance of people to place deposits under a fragile global economic recovery. On the

other hand, low income of households and lower interest on deposits, as a result of liquidity excess in the market, were the main factors that have discouraged the performance of banking investments. As a result, the annual growths of deposits are positioned throughout the year 2010 on a negative track, with the exception of February and November.

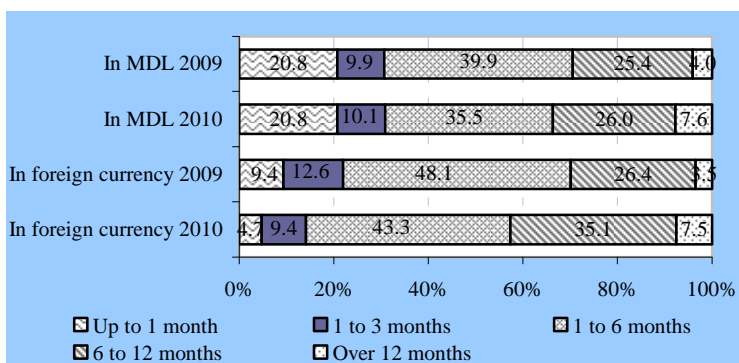
Chart no. 2.12. Evolution of new attracted deposits
(annual increase, %)



Source: NBM

million lei, while the deposits of economic agents have shown a more moderate decline of 8.2 percent, reaching the level of 1874.8 million lei. Therefore, we can see that the share of deposits in foreign currency within the structure of total deposits decreased by 5.0 percentage points (from 51.5 percent to 46.5 percent) compared to the previous year.

Chart no. 2.13 Term structure of attracted deposits



Source: NBM

represented by the term deposits of 3 to 6 months, although with a reduction in their share by 4.4 points percentage, as compared to the previous year, in the favor of deposits with terms over 12 months, whose share has grown by 3.6 percentage points (Chart no. 2.13). A similar situation was recorded for the investments in foreign currency, whose major share (43.3 percent) remains to be represented by term deposits from 3 to 6 months, but we can already see the tendency to shift towards longer-term investments with more attractive yields.

However, the investments in national currency registered a modest annual expansion of 6.0 percent, up to the level of 19548.7 million lei. The development of new term deposits attracted in national currency reflected an increase in annual growth rate of deposits of legal entities by 36.1 percent, up to the level of 7710.3 million lei, while the individuals' deposits have shown a decrease of 7.4 percent, reaching the level of 11838.3 million lei.

Within the structure of new term deposits attracted in national currency, as in 2009, the basic segment (35.5 percent) was

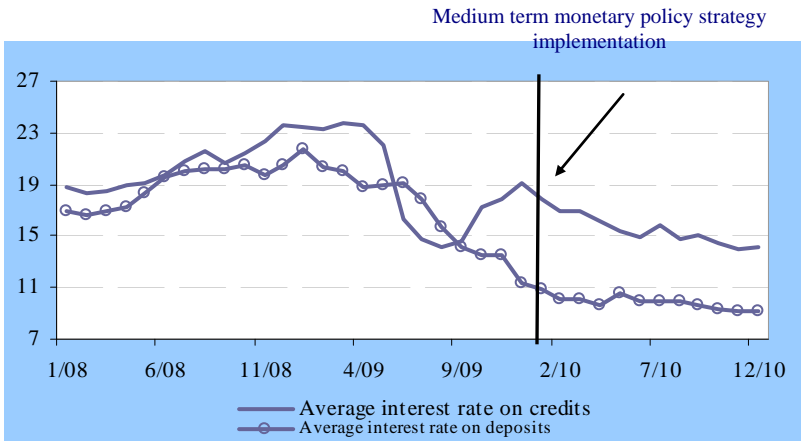
represented by the term deposits of 3 to 6 months, although with a reduction in their share by 4.4 points percentage, as compared to the previous year, in the favor of deposits with terms over 12 months, whose share has grown by 3.6 percentage points (Chart no. 2.13). A similar situation was recorded for the investments in foreign currency, whose major share (43.3 percent) remains to be represented by term deposits from 3 to 6 months, but we can already see the tendency to shift towards longer-term investments with more attractive yields.

Interest rates and monetary policy transmission mechanism

According to the Medium-term strategy for monetary policy of the National Bank of Moldova for 2010-2012, in order to ensure the transparency of decision making process, during 2010 were published quarterly monetary policy reports containing an analysis of the macroeconomic situation and the medium-term

forecast of inflation and of the main macroeconomic indicators. Also, according to the published scheduled, the Council of Administration of the National Bank has held monthly meetings where the macroeconomic situation, trends and macroeconomic indicators forecast was assessed, and the forecast of inflation on short and medium term was examined.

Chart no. 2.14. The average rate on new attracted deposits and loans with terms from 6 to 12 months in the MDL, %

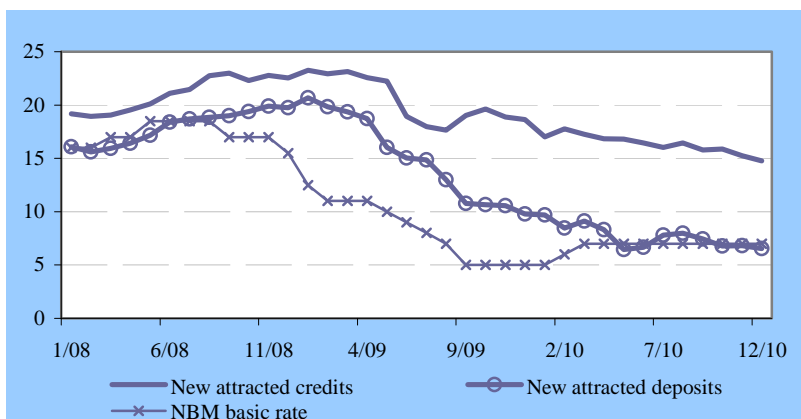


Source: NBM

conditions for price stability and sustain the upward evolution of the national economy. However, the NBM decided to manage the liquidity excess through sterilization on money market operations.

Under these conditions, the evolution of interest on deposits and loans in national currency with terms from 6 to 12 months had a mostly downward dynamic throughout the year, mainly due to significant excess of liquidity in the banking sector (Chart no.2.14).

Chart no. 2.15. Average interest rates in MDL, %



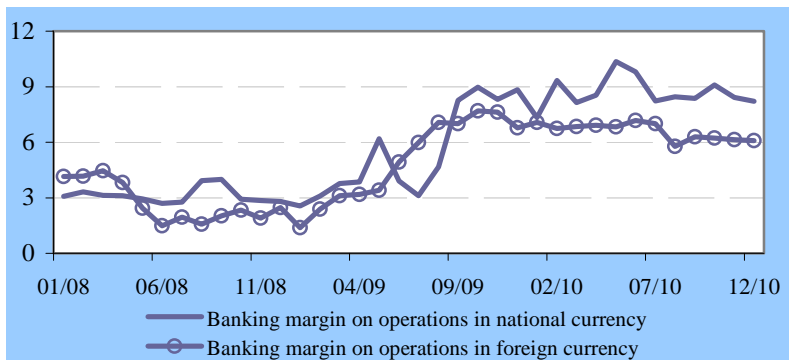
Source: NBM

During 2010, following the elaborated forecasts, the NBM made three upward adjustments of the base rate by 1.0 percentage point from 5.0 to 8.0 percent. This was done in order to maintain appropriate monetary

conditions for price stability and sustain the upward evolution of the national economy. However, the NBM decided to manage the liquidity excess through sterilization on money market operations. Under these conditions, the evolution of interest on deposits and loans in national currency with terms from 6 to 12 months had a mostly downward dynamic throughout the year, mainly due to significant excess of liquidity in the banking sector (Chart no.2.14). However, the weighted average interest rates on loans granted by banks to its clients have recorded dramatic decreases during 2010. Thus, the average rate on new loans in local currency decreased by 4.06 percentage points compared to the previous year, up to the level of 16.25 percent (Chart no.2.15). In particular, the interest rate on loans to individuals dropped by 5.04 percentage points (reaching the level of 19.01 percent), and the loans to legal entities - by 4.03 percentage points (reaching the level of 15.62 percent).

The development of interest on deposits decreased largely, being much below the average rates on loans. This is due, in particular, to the liquidity excess in the market and due to the lack of an environment sufficiently active in the real sector, which would be able to absorb all the liquidity. Thus, the average rate on new deposits in national currency recorded by 7.10 percentage points less as compared to the previous year, up to the level of 7.56 percent (Chart no.2.15). In particular, it should be mentioned the decrease by 7.70 percent of interest rate on deposit

Chart no. 2.16. Evolution of banking margin (percentage points)



Source: NBM

margins (the difference between the average rates on loans and deposits) was mainly at the expense of much more drastic reduction of interest rates on new attracted deposits than on the rates on new granted loans.

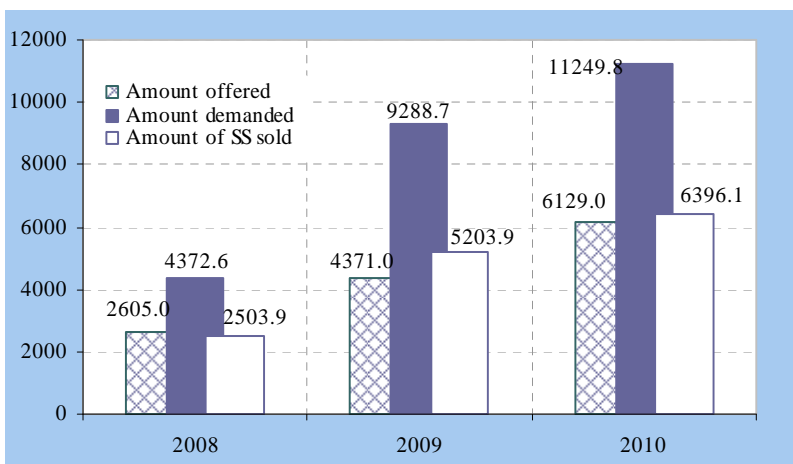
Thus, the banking margin associated with banking operations in national currency increased by 3.04 percentage points, up to the level of 8.69 percentage points, while the attached transactions in foreign currency - by 1.59 percentage points and accounted for 6.49 percentage points (Chart no. 2.16).

2.3 Monetary market

Primary market of state securities

Acting as the fiscal agent of the state in organizing the placement and redemption of state securities (SS) in the form of book entries, the National Bank of Moldova carried out 195 state securities issuances during 2010.

Chart no. 2.17. The volume of supply, demand and sales of SS, million lei



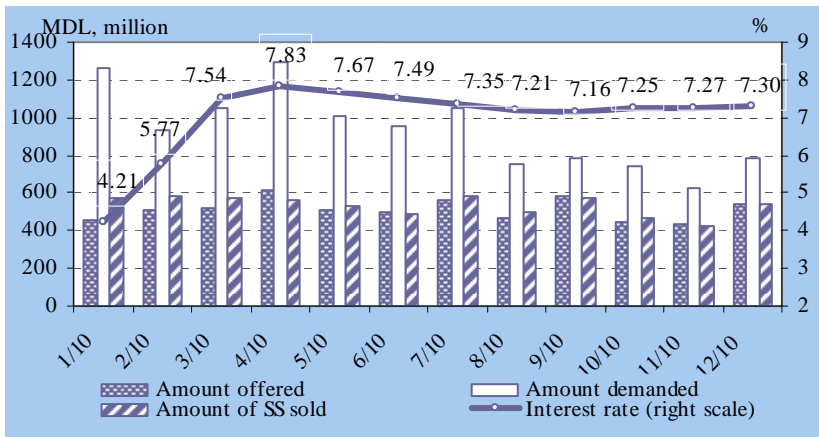
Source: NBM

Amid the persistence of a high level of liquidity in the banking system during 2010, the Ministry of Finance has raised its state securities supply for placing through auctions, which amounted to 6129.0 million lei, by 1758.0 million lei more than in 2009. The demand for securities recorded the historical maximum of 11249.8 million lei (Chart no.2.17).

The difference between state securities in circulation (6396.1 million) and the Ministry of Finance offer constituted 104.4 percent (119.1 percent in 2009). Sales over the offer announced by the Ministry of Finance took place mainly in the first quarter of 2010, when the rates on the primary market for state securities were lower compared to those in the rest of the period.

The strong orientation of liquidity control policy of the NBM and the monetary policy interest rate increase (in the first quarter of 2010) has determined the trends in interest rates on the state securities market. The average interest rate on state securities with maturities up to one year recorded an upward trend in the first four months of the year, rising by 3.62 percentage points. Over the next months of 2010, the average interest

Chart no. 2.18. Monthly dynamics of state securities in primary market auctions in 2010



Source: NBM

rate on SS was characterized by an increasingly pronounced tendency to stabilize, on a level in close proximity to the monetary policy interest rate.

The relative low yields on banking deposits market oriented the non-bank investors (most legal entities) towards state securities market, so that the value of SS purchased by them increased from 156.7 million lei in 2009 to 617.3 million lei in 2010. The share purchases by non-bank investors in the total issued amount rose by 9.7 percent (in 2009 - 3.0 percent). Non-resident investors

were not registered in 2010.

The economic recovery premises in 2010 favored the return to the traditional structure of state securities offering. Thus, in January, the state bonds (SB) issuances with a maturity of two years were resumed and then in July 2010 the treasury bills of 21 days were excluded from the offer. Treasury bills with maturities of 91, 182 and 364 days were offered at auctions throughout 2010.

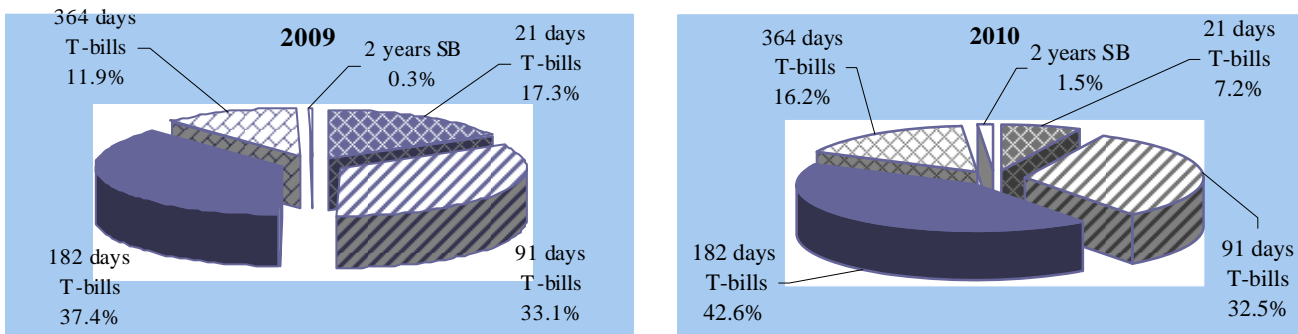
Table no. 2.1. Weighted average annual nominal rates of interest on state securities by maturity, %

	QB 21 days	QB 91 days	QB 182 days	QB 364 days	SB 2 years
2009	4.49	9.54	10.49	12.65	10.95
2010	5.33	6.62	7.33	7.80	8.45

For bonds are represented the effective interest rates

More than 75.0 percent of placed securities had a maturity of 91 and 182 days. The share of floating-rate bonds with a maturity of two years in total issued SS increased from 0.3 percent in the previous year to 1.5 percent in 2010, despite the fact that 74.2 percent from their offer were issued (Chart no. 2.19).

Chart no. 2.19. Structure of SS issuances by types



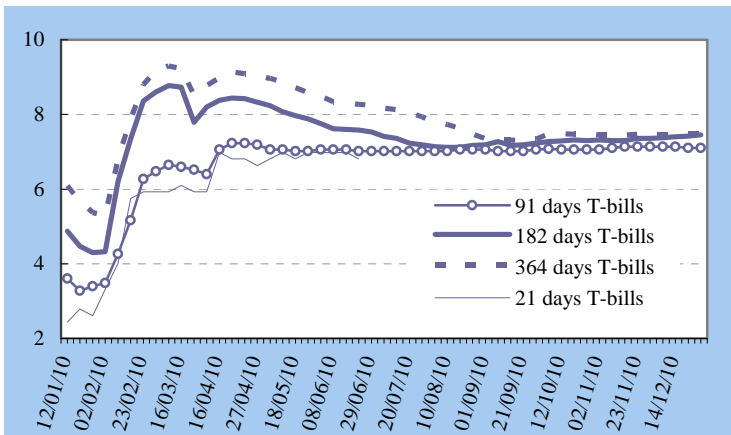
Source: NBM

The average maturity of newly issued securities increased from 162 days in 2009 up to 183 days in 2010.

After reducing the interest rate volatility in state securities with maturity up to one year, the spread between them was gradually reduced until the end of July 2010, the interest rates across the maturity spectrum approaching that value and preserving the tendency until the end of the year (Chart no. 2.20).

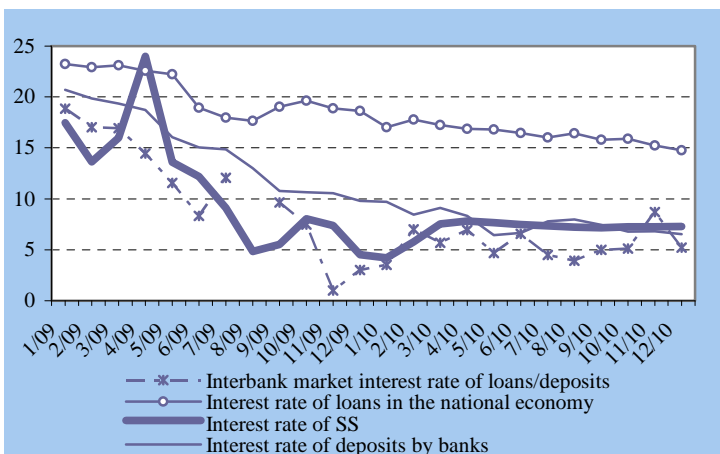
The average interest rates had values of 7.10, 7.45, and 7.47 percent annually for maturities of 91, 182 and 364 days during the recent auctions of SS of 2010, being higher by 4.52, 2.69 and 1.41 percentage points, respectively, values recorded at the end of 2009.

Chart no. 2.20. The dynamics of nominal interest rates, %



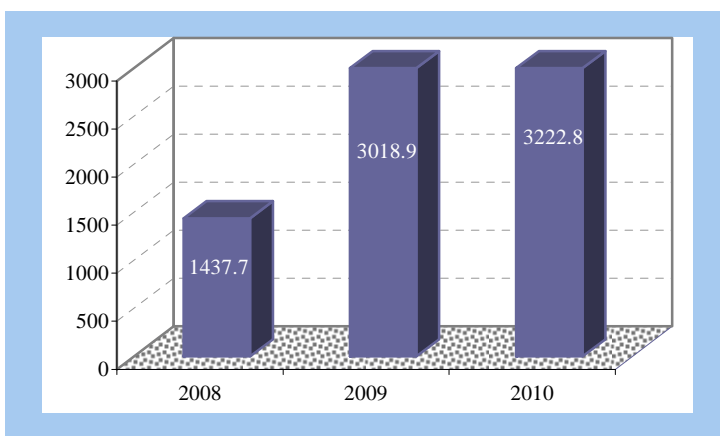
Source: NBM

Chart no. 2.21. Evolution of interest rates, %



Source: NBM

Chart no. 2.22. Dynamics of the volume of SS in circulation at the end of periode, million, lei



Source: NBM

Average annual interest rate on state securities with maturities up to one year, awarded in 2010 has decreased, registering 6.98 percent annually compared with 9.32 percent annually in 2009.

Within the hierarchy of financial market yields, the interest on loans in the economy continued to be on the first place (Chart no. 2.21). The gaining from the investment in SS were lower compared to those from bank deposits only in the first quarter of 2010, after which they were placed at a higher level and sequentially alternated with them during the rest of the year.

Along with SS placed via auctions, on March 26, 2010 the Ministry of Finance placed by underwriting bonds with floating interest rate (equivalent to the NBM base rate plus a margin set at issuance) and with a circulation term of one year, amounting to 200.0 million lei at nominal value.

The volume of state securities in circulation at the end of the year and those placed in the primary market through auctions and underwriting, increased compared to last year, from 3018.9 million lei as of December 31, 2009 to the level of 3222.8 million lei at face value as of December 31, 2010 (Chart no. 2.22).

Increase in circulation of state securities at their purchase price at the end of 2010 amounted to 200.0 million lei compared to the end of last year.

Secondary market of state securities

The interest rates on secondary market of state securities recorded a similar trend as the interest rates on primary market of state securities, remaining relatively constant since April 2010. The annual average of these rates decreased doubly compared with the previous year, reaching the level of 6.97 percent in 2010 compared to 13.12 percent recorded in 2009.

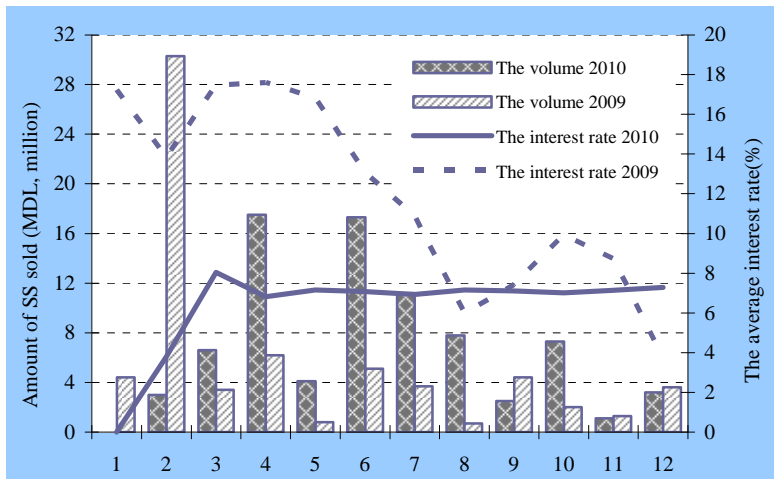
The evolution of interest rates has occurred amid a revival of the volume of transactions (visible especially in April and June 2010) due also to the increased interest of

institutional investors for state securities, which increased their share holding to 6.4 percent compared to 2.2 percent in the previous year.

The turnover on secondary market of state securities increased by 24.0 percent in 2010 compared to the previous year, reaching the level of 81.6 million lei. The most traded SS continued to be those with the residual maturity of under one year.

Interbank money market

Chart no. 2.23. Dynamics of indicators on the secondary market

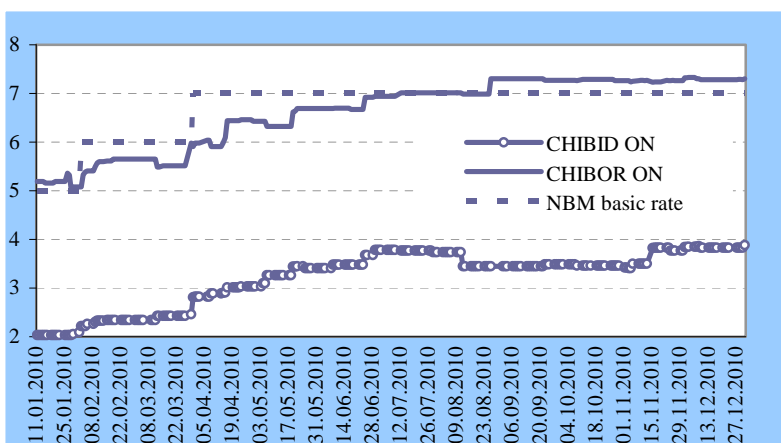


Source: NBM

share of overnight transactions representing 61.1 percent of total volume.

Interest rates on interbank loans / deposits had an uneven evolution in 2010, recording values between the minimum of 3.53 percent annually (January) and the maximum of 8.70 percent annually (November), the annual average representing 6.25 percent, decreasing by 9.58 percentage points compared to the previous year.

Chart no. 2.24. Evolution of the reference rates on the interbank market and the NBM base rate during 2010, %



Source: NBM

year, registering an upward trend: in the first half of 2010 both quotations were below the NBM base rate,

High liquidity excess in the banking system followed throughout the period of 2010, resulted in a state of passivity of the interbank market. Thus, compared with the previous year, the volume of interbank transactions declined significantly, from 6736.3 million lei in 2009 to 737.5 million lei in 2010, or by 89.1 percent.

In 2010, as in the previous years, the main component in the turnover of interbank market transactions was represented by inter-bank loans / deposits, representing 85.8 percent of total transactions. The main volume of interbank loans and deposits registered a minimum maturity of the market, the

share of overnight transactions representing 61.1 percent of total volume. Weighted average term of transactions between banks constituted 15 days in 2010, higher by 11 days than that recorded in the previous year.

Reference interest rates on interbank money market

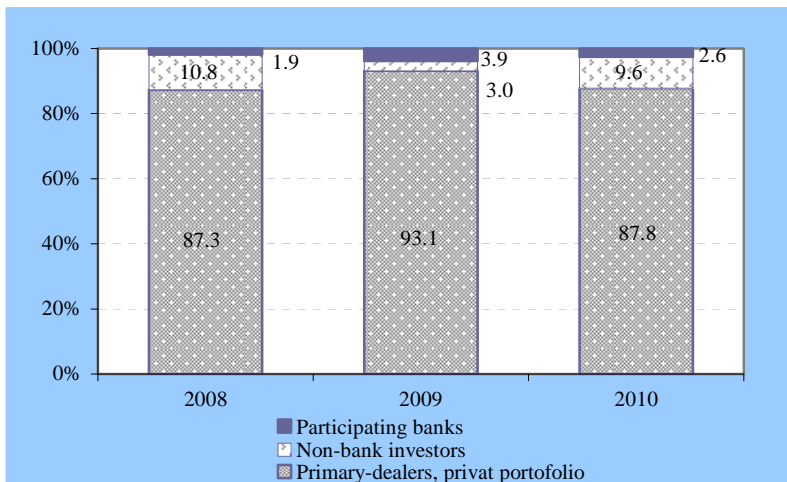
CHIBOR / CHIBID reference rate curve (indicative quotations of interest rates in the placement / attraction on the interbank market of funds in national currency) has taken over the NBM base rate adjustments and thus interrupting the downward trend recorded in the second half of 2009.

CHIBOR / CHIBID quotations with maturity of one week (1W) varied over a narrower band compared to the last

and starting with July, the CHIBOR (1W) rate rose above the base rate being at slightly higher levels. At the end of 2010, the CHIBOR (1W) quotation recorded 7.30 percent annually, and the CHIBID (1W) quotation - 3.88 percent annually.

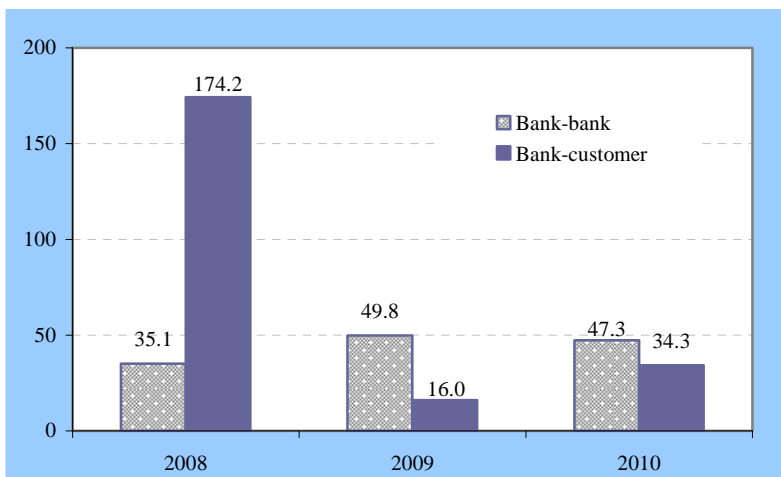
Activity of primary dealers in the state securities market

Chart no. 2.25. Structure of SS purchases at auctions on the primary market by categories of participants



Source: NBM

Chart no. 2.26. Selling-buying transactions performed by the primary dealers on the secondary market, million lei



Sursa: NBM

stipulated in the Agreements on the performance of primary dealers functions on dematerialized SS market, concluded between the NBM and primary bank-dealers, in 2010 the primary dealers provided daily SS quotes via the “Interbank messages” system.

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

National Bank of Moldova is interested in the safe, reliable, and efficient operation of payment and settlement systems for securities, due to the importance of this infrastructure for financial stability and preventing systemic risk.

During 2009, there were 12 primary dealers in the state securities market, who contributed to a good course of placement auctions of state securities on the primary market and their liquidity assurance on the secondary market.

The volume of requests presented by the primary dealers at the auctions for the placement of state securities constituted 10765.6 million lei in 2010.

Throughout 2010, the primary dealers have purchased securities in the amount of 6020.5 million lei, which is 98.2 percent of the Ministry of Finance offer (in 2009 this indicator constituted 111.5 percent).

Of the total volume of awarded bonds, 87.8 percent (5613.2 million lei) were purchased by the primary dealers on their behalf and own account, the volume of SS purchased by non-bank investors registering an increase both as a share and absolute value (Chart no. 2.25).

In 2010, the activity of the primary dealers on the secondary market of state securities intensified, particularly in bank-client type transactions, which registered a volume of 34.3 million lei (42.0 percent of the total volume of state securities transactions), compared to 16.0 million lei (24.3 percent) in the previous year (Chart no. 2.26).

In accordance with the provisions stipulated in the Agreements on the performance of primary dealers functions on dematerialized SS market, concluded between the NBM and primary bank-dealers, in 2010 the primary dealers provided daily SS quotes via the “Interbank messages” system.

The Book-Entry System of securities (BES) organized by the National Bank of Moldova, as an important part of the entire infrastructure of the securities market, provides an effective mechanism for operative and safer execution of monetary operations of the NBM, processing of operations performed by participants in relation with issuers, the performance of transfers of securities in connection with the payment system of the NBM.

State securities in the amount of 9132.5 million lei at nominal value were recorded as of December 31, 2010 in the Book-Entry System and the breakdown by issuers is shown below:

I. Ministry of Finance – SS in total amount of 5475.5 million lei, including:

- 3222.8 million lei, or 58.9 percent constituting SS issued via auctions and underwriting on primary market:
- 2252.7 million lei, or 41.1 percent constituting SS issued and delivered to the National Bank of Moldova.

II. National Bank of Moldova – NBM certificates (NBC) amounting to 3657.0 million lei.

Total amount of SS recorded in BES at nominal value by holders is as follows:

Banks

- as of 31.12.2010 - 2872.4 million lei
- as of 31.12.2009 - 2904.3 million lei

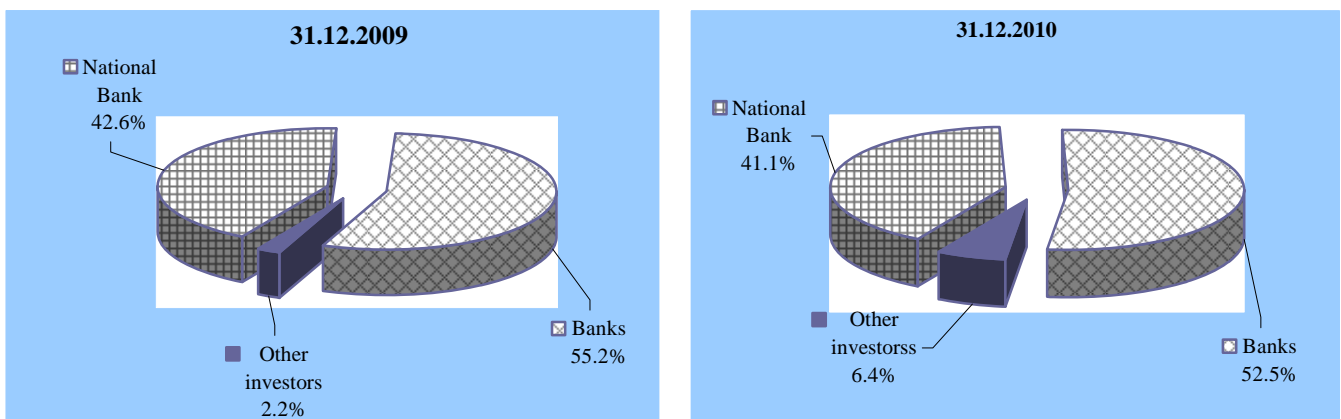
Other investors (including the Deposit Guarantee Fund in the banking system)

- as of 31.12.2010 - 350.4 million lei
- as of 31.12.2009 - 114.6 million lei

National Bank of Moldova (SS delivered to the NBM as a result of the conversion of loans extended previously to the Government and re-issued subsequently)

- as of 31.12.2010 - 2252.7 million lei
- as of 31.12.2009 - 2238.6 million lei

Chart no. 2.27. Structure of state securities in circulation in the holders' profile



Source: NBM



2.4 Activity of the National Bank of Moldova as fiscal agent of the state

Government debt to the National Bank of Moldova

On December 31, 2010 the state debt to the NBM consists entirely of SS amounted to 2213.4 million lei (at purchase price), remaining at the level of the previous year.

In accordance with the Agreement on the balance of state debt contracted earlier from the National Bank of Moldova in 2010, concluded between the Ministry of Finance and the National Bank of Moldova on December 21, 2009, the National Bank of Moldova during 2010 conducted from its own portfolio re-issuance of state securities that reached to the maturity.

State securities had typically maturities of 91 days and were obtained in the NBM portfolio at the average interest rates on SS with the same maturity, sold at recent auctions of securities placement on the primary market, which have been in the range of 3.28-7.23 percent annually.

The weighted average interest rate on SS held in the portfolio as of December 31, 2010 recorded the level of 7.10 percent annually and the average maturity of state securities in the portfolio on the last day of the reporting period constituting 47 days.

The market value of state securities held in NBM portfolio as of December 31, 2010 constituted 2232.5 million lei.

On December 31, 2010, the debit balance of general reserve fund registered a value of 745.4 million lei. Under the legislation, the Ministry of Finance is obliged to transfer to the NBM securities in the respective volume.

State deposits placed at the National Bank of Moldova

Under the Agreement between the National Bank of Moldova and the Ministry of Finance of December 5, 2007 and the provisions of the Regulation on acceptance of deposits from the Ministry of Finance, approved by the Decision no. 358 of the Council of Administration of the NBM of December 28, 2006, the Ministry of Finance has placed at the National Bank of Moldova in 2010 deposits in MDL with terms from 1 month to 1 year in total volume of 239.5 million lei. Compared with 2009, total deposits with NBM fell 79.5 times due to the decline in available government financial resources. On December 31, 2010, the balance of placed deposits constituted 49.0 million lei.

The deposits were placed with an interest rate calculated based on the weighted average interest rates on banking deposits with the same term, available for the last three months.

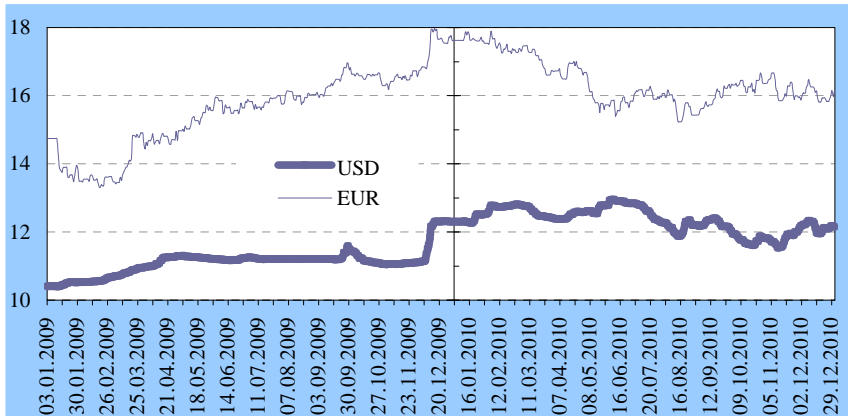
The weighted average rate on deposits placed during 2010 recorded the level of 10.38 percent annually, compared to 21.27 percent annually for deposits placed in 2009.

As of December 31, 2010 the weighted average rate on outstanding deposits constituted 12.57 percent annually, decreasing by 6.22 percentage points compared to the rate recorded for outstanding deposits as of December 31, 2009.

The average term of outstanding deposits at the end of the year constituted 365 days, up to 119 days compared to the previous year.

2.5 Foreign Exchange Market

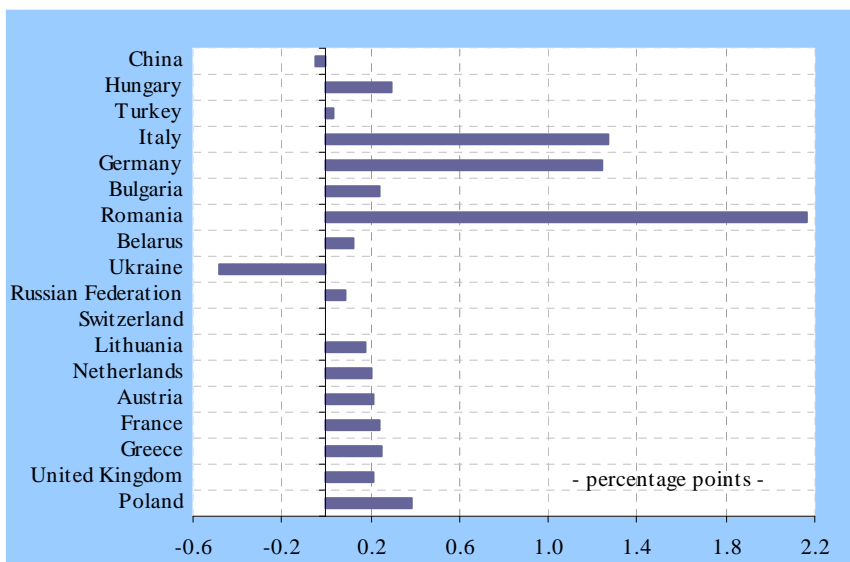
Chart no. 2.28. Fluctuations of the official exchange rate of MDL against USD and EUR (MDL)



Source: NBM

During 2010, the official nominal exchange rate of the national currency against the U.S. dollar appreciated by 1.2 percent and against the EUR - by 8.6 percent (Chart no. 2.28). The real effective exchange rate of the national currency (REER), calculated as compared to December 2000 appreciated by 6.6 percentage points compared to the end of 2009¹. Its amendment was determined mainly by significant nominal depreciation of foreign currencies of the countries from the region against the U.S. dollar such as Euro - by 8.1 percent, the Romanian leu - by 9.5 percent and the Hungarian forint - by 11.2 percent. Thus the essential contribution of European Union member countries in the real effective exchange rate appreciation is obvious (Chart no. 2.29). To the real appreciation of national currency against the currencies of the major trading partners have contributed, in particular, Romania - by 2.2 percentage points, Italy - by 1.3 percentage points, Germany - by 1.2 percentage points.

Chart no. 2.29. Contribution of the main commercial traders of the RM to the real effective exchange rate appreciation during 2010

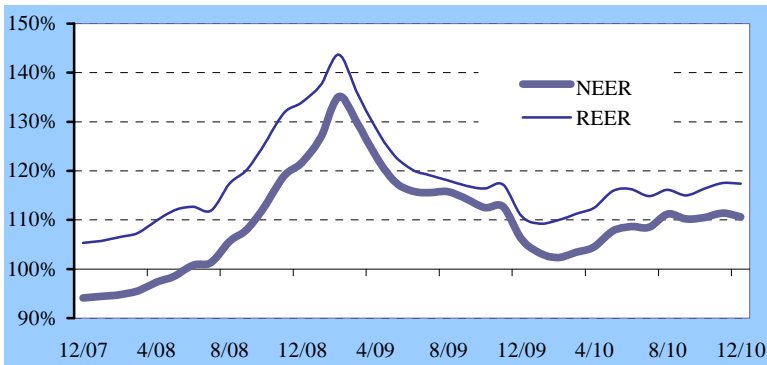


Source: NBM

Exchange rate fluctuation of MDL in 2010 reflected mainly changes in the amount of cash in foreign currency on the domestic foreign exchange market, following the variations in input and output of foreign currency. During January 1 – June 4, 2010 the nominal exchange rate of the national currency against the USD depreciated by 5.2 percent compared to the end of 2009 and on June 4, 2010 reached the maximum quote of 12.9463. The depreciation of the national currency during this period was mostly determined by a negative net flow of foreign currency in the amount of minus USD 61.2 million. In addition, the reduced coverage of the net sales of foreign currency of licensed banks to legal entities with the net supply of foreign currency from individuals, which accounted for 85.5 percent, has also contributed to the exchange rate depreciation. It should be mentioned that the positive net flow of private

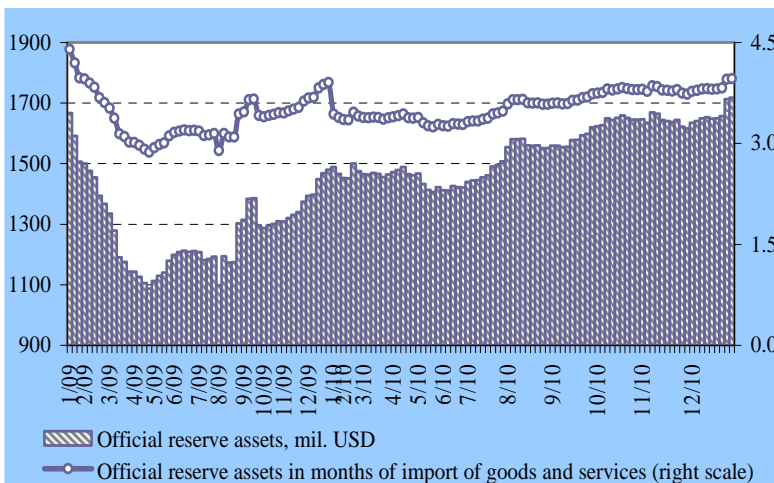
¹ During 2010, the methodology of calculation of real effective exchange rate of national currency has been amended, including expanding the number of countries – the major trade partners of the Republic of Moldova, whose share in foreign trade was less than one percent.

Chart no. 2.30. Dynamics of the nominal and real effective exchange rate of the national currency calculated based on the weight of the main commercial traders (Dec. 2000 - 100%)



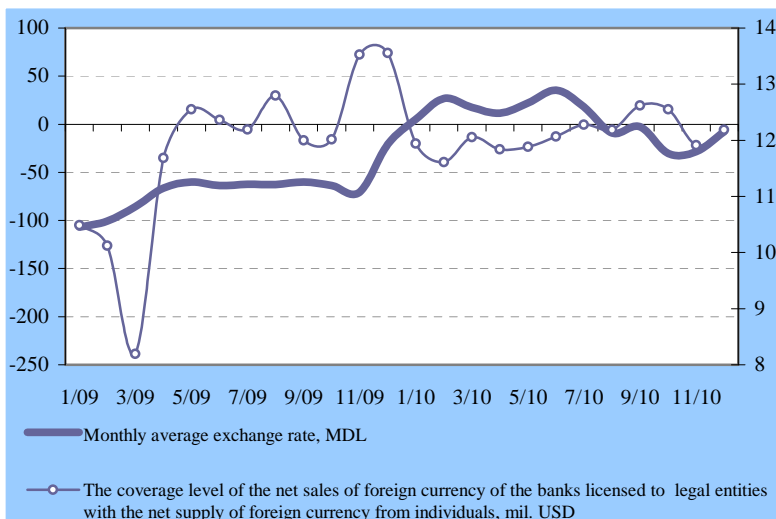
Source: NBM

Chart no. 2.31. Dynamics of indicators during 2009 - 2010



Source: NBM

Chart no. 2.32. Dynamics of indicators during 2009 - 2010



Source: NBM

external loans, grants and technical assistance amounting to USD 61.4 million contributed to the mitigation of the foreign exchange rate depreciation of the national currency.

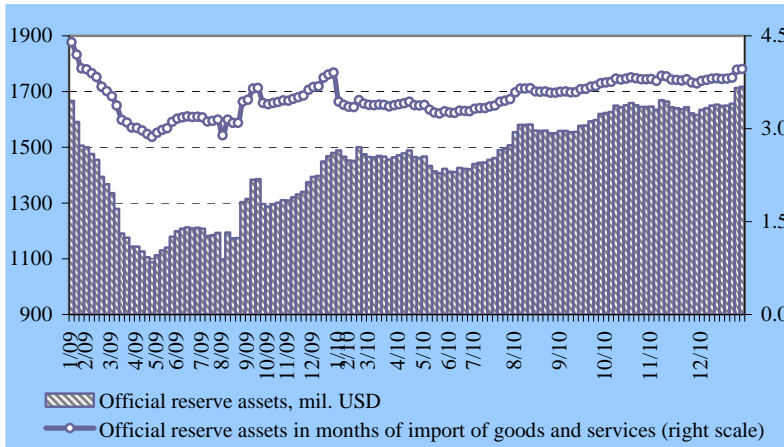
The trend of depreciation of the national currency continued during June-July 2010, which is not specific for this period. This was due to significant payments related to foreign trade carried out by the economic agents during this period. However, the net supply of foreign currency from individuals (USD 350.5 million) has covered the net sales of foreign currency to the economic agents of the licensed banks at a rate of 96.3 percent (USD 364.0 million).

The appreciation trend of the national currency that began in August 2010 continued until the middle of November, reaching the maximum level of 11.5282 million lei against USD 1 as of November 11, 2010. This appreciation of the nominal official exchange rate of the national currency has been determined by a positive net flow of USD 48.2 million in the period of August-October 2010. At the same time, during this period, the net supply of foreign currency from individuals (USD 556.1 million) created premises to cover in proportion of 105.5 percent the net sales of foreign currency to legal entities (USD 527.1 million).

In the second half of November and December 2010, on the background of decreasing the coverage of net sales of foreign currency of licensed banks to legal entities with the net supply of foreign currency from individuals (87.8 and 96.7 percent, respectively), the nominal official exchange rate of the national currency against the U.S. dollar has depreciated slowly as compared to November 11, 2010, when it reached the highest appreciation level in 2010.

During 2010, the net volume of NBM transactions carried out on the interbank foreign exchange market constituted the

Chart no. 2.33. Evolution of foreign exchange reserves expressed in months of goods and services import



Source: NBM

equivalent of USD 19.3 million, including USD 85.2 million - foreign currency purchases (when it was recorded an increased supply of foreign currency) and USD 65.9 million - foreign currency sales (in the periods with foreign currency demand). It should be mentioned that USD 2.3 million from these transactions were SWAP transactions.

All the factors, both on the internal and external foreign exchange market, contributed to strengthening state foreign exchange reserves, which in 2010 rose to USD 237.4 million, or by 16.0 percent, and accounted for USD 1717.7 million at the end of December

2010 and covering about 4.0 months of imports of goods and services² (Chart no. 2.33). The growth of foreign reserves was mainly conditioned by the IMF installments to the NBM and Ministry of Finance within the *Extended Financing Mechanism and Extended Credit Mechanism*, respectively, as well as by the receipt of grants for budget support from the European Commission and by the credit for budget support from the *International Development Association*.

Foreign exchange market of the Republic of Moldova. Activity of the NBM on the foreign exchange market.

Foreign exchange market of the Republic of Moldova in 2010 indicates a downward trend in transactions carried out on the foreign exchange market against MDL.

Total turnover of traded foreign currencies against MDL in this period amounted to the equivalent of USD 9711.6³ million, decreasing by 3.8 percent compared to 2009 (Table no. 2.2). Within the structure of the total turnover, the foreign currency purchases on the foreign exchange market against MDL constituted USD 4820.9 million, and sales - USD 4890.7 million.

Table no. 2.2. Total turnover of the domestic foreign exchange market operations (purchases/sales of the foreign currency against MDL) (equivalent in million USD)

	Domestic foreign exchange transfer						Domestic foreign exchange cash market			Domestic foreign exchange market
	NBM	Resident banks	Non-resident banks	Legal entities	Miscellaneous	Total	Banks' foreign exchange rate	Foreign currency offices	Total	
<i>Equivalent in millions USD</i>										
2009	857.2	431.1	63.2	4632.7	712.4	6696.6	2796.1	607.2	3403.3	10099.9
2010	151.1	477.8	28.0	5126.9	673.2	6457.0	2589.4	665.2	3254.6	9711.6
<i>Weight, %</i>										
2009	8.5	4.3	0.6	45.9	7.0	66.3	27.7	6.0	33.7	100.0
2010	1.6	4.9	0.3	52.8	6.9	66.5	26.7	6.8	33.5	100.0
<i>Growth rate compared to the previous year, %</i>										
2010	-82.4	10.8	-55.7	10.7	-5.5	-3.6	-7.4	9.6	-4.4	-3.8

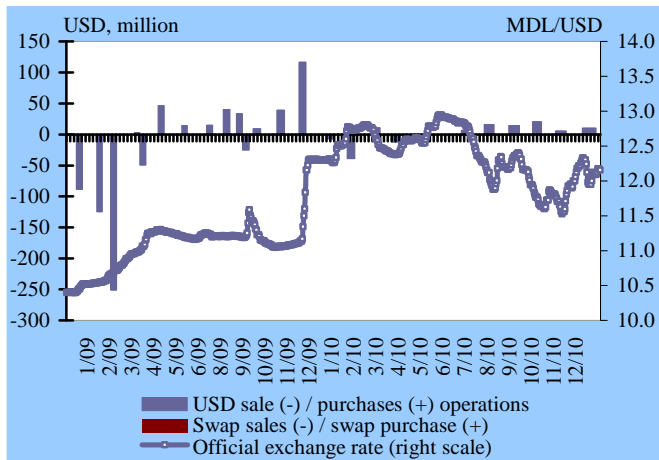
Source: Reports on purchases and sales operations of foreign currency made by licensed banks and the NBM data.

Source: Reports on the amount of purchase-sale of foreign currency registered at the foreign exchange offices and exchange points near hotels, and the NBM data.

² Calculated based on the import of goods and services forecast for 2011.

³ The amount does not include the purchases/sales against MDL carried out by the NBM with the Ministry of Finance.

Chart no. 2.34. Evolution of the official exchange rate of USD/MDL and NBM interventions



Source: NBM

National Bank of Moldova intervened actively in the interbank foreign exchange market, purchasing foreign currency in the amount of USD 318.5 million and selling foreign currency in the amount of USD 538.7 million, the net sales constituting USD 220.2 million. In 2010, on the background of economic recovery after the crisis, the National Bank of Moldova purchased foreign currency in the amount of USD 85.2 million and sold foreign currency in the amount of USD 65.9 million, the net purchases constituting USD 19.3 million (Chart no. 2.34).

The volume of foreign exchange transactions carried out on the domestic foreign exchange market during 2010 has registered an upward trend, reaching the maximum amount of USD 2889.6 million in the fourth quarter of 2010.

Both the turnover of foreign exchange transfer market and foreign exchange cash market decreased by 3.6 percent and 4.4 percent respectively in 2010 compared to 2009.

Within the structure of the total turnover of transactions carried out on the foreign exchange market, the share of legal entities increased by 6.9 percentage points, during the reporting period, while the share of the NBM has declined in the same proportion, as compared to 2009.

In the context of economic crisis in 2009, the

Table no. 2.3. Structure of turnover of foreign exchange transactions on domestic foreign exchange market

	Foreign exchange transfer market		Foreign exchange cash market		Total foreign exchange market		In total turnover
	purchases	sales	purchases	sales	purchases	sales	
2009	<i>Weight, %</i>						
USD	70.0	68.3	31.1	35.3	50.6	63.1	57.0
EUR	27.7	29.1	64.3	59.9	46.0	34.0	39.8
RUB	2.2	2.5	3.9	2.7	3.0	2.5	2.8
Other currencies	0.1	0.1	0.7	2.1	0.4	0.4	0.4
2010	<i>Weight, %</i>						
USD	57.0	64.4	31.4	35.2	42.9	60.1	51.5
EUR	38.8	32.3	61.6	57.5	51.4	36.0	43.7
RUB	4.1	3.1	6.1	4.2	5.2	3.3	4.2
Other currencies	0.1	0.2	0.9	3.1	0.5	0.6	0.6

4.2 percent and other currencies - 0.6 percent (Table no.2.3).

During 2010, the USD maintained its dominant position in both the total turnover of foreign exchange transactions conducted in domestic foreign exchange market and in the total turnover of foreign exchange transactions conducted in foreign exchange transfer market, yielding the dominant position to EUR in the total turnover of foreign exchange cash market.

Unlike last year, the EUR share has increased by 3.9 percentage points in 2010 (from 39.8 percent to 43.7 percent) and the USD share declined by 5.5 percentage points (from 57.0 percent to 51.5 percent).

It should be also mentioned that the EUR share as for purchases and sales on foreign exchange transfer market increased by 11.0 percentage points (from 27.7 percent to 38.8 percent) and by 3.2 percentage points respectively (from 29.1 percent to 32.3 percent) and as for purchases and sales on foreign exchange cash market, the EUR share decreased by 2.7 percentage points (from 64.3 percent to 61.6 percent) and by 2.4 percentage points respectively (from 59.9 percent to 57.5 percent).

The analysis of the total turnover structure of foreign exchange transactions on domestic foreign exchange market during 2009 and 2010, by currencies, reveals the predominance of freely convertible currency transactions. In 2010, the average annual share of foreign currencies in total turnover has evolved as follows: USD - 51.5 percent, EUR - 43.7 percent, RUB -

Table no. 2.4. The main sources of foreign currency purchase by the licensed banks from Moldova in the domestic foreign exchange market (the equivalent in millions USD)

	Foreign currency purchases on the foreign exchange market against MDL from:							TOTAL
	NBM	Resident banks	Non-resident banks	Legal entities	Exchange offices	Individuals	Various	
<i>Equivalent in millions, USD</i>								
2009	538.7	215.8	32.6	1272.8	0.4	2343.9	270.3	4674.5
2010	65.9	238.4	21.0	1518.8	1.9	2386.7	254.1	4486.8
<i>Weight, %</i>								
2009	11.5	4.6	0.7	27.2	0.0	50.2	5.8	100.0
2010	1.5	5.3	0.5	33.9	0.0	53.2	5.6	100.0
<i>Growth rate, compared to the previous year, %</i>								
2010	-87.8	10.5	-35.6	19.3	4.8 times	1.8	-6.0	-4.0

Source: Reports on foreign currency buying / selling operations made by banks on the foreign exchange market and balances of the accounts in foreign currency of banks clients, and the NBM data.

Table no. 2.5. The main selling directions of foreign currency by licensed banks of the Republic of Moldova on the domestic foreign exchange market (equivalent in million, USD)

	Foreign currency sales against MDL on the foreign exchange market							TOTAL
	NBM	Resident banks	Non-resident banks	Legal entities	Exchange offices	Individuals	Various	
<i>Equivalent in millions, USD</i>								
2009	318.5	215.3	30.6	3359.9	0.0	652.6	241.3	4818.2
2010	85.2	239.4	7.0	3608.1	0.0	436.5	183.4	4559.6
<i>Weight, %</i>								
2009	6.6	4.5	0.6	69.7	0.0	13.6	5.0	100.0
2010	1.9	5.2	0.2	79.1	0.0	9.6	4.0	100.0
<i>Growth rate, compared to the previous year, %</i>								
2010	-73.2	11.2	-77.1	7.4	-	-33.1	-24.0	-5.4

Source: Reports on foreign currency buying / selling operations made by banks on the foreign exchange market and balances of the accounts in foreign currency of banks clients, and the NBM data.

by USD 246.0 million (by 19.3 percent), as well as from resident banks - by USD 22.6 million (by 10.5 percent) and individuals – by USD 42.8 million (1.8 percent).

In 2010, purchases of foreign exchange from licensed banks on the foreign exchange market were mainly made from: individuals (53.2 percent), legal entities (33.9 percent), resident banks (5.3 percent) and NBM (1.5 percent).

Table no. 2.6. Net balance of purchases/sales operations of foreign currency against MDL (equivalent in million, USD)

	Net balance							Total
	NBM	Resident banks	Non-resident banks	Legal entities	Exchange offices	Individuals	Various	
<i>Equivalent in millions, USD</i>								
Quarter I	464.3	1.5	-21.8	-529.8	0.0	59.9	10.8	-15.1
Quarter II	-16.1	0.1	0.4	-476.3	0.0	461.4	1.9	-28.6
Quarter III	-63.1	-0.3	1.8	-572.4	0.1	580.3	7.2	-46.4
Quarter IV	-164.9	-0.8	21.6	-508.6	0.3	589.7	9.1	-53.6
2009	220.2	0.5	2.0	-2087.1	0.4	1691.3	29.0	-143.7
Quarter I	35.2	-0.2	1.9	-493.2	0.2	419.8	15.6	-20.7
Quarter II	17.5	0.0	2.2	-528.6	0.4	465.0	26.3	-17.2
Quarter III	-35.0	-0.8	8.6	-556.6	0.5	567.8	8.4	-7.1
Quarter IV	-37.0	0.0	1.3	-510.9	0.8	497.6	20.4	-27.8
2010	-19.3	-1.0	14.0	-2089.3	1.9	1950.2	70.7	-72.8

Compared with 2009, sales of foreign currency of the licensed banks of the Republic of Moldova, made on the domestic foreign exchange market, fell by USD 258.6 million in 2010, or by 5.4 percent, being

determined, in particular, by the decrease in sales to the NBM by USD 233.3 million (73.2 percent), to non-resident banks – by USD 23.6 million (77.1 percent) and to individuals - by USD 216.1 million (33.1 percent).

The sales of foreign currency made by licensed banks on the domestic foreign exchange market in 2010 were made primarily for legal entities (79.1 percent), individuals (9.6 percent), resident banks (5.2 percent) and NBM (1.9 percent).

The surplus of foreign currency on the domestic foreign exchange market in the amount of USD 2036.8 million (which derives primarily from individuals in the amount of USD 1950.2 million, or 95.7 percent), purchased by banks in 2010, was sold to legal entities - USD 2089.3 million.

Dynamics of banks’ assets and liabilities in foreign currency

Table no. 2.7. Balance sheet assets in foreign currency of banks (equivalent in million USD)

	Balance as of 31.12.2009	Weight in total, %	Balance as of 31.12.2010	Weight in total, %	Change against as of 31.12.2009 %
Granted loans	844.4	59.6	908.0	64.0	7.5
Disposable funds in foreign currency	437.3	30.9	377.0	26.6	-13.8
Required reserves in foreign currency	111.6	7.9	113.2	8.0	1.4
Other assets in foreign currency	22.8	1.6	20.4	1.4	-10.5
Total of balance sheet assets in foreign currency	1416.1	100.0	1418.6	100.0	0.2

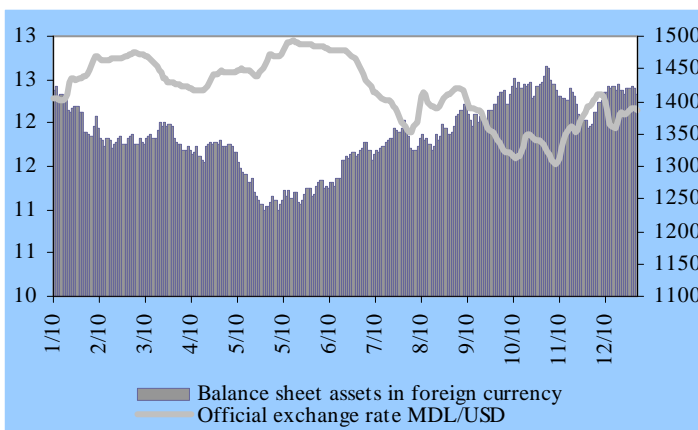
As of December 31, 2010 the banks’ *balance sheet assets in foreign currency*⁴ (granted loans, available funds, required reserves and other assets in foreign currency) increased slightly by 0.2 percent as compared to December 31, 2009 (from USD 1416.1 million to USD 1418.6 million).

Out of the total balance sheet assets in foreign currency, the balance of credits granted in foreign currency held the highest weight and constituted 64.0 percent at December 31, 2010, increasing by 4.4 percentage points as compared to December 31, 2009. This indicator has varied during 2010 from the minimum level of 58.9 percent to the maximum level of 66.2 percent. The balance of loans in foreign currency increased by the equivalent of USD 63.6 million (from USD 844.4 million to USD 908.0 million), or by 7.5 percent, as compared with December 31, 2009.

As for the currency structure, the balance of loans granted in foreign currency by types of currencies has recorded the following share at December 31, 2010: EUR - 57.6 percent, USD - 42.4 percent. In absolute values, the balance of loans in EUR and USD has increased by the equivalent of USD 26.3 million (from USD 496.9 million to USD 523.2 million), or by 5.3 percent and by the equivalent of EUR 37.4 million respectively (from EUR 347.4 million to EUR 384.8 million), or by 10.8 percent.

On December 31, 2010 the share of *disposable funds in foreign currency* constituted 26.6 percent in total balance sheet assets in foreign currency of licensed banks. This indicator has varied during the year from the minimum level of 24.3 percent to the maximum level of 31.9 percent. At the end of 2010, the disposable funds in foreign currency, as compared to December 31, 2009, have decreased in absolute values with the equivalent of USD 60.3 million (from USD 437.3 million to USD 377.0 million)

Chart no. 2.35. Evolution of balance sheet assets in foreign currency of the licensed banks (million, USD) and of the official exchange rate of national currency (MDL/USD) against U.S. dollar



Source: NBM

varied during the year from the minimum level of 24.3 percent to the maximum level of 31.9 percent. At the end of 2010, the disposable funds in foreign currency, as compared to December 31, 2009, have decreased in absolute values with the equivalent of USD 60.3 million (from USD 437.3 million to USD 377.0 million)

⁴ Excluding the adjustment position of assets in foreign currency

Table no. 2.8. Loans in foreign currency granted by banks (equivalent in million USD)

	Balance as of 31.12.2009	Weight in total, %	Balance as of 31.12.2010	Weight in total, %	Change against as of 31.12.2009, %
EUR	496.9	58.9	523.2	57.6	5.3
USD	347.4	41.1	384.8	42.4	10.8
RUB	0.1	0.0	0.0	0.0	-100.0
Total	844.4	100.0	908.0	100.0	7.5

Table no. 2.9. Disposable funds in foreign currency of the licensed banks (equivalent in million, USD)

	Balance as of 31.12.2009	Weight in total, %	Balance as of 31.12.2010	Weight in total, %	Change against as of 31.12.2009, %
„Nostro” accounts opened abroad	163.5	37.4	118.5	31.4	-27.5
Placements and overnight credits	55.0	12.6	88.0	23.4	60.0
Cash	125.6	28.7	84.2	22.3	-33.0
Placements abroad of licensed banks	93.2	21.3	81.9	21.7	-12.1
State securities	0.0	0.0	4.4	1.2	-
Total	437.3	100.0	377.0	100.0	-13.8

Table no. 2.10. Disposable funds in foreign currency of banks, by types of currency (equivalent in million USD)

	Balance as of 31.12.2009	Weight in total, %	Balance as of 31.12.2010	Weight in total, %	Change against as of 31.12.2009 %
EUR	297.8	68.1	240.8	63.9	-19.1
USD	125.9	28.8	119.5	31.7	-5.1
RUB	10.3	2.4	12.1	3.2	17.5
Other currencies	3.3	0.7	4.6	1.2	39.4
Total	437.3	100.0	377.0	100.0	-13.8

percent and the maximum level of 8.3 percent.

Balance of foreign currency-linked assets constituted the equivalent of USD 67.4 million as of December 31, 2010, increasing by USD 23.5 million as compared to December 31, 2009. The balance of foreign currency-linked loans recorded during 2010 the minimum value of USD 43.3 million and maximum value of USD 72.3 million.

The banks' *balance sheet liabilities in foreign currency* recorded during the reporting period an increase by the equivalent of USD 16.2 million (from USD 1443.1 million at December 31, 2009 to USD 1459.3 million at December 31, 2010), or by 1.1 percent, determined mainly by the increase in balance of deposits of bank's clients.

The clients' term deposits in foreign currency held at December 31, 2010 the most significant weight in total balance sheet liabilities in foreign currency (52.4%), increasing by the equivalent of USD 27.8 million as compared to the end of 2009 (from USD 736.7 million to USD 764.5 million), or by 3.8 percent. The term deposits of non-residents increased by 17.1 percent as of December 31, 2010 (from USD 20.5 million on December 31, 2009 to USD 24.0 million on December 31, 2010). During 2010, the share of term deposits of non-residents in total term deposits of clients ranged between 2.6 – 3.2 percent.

or by 13.8 percent. This decrease was determined the increase of loans granted in foreign currency by 7.5 percent, the imports revival following the economic crisis and the increase of payments related to import operations by 17.7 percent.

The disposable funds in foreign currency of licensed banks on December 31, 2010 had the following structure: “Nostro” accounts opened abroad – 31.4 percent, overnight placements – 23.4 percent, cash in foreign currency – 21.7 percent and securities in foreign currency – 1.2 percent.

On December 31, 2010 the balance of disposable funds in foreign currency has recorded the following structure by types of currency: EUR - 63.9 percent, USD - 31.7 percent, Russian rubles - 3.2 percent, other currencies - 1.2 percent.

The balance of *required reserves in foreign currency* constituted 8.0 percent of total balance sheet assets in foreign currency of licensed banks at December 31, 2010 and during the reporting period ranged from the minimum level of 7.8

Table no. 2.11. Balance sheet liabilities in foreign currency of banks (equivalent in million USD)

	Balance as of 31.12.2009	Weight in total, %	Balance as of 31.12.2010	Weight in total, %	Change against as of 31.12.2009, %
Clients term deposits	736.7	51.1	764.5	52.4	3.8
Clients various deposits	265.2	18.4	322.7	22.1	21.7
Received credits	261.6	18.1	282.7	19.4	8.1
Term deposits of banks from abroad	136.0	9.4	53.2	3.6	-60.9
„LORO” accounts of banks from abroad	1.2	0.1	1.7	0.1	41.7
Other liabilities in foreign currency	42.4	2.9	34.5	2.4	-18.6
Total	1443.1	100.0	1459.3	100.0	1.1

slightly – by 1.4 percent (from USD 14.5 million as of December 31, 2009 to USD 14.7 million as of December 31, 2010). During 2010, the share of various deposits of non-residents in total various deposits of clients ranged between 4.6 percent - 9.4 percent.

Table no. 2.12. Total deposits in foreign currency of bank's clients (equivalent in million, USD)

	Balance as of 31.12.2009	Weight in total %	Balance as of 31.12.2010	Weight in total %	Changes against 31.12.2009, %
Euro	704.3	70.3	760.5	70.0	8.0
USD	288.9	28.8	317.1	29.2	9.8
RUB	6.5	0.7	5.9	0.5	- 9.2
Other currencies	2.2	0.2	3.7	0.3	68.2
Total	1001.9	100.0	1087.2	100.0	8.5

equivalent of USD 21.1 million (from USD 261.6 million to USD 282.7 million), or by 8.1 percent compared to the end of 2009.

The balance of *term deposits in foreign currency of banks from abroad* decreased by the equivalent of USD 82.8 million as of December 31, 2010 compared to the end of 2009 (from USD 136.0 million to USD 53.2 million), or by 60.9 percent.

The main balance sheet liabilities in foreign currency of banks (clients' term deposits and various deposits) have increased by the equivalent of USD 85.3 million (from USD 1001.9 million as of December 31, 2009 to USD 1087.2 million as of December 31, 2010), or by 8.5 percent.

The share of the balance of deposits in EUR in total of clients' deposits in foreign currency constituted 70.0 percent at the end of the reporting period, decreasing by 0.3 percentage points compared to December 31, 2009, the minimum share in 2010 being of 66.1 percent and the maximum of 70.5 percent. The balance of clients' deposits in EUR increased by the equivalent of USD 56.2 million, or 8.0 percent compared to December 31, 2009, constituting the equivalent of USD 760.5 million at the end of 2010.

On December 31, 2010 the share of balance of clients' deposits in U.S. dollars increased by 0.4 percentage points compared to the end of 2009 (from 28.8 to 29.2 percent). During 2010, the maximum share of these deposits was 32.8 percent, and the minimum - 28.7 percent. The balance of deposits in U.S. dollars constituted USD 317.1 million at the end of reporting period, increasing by USD 28.2 million, or 9.8 percent compared to December 31, 2009.

Deposits in RUB and other currencies constituted an insignificant part of total clients' deposits in foreign currency. At the end of analyzing period, the balance of deposits in RUB constituted the equivalent of USD 5.9 million, their share in total clients' deposits constituting 0.5 percent.

At the end of 2010, the share of customers' *various deposits in foreign currency* represented 22.1 percent of total balance sheet liabilities in foreign currency, increasing in absolute values by the equivalent of USD 57.5 million (from USD 265.2 million as of December 31, 2009 to USD 322.7 million as of December 31, 2010), or by 21.7 percent.

From these deposits, the various deposits of non-residents increased

The share of deposits of non-residents of the total clients' deposits amounted to 3.6 percent (in 2009 3.5 percent), ranging between 3.4 percent – 4.8 percent during 2010.

On December 31, 2010 the share of balance of *credits received in foreign currency* in the total balance sheet liabilities in foreign currency of banks constituted 19.4 percent, increasing in absolute values by the

Off-balance sheet assets and liabilities in foreign currency of banks showed a significant decrease at the end of reporting period compared to December 31, 2009. Off-balance sheet assets decreased by 48.4 percent and off-balance sheet liabilities – by 47.9 percent.

On December 31, 2010 the off-balance sheet assets in foreign currency had the following structure: purchases within term operations - 68.0 percent, purchases within current operations - 27.8 percent, and other off-balance sheet assets – 4.2 percent.

Table no. 2.13. Contingent assets and liabilities of licensed banks in foreign currency (equivalent in million, USD)

	Balance as of 31.12.2009	Weight, %	Balance as of 31.12.2010	Weight, %	Changes against 31.12.2009 %
Contingent assets in foreign currency					
Current purchases	211.0	92.4	32.7	27.8	-84.5
Purchases on term	8.6	3.8	80.1	68.0	9.3 times
Other contingent assets	8.8	3.8	5.0	4.2	-43.2
Total contingent assets	228.4	100.0	117.8	100.0	-48.4
Contingent liabilities in foreign currency					
Current sales	211.0	95.8	34.5	30.1	-83.6
Sales on term	9.2	4.2	80.2	69.9	8.7 times
Other contingent liabilities	0.0	0.0	0.0	0.0	-
Total contingent liabilities	220.2	100.0	114.7	100.0	-47.9
Total Regulatory Capital (TRC)	531.5		578.4		
(Contingent assets - Contingent liabilities)/TRC (%)	1.5		0.5		

Simultaneously, the structure of off-balance sheet liabilities in foreign currency was as follows: sales within term operations – 69.9 percent and sales within current operations - 30.1 percent.

The difference between off-balance sheet assets and liabilities in foreign currency reported to the total regulatory capital reached the level of 0.5 percent as of December 31, 2010.

As compared to the end of December 2009, the open foreign currency position⁵ (long) of the licensed banks for all currencies increased by 24.7 percent (from USD 29.9 million to USD 37.3

million) as of December 31, 2010 including for EUR - by 2.2 times (from USD 2.9 million to USD 6.3 million) and USD - by 11.1 percent (from USD 22.6 million to USD 25.1 million).

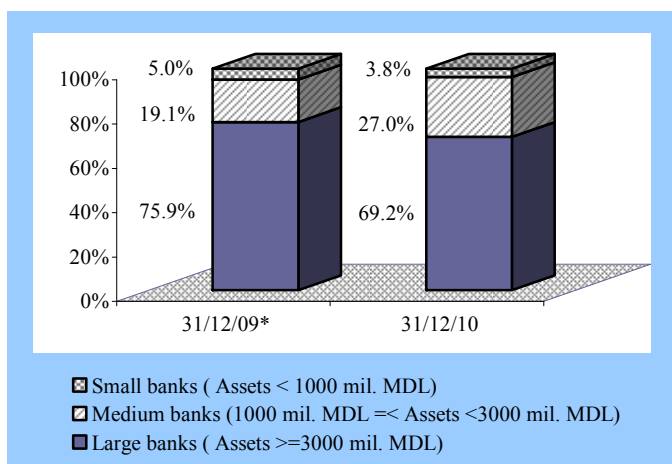
⁵ Including foreign currency-linked assets and liabilities

2.6 Supervision and regulation of banks' activity¹

General Information

On December 31, 2010 in Moldova there were operating 15 banks, licensed by the National Bank of Moldova, including four branches of foreign banks and financial groups. The total number of banking institutions constituted 1160, of which 293 are branches and 867 representative offices. During 2010, 11 branches and 65 representative offices were opened and 6 branches and 56 representative offices were closed.

Chart no. 2.36. Assets of the banking sector of the Republic of Moldova by groups of banks in the period of 31.12.2009- 31.12.2010, %



* Data as of 31.12.2009 in the text are adjusted according to the external audit results
Source: NBM

The total number of staff employed in the banking system as of December 31, 2010 was 10933, increasing during the year by 49 persons. On average, each employee in the banking sector has assets in the value of 3.9 million lei, which is 5.4 percent more than at the end of 2009.

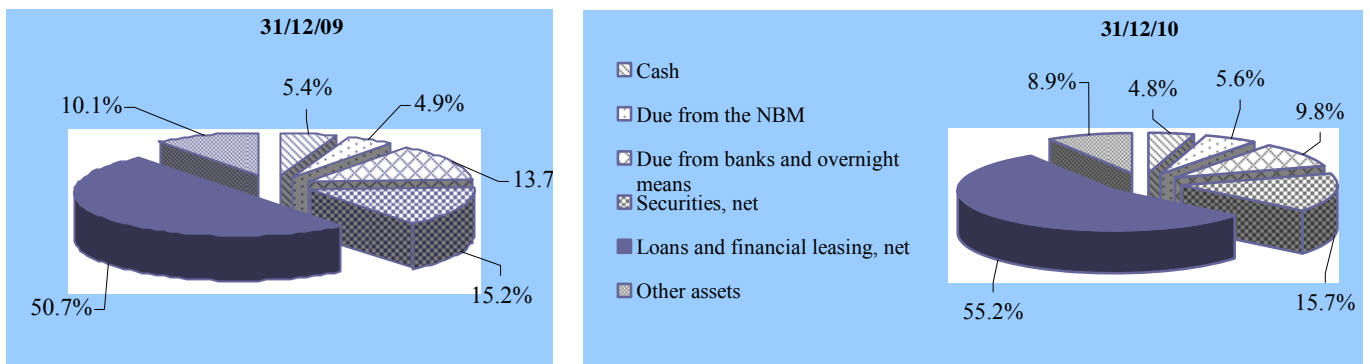
Assets of banks

In 2010, the banking system in Moldova has registered positive trends.

Total assets of the banking system as of December 31, 2010 totaled 42302.9 million lei, increasing by 2366.5 million lei (5.9 percent) as compared to December 31, 2009. However, their weight in GDP has decreased from 66.1 to 58.9 percent (Chart no. 2.38), as a result of a higher growth rate of GDP in 2010 compared to the assets growth rate. The asset growth was determined both by the increase of banks' liabilities by 2002.3 million lei (6.1 percent) and

the increase of equity capital by 364.2 million lei (5.3 percent). The concentration of banking assets during the analyzed period is shown in the Chart no. 2.36.

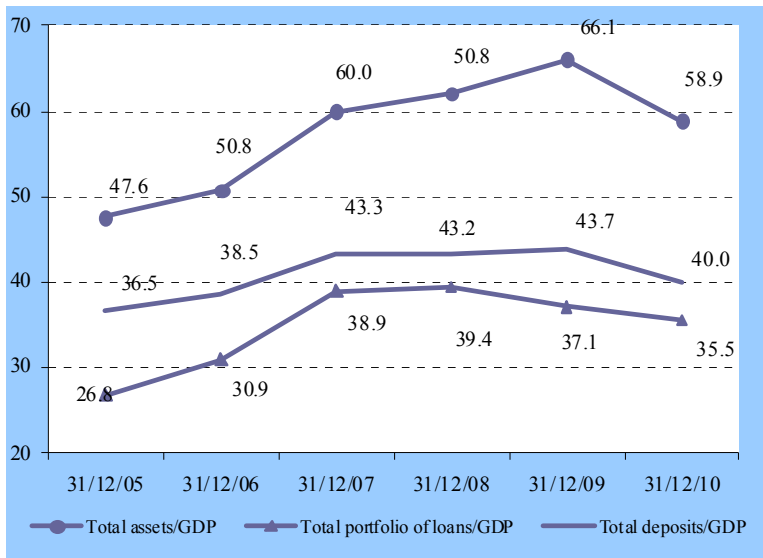
Chart no. 2.37. Structure of assets of the banking sector of the Republic of Moldova in the period of 31.12.2009 - 31.12.2010 (%)



Source: NBM

¹ According to the balance of sheet balances of credit and deposit accounts established in the Instruction regarding the way of preparation and presentation of reports by banks on financial activity, approved by the Decision of the Council of administration no. 36 of August 8, 1997 (Official Monitor of RM, 1997, no.64-65, 103), with subsequent amendments.

Chart no. 2.38. Dynamics of assets, credits and deposits to GDP, %



Source: NBM

In 2010, increases were recorded within the assets' structure by all items: net financial leasing and loans – by 3105.3 million lei (15.3 percent), net securities - by 598.6 million (9.9 percent), due from the NBM – by 440.7 million lei (22.7 percent). Simultaneously, the due from banks and net overnight placements decreased - by 1310.0 million lei (24.0 percent) as well as other net assets decreased - by 283.1 million lei (7.0 percent) and cash – by 185 million lei (8.5 percent).

Net credits held the highest share in total assets - 55.2 percent, by 4.5 percentage points higher than the end of 2009. Net securities held a share of 15.7 percent, due from banks and net overnight placements - by 9.8 percent, other net assets – by 8.9 percent, the due from the

National Bank of Moldova – by 5.6 percent and cash - by 4.7 percent (Chart no. 2.37).

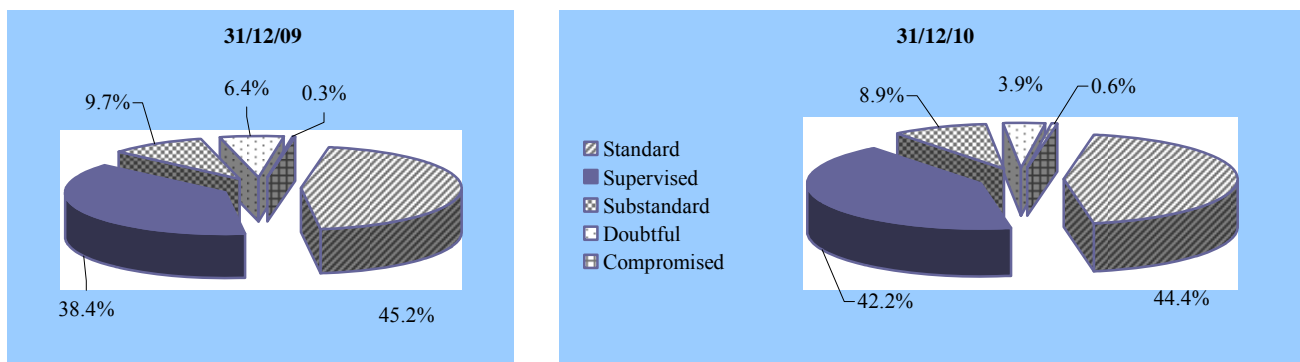
The weight of gross credits in GDP went down from 37.1 percent as of December 31, 2009 to 35.5 percent as of December 31, 2010 (Chart no. 2.38).

In the context of distribution of risks and of destination of investment operations, loans to industry and trade held the highest share in the total loans portfolio – 51.6 percent, being followed by the loans to agriculture and food industry – 14.9 percent, loans for real estate, construction and development – 12.3 percent, consumer loans – 8.4 percent and other loans – 5.5 percent. The lowest share in total loans had the loans granted to banks - 0.1 percent and loans granted to Government - 0.1 percent. The portfolio structure has not essentially changed compared to the previous year end.

During 2010, there were increases in all categories of loans, except for other loans, which decreased by 28.6 million lei (2.0 percent). The biggest increase was recorded for loans to industry and trade - by 1574.7 million lei (13.6 percent) and those given for the construction of roads and transportation - by 583.8 million lei (182.9 percent).

The share of bad loans (substandard, doubtful and compromised) in total loans (chart no. 2.39) constituted

Chart no. 2.39. Structure of credit portfolio and financial leasing of the banking sector of the Republic of Moldova according to the level of investment operations risk as of 31.12.2009 and 31.12.2010, %



Source: NBM

13.3 percent at December 31, 2010, or by 3.1 percentage points less compared to the end of 2009. Respectively, the reductions share for loan losses in total loans constituted 8.4 percent as of December 31, 2010, decreasing by 1.3 percentage points as compared to December 31, 2009.

The total amount of compromised credits, which was canceled in 2010 at the expense of reductions for loan losses, amounted to 1141.9 million lei, credit returns - 90.2 million lei. Thus, the credit returns constituted 7.9 percent of canceled loans, indicating the need to improve banks' activity on the repayment of bad loans that were previously considered as losses. It should be mentioned that, at December 31, 2009 the credit returns of canceled loans constituted 19.3 percent.

The total amount of banks' exposures to affiliates accounted as of December 31, 2010 for 785.3 million lei, and held an insignificant weight in total credits – 3.1 percent of total loans and 11.6 percent of Tier I Capital.

Loans granted to banks' employees represented 116.2 million lei, or 0.5 percent of total loans portfolio and 1.7 percent of total regulatory capital of banks.

The total value of large exposures constituted 6950.2 million lei, which is 27.3 percent of total loans portfolio and 101.2 percent of the total regulatory capital of banks. The amount of top ten net debts on loans accounted for 30.3 percent of net loans within the system.

Banks' investments in long-term tangible assets at the end of 2010 to total regulatory capital amounted to 23.2 percent (maximal limit – 50.0 percent). Investments in long-term tangible assets and equity interest in the capital of economic units to total regulatory capital constituted 25.2 percent.

The share of net balance sheet assets in foreign currency in total assets foreign currency-linked assets constituted 42.7 percent. The share of net balance sheet liabilities in foreign currency in total foreign currency-linked assets and liabilities constituted 41.9 percent. The insignificant difference of the aforementioned shares, which constituted 0.8 percentage points, revealed that the foreign exchange risk is minimal and does not affect considerably the financial stability of the banking system.

As compared to December 31, 2009, the share of foreign currency-linked assets and liabilities in foreign currency decreased by 2.3 and 2.6 percentage point, respectively. Within the structure of assets in foreign currency and of foreign currency-linked assets, the highest share was held by the loans in foreign currency and foreign currency-linked loans – 65.7 percent.

Off-balance sheet commitments (conditional credit commitments) equaled to 3802.8 million lei, or 9.0 percent of total assets. Compared to the end of 2009, off-balance sheet commitments decreased by 1031.0 million lei, or by 21.3 percent, while their share in total assets decreased by 3.1 percentage points. Within the structure of off-balance sheet commitments, followed by lending liabilities – by 36.0 percent (1367.7 million lei) and issued letters of credit and guarantees – 27.1 percent (1030.2 million lei).

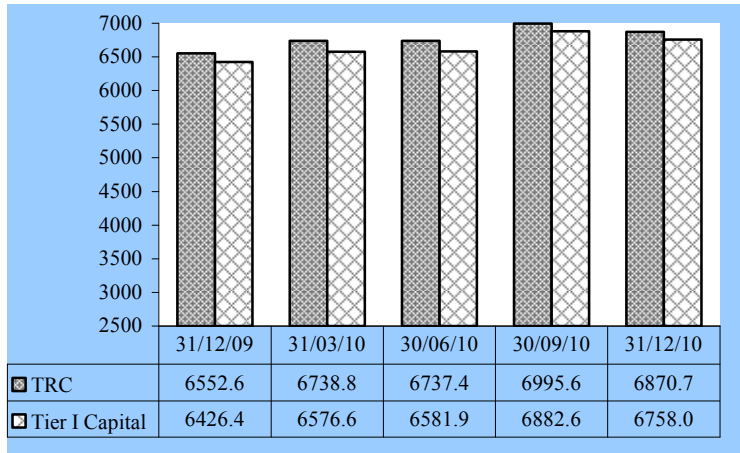
Capital of banks

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

Tier I Capital reached the level of 6758.0 million lei in 2010 and increased by 331.6 million lei (5.2 percent) as compared to 2009. The financial indicator for each bank individually matched the minimum set level. Tier I capital increase was due to the revenue gained during 2010 and due to the issuance of shares by five banks in the amount of 323.5 million lei at the expense of additional funds contributions account the underwriters of shares. Simultaneously, one of these five banks has issued shares at the expense of subordinated debts amounting to 54.5 million lei. However, 5 banks issued share at the expense of undistributed profit amounting to 257.5 million lei.

It should be mentioned that, according to the Regulation on Risk Weighted Capital Adequacy, since December 31, 2010 the amount of capital is established by the amount of 100.0 million lei. On December 31, 2010 all banks capital corresponded to the set amount.

Chart no. 2.40. Dynamics of banking capital during 2009 – 2010, million, lei



Source: NBM

The total regulatory capital includes Tier I Capital and Tier II Capital (not exceeding the size of Tier I Capital) excluding the equity interest in other banks capital holding the license of the National Bank of Moldova.

Total regulatory capital increased by 318.1 million lei, or by 4.9 percent compared with the end of 2009.

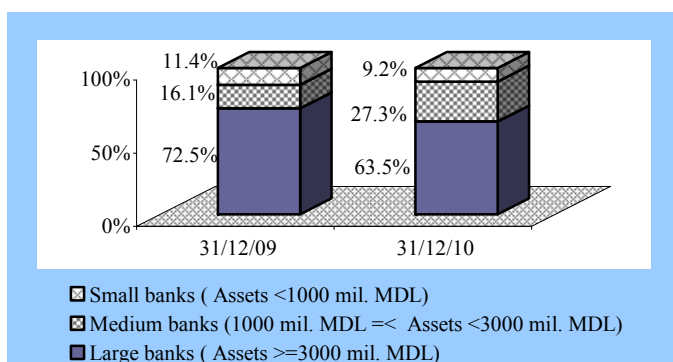
Dynamics of Tier I capital and total regulatory capital during the period analyzed is represented in the Chart no. 2.40.

The average risk weighted capital adequacy (ratio of total regulatory capital to risk-weighted assets) is maintained at a high

level - 30.1 percent (the minimum level in Moldova is 12.0 percent), indicating a high degree of safety of banks determined by the existence of a potential of making risky operations without affecting the capital.

The share of total regulatory Tier I capital of large and small banks in total regulatory capital of the banking system totaled 63.5 percent and 9.2 percent respectively, decreasing as compared to December 31, 2009 by 9.0 and 2.2 percentage points. The share of total regulatory Tier I capital of medium-sized banks increased by 11.2 percentage points and amounted to 27.3 percent as of December 31, 2010 (Chart no.2.41), as a result of changes in composition of the groups.

Chart no. 2.41. Concentration of Tier I capital of the banking sector of the Republic of Moldova by groups of banks as of 31.12.2009 and 31.12.2010. %



Source: NBM

During the analyzed period, the foreign investors maintained their activity in the banking sector, which is confirmed by the significant share of foreign investments in the banks' capital, which constituted 77.0 percent on December 31, 2010, with 0.6 percentage points less than at the end of 2009, as a result of share capital increase of banks. At the same time, the amount of foreign investment increased by 474.8 million lei (27.3 percent) and the domestic investment – by 160.8 million lei (32.0 percent).

Foreign investors' participation in capital formation in the banks of the Republic of Moldova included as follows: the European Bank for Reconstruction and Development,

banks from Italy, France, Romania and Slovenia, as well as corporate investors from Austria, Germany, USA, Russian Federation, Greece, the Netherlands, the United Kingdom, Czech Republic, Cyprus and other countries.

Out of total number of banks, 5 banks have the capital formed of foreign investments (2 of them are branches of foreign banks: JSCB "EXIMBANK - Gruppo Veneto Banca" and BCR Chisinau S.A.), 2 bank

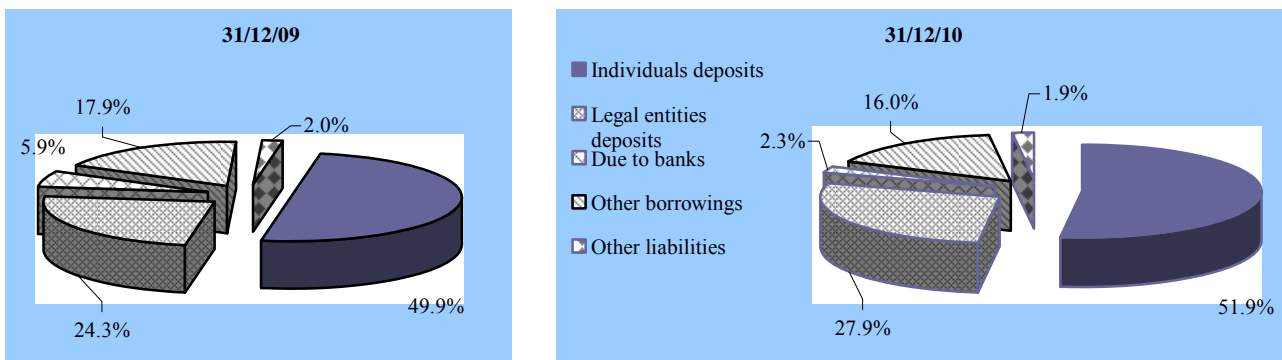
have their capital formed of domestic investments and 8 banks have their capital formed of foreign and domestic investments.

Liabilities of banks

As of December 31, 2010 the liabilities of banks accounted for 35013.0 million lei or by 2002.3 million lei (6.1 %) more as compared to the end of 2009. The increase of liabilities occurred mainly on the account of deposits' growth by 2302.1 million lei, or by 8.7 percent.

In 2010, the changes in the composition of banking sector liabilities can be seen in the Chart no. 2.42.

Chart no. 2.42. Structure of liabilities of the banking sector of the Republic of Moldova as of 31.12.2009 and 31.12.2010, %

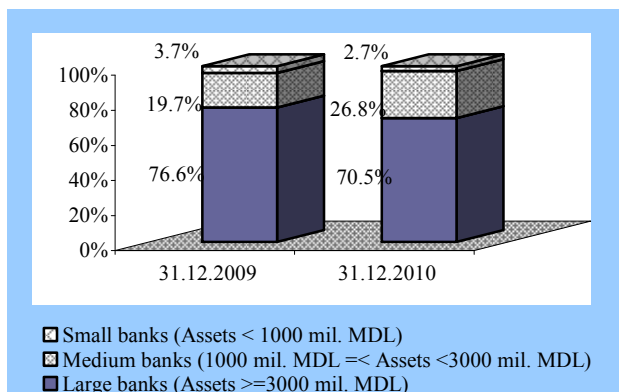


Source: NBM

In 2010, the upward trend was recorded in deposits of legal entities with 1741.1 million lei (21.7 percent), up to 9752.9 million lei, deposits of individuals – by 1708.6 million lei (10.4 percent), constituting 18174.3 million lei. Simultaneously, the funds due to banks decreased - by 1147.4 million lei (59.1 percent) and constituted 791.4 million lei and other loans – by 300.3 million lei (5.1 percent), up to 5614.8 million lei. Other liabilities remained almost at the level of the last year, constituting 679.6 million lei as of December 31, 2010.

The deposits held the largest share of bank liabilities as of December 31, 2010 - 82.0 percent, increasing by 2.0 percentage points as compared to the end of 2009. Their weight in GDP decreased compared to December 31, 2009, constituting 40.0 percent (Chart no. 2.38). In the total liabilities the deposits, the individuals deposits constituted 51.9 percent, deposits of legal entities - 27.9 percent, deposits of banks - 2.3 percent, other loans and other liabilities - 16.0 percent and 1.9 percent respectively.

Chart no. 2.43. Concentration of banking liabilities of the Republic of Moldova by groups of banks on 31.12.2009 and 31.12.2010, %



Source: NBM

The deposits in foreign currency (equivalent in MDL) decreased by 243.0 million lei (1.7 percent), reaching the level of 13914.2 million lei, while deposits in MDL increased by 2545.1 million (20.8 percent) constituting 14804.3 million lei as of December 31, 2010.

During the analyzed period, the weight of deposits in foreign currency in the total of deposits decreased by 5.1 percentage points constituting 48.5 percent as of December 31, 2010. Accordingly, the weight of deposits in MDL has increased by 51.5 percent.

The weight of liabilities of large banks in total banking system liabilities as of December 31, 2010 was 70.5 percent, decreasing by 6.1 percentage points as compared to December 31, 2009. The

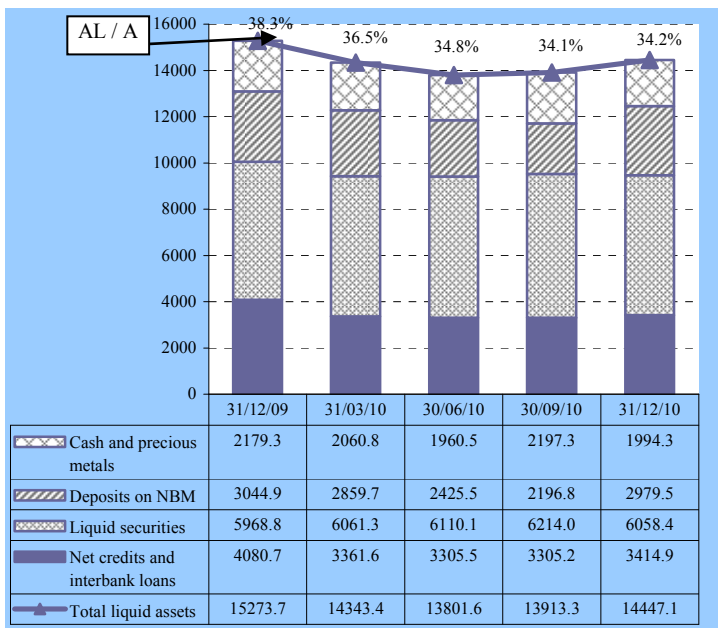
weight of liabilities of small banks has decreased by 1.0 percentage points, representing 2.7 percent of total liabilities. Simultaneously, the weight of liabilities of medium banks has increased by 7.1 percentage points constituting 26.8 percent of total liabilities in the system (Chart no.2.43). The aforementioned modifications were due to changes in the structure of banks groups.

Liquidity of banks

The observance by banks of liquidity indicators revealed the existence of financing sources for covering short-term and long-term potential needs.

Thus, the long-term liquidity (assets with the reimbursement term over 2 years/financial resources with the potential withdrawal term of over 2 years ≤ 1) accounted for 0.7 as of December 31, 2010.

Chart no. 2.44. Dynamics of liquid assets (million, lei) and of the liquid assets' weight in total assets (%) in the period of 31.12.2009 – 31.12.2010



Source: NBM

The current liquidity (liquid assets expressed in cash, deposits with the NBM, state securities, and net interbank credits with the term of up to 1 month /total assets $\times 100\% \geq 20.0\%$) equaled to 34.6 percent at the end of 2010.

Liquid assets totaled 14447.1 million lei, and decreased by 826.6 million lei as compared to the end of 2009, or by 5.4 percent. This decrease was due to the decline in net interbank credits and loans with the reimbursement term of up to 1 month – by 665.9 million lei (16.3 percent), cash and precious metals by 185.0 million lei (8.5 percent) and the deposits with the National Bank of Moldova – by 65.4 million lei (2.1 percent). Simultaneously, the liquid state securities increased – by 89.6 million lei (1.5 percent), (Chart no. 2.44). The values of

liquidity indicators reveal the existence of adequate sources to support the payments related to liabilities and determines a low level of vulnerability of banks.

The liquid state securities held as of December 31, 2010 the highest weight in liquid assets – 41.9 percent, followed by net interbank credits and loans with reimbursement term less than 1 month – 23.6 percent, deposits with the NBM – 20.6 percent, cash and precious metals – 13.8 percent.

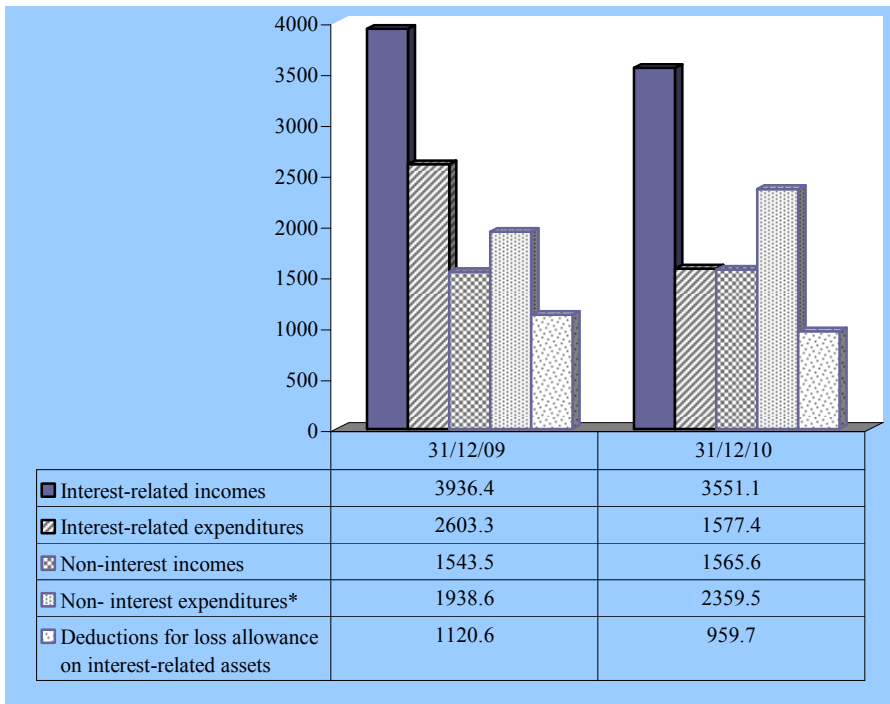
Income and expenses of banks

For 2010, net banking income amounted to 219.1 million lei. It should be mentioned that for 2009 the banking system losses amounting to 172.5 million lei.

Thus, the year of 2010 recorded a decrease in interest-related income by 385.3 million lei as compared to 2009 or by 9.8 percent and in non-interest related income - by 22.1 million lei, or by 1.4 percent. Interest-related expenses decreased significantly by 1025.9 million lei, or by 39.4 percent, as a result of interest rate decrease of deposits. Also, the deductions for losses on assets related to interest rates decreased by 160.9 million lei, or by 14.4 percent.

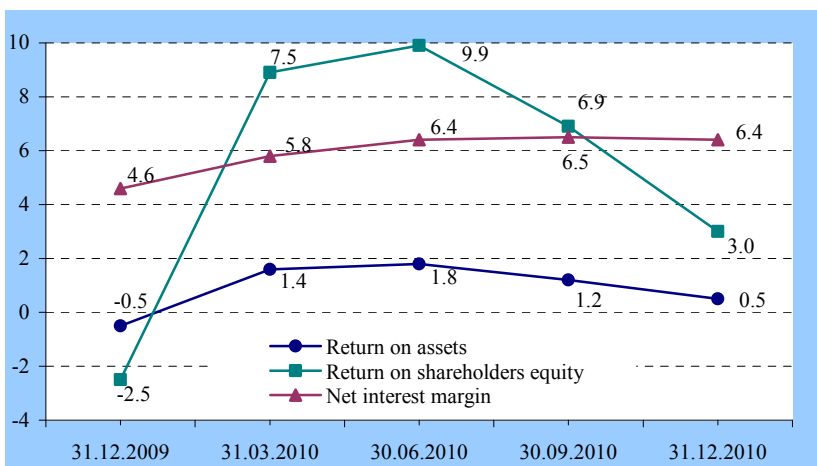
At the same time, the non-interest related expenses increased by 420.9 million lei, or by 21.7 percent during the year (Chart no. 2.45).

Chart no. 2.45. Dynamics of banking income and expenses in the Republic of Moldova during 2009-2010, million, lei



* The non-interest related expenses include deductions for loss allowances on non-interest related assets and deductions for loss provisions for on conditional commitments.
Source: NBM

Chart no. 2.46. Dynamics of net interest margin, the return on assets and shareholders' equity for 2009-2010, %



Source: NBM

Banks' income during 2010 originated mainly from the banks' basic activity (investments in interest-bearing assets). Respectively, interest-related income constituted 3551.1 million lei, or 69.4 percent of total income obtained by banks. Within the structure of interest-related income, interest-related income and loan commissions held the highest share – 3075.7 million lei (86.6 percent).

Non-interest related income constituted 1565.6 million lei, or 30.6 percent of total income. Commission-related income and income from foreign currency operations held the highest share in total non-interest income and constituted 820.6 million lei (52.4 percent of total income) and 566.8 million lei (36.2 percent of total income) respectively.

The total amount of expenses equaled to 4896.6 million lei, of which 1577.4 million lei or 32.2 percent represented interest-related expenses, 2359.5 million lei, or 48.2 percent - non-interest related expenses and 959.7 million lei, or 19.6 percent - deductions for losses on interest-related assets.

For 2010, the banking system recorded a return on assets and shareholder equity of 0.5 and 3.0 percent respectively. In 2009, the return on equity and assets of the banking system was negative.

The absolute value of interest-bearing assets during 2010 increased to 2827 million lei, or by 9.1 percent, constituting 33749.3 million lei on December 31, 2010. Their weight in total assets increased by 2.4 percentage points, compared with the end of 2009 constituting 79.8 percent on December 31, 2010. This significant weight in total banking assets indicates the ability of banks to generate income in the future.

2.7 Payment system

According to the Law on National Bank of Moldova no. 548-XIII of 21.07.1995, the National Bank of Moldova has the attribution to supervise the payment system of the Republic of Moldova and to facilitate the efficient functioning of the payment system.

During 2010, the efficient and stable functioning of the automated interbank payment system (AIPS) was insured, which is composed of real time gross settlement system (RTGS system) and the designed-time net settlement system (DNS).

The volume of processed payments in AIPS constituted 12.7 million payments in 2010, increasing by 2.6 percent as compared to the previous year. The payments value reached the level of 804.4 billion lei at the end of 2010, increasing by 0.7 percent compared to 2009.

The distribution of number of payments between the RTGS and DNS system in 2010 represented 7.0 percent and 93.0 percent respectively. The proportion of the two AIPS component systems is changing in the case of the amount of payments, in the RTGS system 95.0 percent of total amount of payments was processed, and in the DNS system - 5.0 percent. This is explained by the destination of the two systems: in the RTGS system large-value and urgent payments are processed, and in the DNS system the ones with reduced amount.

The number of cards in circulation until the end of 2010 has increased by 9.6 percent (817.5 thousands cards) as compared to the previous year.

The value of transactions with cards issued by the licensed banks from Moldova exceeded MDL 15.5 billion, increasing by 15.7 percent compared with 2009. In particular, cash withdrawal transactions have been made (90.2 percent of total number and 93.4 percent of the total amount of transactions made with cards issued by the licensed banks from Moldova). Preference for using the card to withdraw cash in 2010 is seen at its use in Moldova (92.5 percent of total number and 97.1 percent of the total amount transaction carried out in Moldova).

In the foreign banks network, the cards issued by the banks from Moldova were primarily used for cashless payments (79.2 percent of total number and 67.2 percent of the total amount of transactions carried out abroad).

Holders of cards issued abroad during 2010 have carried out over 800000 transactions in the network of banks in Moldova in the amount of MDL 1.5 billion (up by 18.5 percent of cash and 26.3 percent of value compared to 2009).

As the international transfers of funds have a significant role in the Moldovan economy, the National Bank of Moldova made an evaluation of international transfer market in terms of its compliance to the General Principles for International Remittance Services (*General Principles for International Remittance Services, Bank for International Settlements, The World Bank, 2007*). As a result of this evaluation it was found necessary to strengthen the legal base for these services, risk management mechanisms in international transfers of funds and to increase the transparency of the conditions of service of international transfer.

In this context, the Council of Administration of the National Bank of Moldova elaborated and approved, by the Decision no. 204 of October 15, 2010, the Regulation on banks' activity in international systems of money transfer (Official Monitor of the Republic of Moldova, 2010, no. 231-234, Art. 900, in force on June 1, 2011), which establishes the requirements to the activity of banks from the Republic of Moldovan in the international transfer system related to the commencement of operations, risk management, prevention and combating money laundering in international systems of money transfer, and for ensuring transparency of the conditions of transfer, etc.

2.8 Information technology

Activity plans in information technology (IT) within the NBM for 2010 targeted a complex series of works that contribute to the development of effective IT governance, capable of providing adequate support to the strategic objectives of the NBM.

In this context, during 2010 was drafted and approved a new strategy for IT development for the years 2011-2015. The primary objective of the IT Strategy is to identify and determine the most important directions of the medium and long term development of IT within the NBM, so that on one hand to insure proper and necessary support to achieve the long-term plans of the NBM, and, on the other hand to ensure that these results will be achieved with optimum cost, minimum risk, maximum security, guaranteed quality and value.

One of the most important IT projects carried out within the NBM during 2010 relates to the implementation of Electronic Document Management System (SGED). This system allows the information flow to switch from paper to electronic format, which provides more efficiency in the activity of processes in terms of the fluidity of information flow and in automation capabilities. In addition, it provides control and monitoring of processes activity, reduces the time and paper resources, increases the capacity of communication / dissemination and processing of information, etc. The most important processes that have been migrated to electronic management are: the management of incoming / outgoing correspondence to / from the NBM, management of requests for granting access to services or applications operating within the information system (IS) of the NBM, management of internal correspondence between the subdivisions of the NBM etc. It should be also mentioned that the implementation of electronic documents flow involved a phase of analysis / optimization and streamlining these processes and the effect of its implementation has been extremely positive for the users and the NBM.

Another important project at IT infrastructure level carried out during 2010 relates to testing and implementation of backup channel for participants access to the AIPS via the Internet, using VPN technology (Virtual Private Network). This has helped to increase participants' capacity to respond to AIPS incident situations in accordance with the Regulation on interbank payment system and with the Technical document for participants to the automated interbank payment system. The backup channel is fully compliant with all requirements including safety requirements in the protected networks for the transmission of information, namely:

- *channel's performance and redundancy* - using specialized equipment to ensure functionality and performance needed to arrange VPN secure channels with a high level of availability;
- *security and confidentiality of data sent through the VPN channel* - using advanced standards in the field of data transport security (IPSec, AES 256, RSA 2048, X.509, etc.), which ensures an adequate level of security of transmitted / received data through VPN channel;
- *identification and authentication of participants* - using secure participants identification and authentication mechanisms in the VPN network by implementing the public key infrastructure (PKI).

The implementation of "Management and Documentation of the ICS of the NBM Information System" has contributed significantly to strengthen the Internal Control System (ICS) of the NBM. The basic functions of this system provides information management on the processes, sub-processes and stages of activity within the NBM, risk matrix management for each process, sub-process and for each phase of activity, generation of reports in accordance with the predetermined criteria etc. The implemented system is innovative and will help to strengthen the internal control system and to manage the risks within the operational activity of the NBM.

In addition, the first phase of creation of statistical / financial database of the NBM has been completed during 2010, in particular for Monetary Policy and Research Department of the NBM and NBM

subdivisions that collaborate with it. As a result, a new system has been implemented – “Data Selection, Storage and Supply System (SSSFD)”, which provides storage and dissemination of information in / from a single source and eliminates the need to provide reports on paper, formed within information system of the NBM and further introduction of information in other information systems in manual mode by the staff of the NBM.

Therewith, the elaboration and implementation project of the “Registration of direct foreign investment in the Republic of Moldova” applicative system has been successfully completed. This system is designed to ensure the receipt and verification of data from the National Bureau of Statistics, as well as the creation of a database on foreign direct investment in the Republic of Moldova and for using the gathered information to generate eight syntheses on different aspects. This project is part of an international project launched by the International Monetary Fund with other international bodies and aims at determining foreign direct investment (equity and other capital), based on data existing in the balance sheet at the beginning of the year and the capital flows of resident companies with foreign capital during the financial year.

In order to strengthen the regulatory and supervisory framework of financial institutions, during 2010 have been completed several important projects, including the strengthening of supervision regarding the information technologies and information security. Thus, a chapter that sets out the requirements of the regulatory and supervisory body to the information security within licensed banks has been included in the *Regulation on internal control systems within banks*, approved by the Council of Administration of the National Bank of Moldova no.96 of 30.04.2010, published in the Official Monitor of the Republic of Moldova no.98-99/368 of 15.06.2010. However, in order to facilitate understanding of information security requirements and in order to provide appropriate methodological support to banks in the planning, implementation, operation, monitoring and improving their information security management systems, a set of *Recommendations on control objectives and security measures for information security management system in banks* have been developed and approved. As a result of these actions, banks have a transparent regulatory framework, based on best standards and practices in the field of information security and IT risk management. This will contribute to the promotion by banks of more effective policies to ensure the security of information and thus to strengthen the clients confidence in the banking products and services on the financial market in Moldova.

Other important actions were taken to continue the process of developing the regulatory and methodological framework for IT risk analysis and management and information security incident management, as well as the implementation of security solutions to ensure an adequate level of information security in relation to the set requirements etc.

2.9 Cash operations

As of December 31, 2010 cash in circulation amounted to 11 220 492 058 lei 22 bani, including banknotes – 148 621 030 lei, and coins – 71 871 028 lei 22 lei, increasing by 13.0 percent compared to the end of 2009.

During 2010, the National Bank of Moldova placed cash in circulation in the amount of 3 045 386 170 lei, decreasing by 34.0 percent as compared to last year, of which banknotes in an amount of 3 038 032 000 lei, and the coins - 7 354 170 lei. At the same time, the National Bank of Moldova withdrew cash from circulation in the amount of 1 709 803 066 lei 50 bani.

In 2010, the National Bank of Moldova issued nine commemorative and jubilee coins, as payment and for numismatic purpose.

The series of coins “Personalities” was completed with a commemorative coin struck in gold and one in silver, dedicated to personalities who are the symbol of freedom songs - Doina and Ion Aldea Teodorovici and with a silver commemorative coin dedicated to the world-renowned soprano, one of the greatest opera singers of all time, born in Chisinau - Maria Cebotari.

The new series of coins “Alley of Classics from “Stefan cel Mare” Public Garden of Chisinau” was launched in 2010 with a commemorative coin struck in gold and one in silver, dedicated to Grigore Vieru, a prominent figure of Romanian culture, one of the most representative poets of his generation.

The commemorative coin “Cultural and natural reservation Old Orhei”, struck in silver, was issued in order to reflect one of the most famous archaeological sites and represents a system of historical monuments and natural landscapes, where there were discovered vestiges of ancient civilizations of a major importance for the history of the area between the Prut and Nistru and completes the series of coins “Monuments of Moldova”.

The commemorative coin “Traditional Musical Instruments” has been issued in order to promote the national culture, history and traditional folk musical instruments. The coin was struck in silver and complements the series of coins “Holidays, culture and traditions of Moldova”.

The silver commemorative coin “Annunciation Church” from Chisinau city was issued at the 200th anniversary of the building. The respective coin opens the series of coins “Sanctuaries”, which will include the oldest religious architectures in the Republic of Moldova with historical and cultural value.

The silver commemorative coin “100 years of Moldovan football” was issued at the 100th anniversary of the first football game and to mark the appearance of the football traditions on the Moldovan territory. The coin was included in the series of coins “Sports”.

During 1996 – 2010, the National Bank of Moldova issued 70 jubilee and commemorative coins dedicated to various topics, with different face values.

2.10 International Cooperation of the Republic of Moldova

International Monetary Fund (IMF)

The Republic of Moldova is a member of the International Monetary Fund from August 12, 1992. At the end of 2010, the share subscription of the Republic of Moldova at IMF constituted 123.2 million Special Drawing Rights (SDR) (about USD 189.7 million).

Table no. 2.14. Financial commitments with the IMF*

	The amount approved by 31.12.2010 (million, SDR)	The amount disbursed by 31.12.2010 (million, SDR)	Share of total disbursements in the total approved amount (%)	Amount as of 31.12.2010 (million, SDR)	Amount as of 31.12.2010 (million, USD)
Extended Fund Facility (EFF)	319.8	127.5	39.9	40.0	61.6
Extended Credit Facility (ECF)	311.6	115.7	37.1	92.6	142.6

*Financial commitments with the IMF granted to the National Bank of Moldova

6.2 million), of which the principal payments on loans – USD 8.4 million (the equivalent of SDR 5.5 million) and the interest payments - USD 1.1 million (the equivalent of SDR 0.7 million).

During 2010, the NBM relations with the IMF took place in the context of IMF missions of evaluating the performance in terms of achieving the commitments under the IMF program supported by the Extended Fund Facility / Extended Credit Facility (EFF/ ECF), and annual bilateral consultations under Article IV of the IMF.

On January 14 2010, the Moldovan authorities have signed with the IMF a Memorandum on economic and financial policies for 2010-2012. Among the main objectives of the program are: to reverse the structural deterioration trend of the budgetary-fiscal situation, to keep inflation under control, to reestablish the level of international reserves to protect the national economy from external shocks and to ensure the financial stability by strengthening the capacity for early detection of problems and strengthening the framework for the recovery of banks.

The financial assistance obtained from the IMF by the Republic of Moldova was expected to be received starting with 2010 in equal amounts according to each facility above nominated, the total amount being the equivalent of SDR 369.6 million (about USD 574.0 million). From the total amount of financial assistance allocated under the IMF program, the National Bank of Moldova was expected to reimburse the amount of SDR 274.6 million, and the Ministry of Finance - SDR 95.0 million. Immediately after the signing of the Memorandum, SDR 60.0 million (approximately USD 92.5 million) have been disbursed of which SDR 20.0 million were received by the National Bank of Moldova, and SDR 40.0 million - by the Ministry of Finance respectively. The disbursement of subsequent tranches was determined by the assessment of the program under the IMF Mission.

During April 28 to May 13, 2010 the IMF Mission was in Moldova in a business visit. The Mission had the purpose to carry out the first assessment of the program concluded by the Republic of Moldova and the IMF, supported by ECF and EFF funding mechanisms and to offer consultations as provided under Article IV of the IMF Statute. Within this mission, the economic developments and the progress in implementing the program have been analyzed, as well as the macroeconomic and structural policies for the future periods have been discussed with the public authorities.

In the context of completing the first review of the program concluded with the IMF, the implementation of the program was assessed as successful, all the structural performance criteria and objectives of the program target being met. At the same time, it was emphasized the need to abandon the economic growth model based on remittances and consumption by promoting the exports and boosting the domestic economies through structural reforms aimed at economic growth. The mission discussed further measures to support the economic growth: strengthening the financial stability by increasing the planning capacity in case of emergency, improving the energy sector, promoting reforms in public service and education etc.

Following the negotiations with the representatives of the assessment Mission, the Supplementary Memorandum on Economic and Financial Policies has been developed and signed on June 30, 2010, which reflects the recent macroeconomic developments and sets adjustments in policies and includes supplementary policies necessary to achieve the objectives of the program concluded with the IMF.

As a result of completing the first evaluation of the Program concluded with the IMF, the Executive Board of the IMF approved on July 16, 2010 the disbursement of the amount equivalent to SDR 60.0 million (about USD 91.8 million) from the ECF / EFF funding mechanisms, of which SDR 20.0 million were received by the National Bank of Moldova and SDR 40.0 million by the Ministry of Finance.

The Mission noted with satisfaction that the Moldovan economy is recovering from deep recession caused by the global crisis and the results achieved from the IMF program are positive. It should be noted that the budgetary - fiscal policy is in continuous process of adjustment and that the new system of targeted social assistance has helped to reduce the extreme poverty. It was indicated that the NBM promoted a moderate monetary policy, which encouraged the revival of economic growth without jeopardizing the inflation targets. The IMF Board has also said that the structural reforms in progress and planned are focused on increasing the degree of liberalization, regulation and creating a business environment to stimulate investment and exports.

European Union (EU)

The official negotiations on the Moldova-EU Association Agreement have began on January 12, 2010, having as basis the provisions of the Decree no.67 of 17.11.2009 of the President of the Republic of Moldova to begin the negotiations on the Agreement between Moldova and the European Communities.

The new document will replace the current legal framework based on Partnership and Cooperation Agreement of November 28, 1994 (in force for Moldova on July 1, 1998 concluded for an initial period of 10 years, with automatic annual update) and will include chapters from the political dialogue, economic cooperation, trade, justice, financial cooperation and other cooperation policy.

During 2010, there were four rounds of negotiations on the Association Agreement, which took place both in Chisinau and Brussels. These negotiations were held in working groups, including “Sector Cooperation” in which participated the representatives of the NBM and other authorities in the financial field.

During 2010, the NBM participated in the negotiations for drafting the chapters “Financial Services”, “Financial Cooperation”, “Consumer Protection” and “Economic Dialogue” that will be included in the Association Agreement. As a result of these negotiations have been established the main objectives related to financial sector to be achieved by Moldova in the context of assuming the commitments under the Association Agreement. The negotiations on these chapters were completed by the end of 2010.

On October 8, 2010 the members of the Governmental Committee for European Integration of the Republic of Moldova approved the Action Plan of the Republic of Moldova - Reform Priorities in European Integration by June 2011. The Plan contains concrete measures that Moldova should meet in the approximation of the European Union.

Following the Assessment Mission to the European Commission experts that took place between 31 May - 2 June 2010 in Chisinau, the European Commission presented the key recommendations and additional recommendations regarding the areas of national economy for approximation and adjustment to the Community acquis. In this context, on 14 December 2010 the Government approved the Action Plan of the Republic of Moldova on the implementation of the European Commission's recommendations to establish the deep and comprehensive free trade zone between Moldova and the European Union. The document contains a series of actions to be implemented during 2011-2015, including financial services. In November 2010, the “Framework Document for the Comprehensive Institution Building Programme for 2011-2013” has been signed, which provides a non-refundable grant in the amount of EUR 41 million for developing the institutional capacity of the Republic of Moldova to honor the commitments that will be taken within the negotiations of the Deep and Comprehensive Free Trade Agreement between Moldova and the European Union.

Also, the European deputies have approved in November 2010 a protocol to the Partnership and Cooperation Agreement, which allows Moldova to participate in several programs and agencies, such as those in transport, food security, customs, aviation security and other.

During 2010, the Republic of Moldova has received financial assistance from the European Union in various fields.

Thus, in April 2010 the second tranche of EUR 13.4 million has been disbursed within the *Financial Support Program for Sector Policies - Medicine*, from the total amount of EUR 42.0 million granted to Moldova. It should be mentioned that the first tranche of EUR 15.0 million from the above-mentioned Program has been received by the Republic of Moldova in April 2009.

An amount of EUR 2.4 million has been disbursed May 2010, being the fourth and final tranche of the total amount of EUR 20.0 million granted to Moldova under the *Financing Agreement for Social Sector Budget Support*, signed in July 2008 by the European Commission and the Government of the Republic of Moldova.

In December 2010, the first tranche of the European Committee in the amount of EUR 15.0 million has been received by the Republic of Moldova for the *Support Program - Economic Stimulation in Rural Areas*, under the agreement signed on November 26, 2010.

The *Memorandum of Understanding between the Republic of Moldova and European Union providing macro-financial assistance* in the form of grant amounting to EUR 90.0 million has been signed on December 16, 2010 in Brussels. The grant is expected to be received by the Republic of Moldova in three tranches. Thus, the first tranche of the grant in the amount of EUR 40.0 million has been disbursed at the end of December 2010.

In 2010, the Republic of Moldova obtained full membership in the Energy Community. Legal basis in this regard is the Law no. 117-XVIII of December 23, 2009 for Moldova's accession to the Treaty Establishing the Energy Community and the Energy Community Accession Protocol, signed in Vienna on March 17, 2010. Accession to the Treaty Establishing the Energy Community will connect the Republic of Moldova to European Energy Policy by taking practice and expertise in this field, national energy sector restructuring by integrating in regional energy markets, and ensuring safety and quality of services provided by market operators.

Group of Banking Supervisors from Central and Eastern Europe (SBECE)

In 2010, the National Bank of Moldova continued to work with the Group of Banking Supervisors from Central and Eastern Europe. Considering that the aim of the Group, among others, includes the mutual support in banking supervision and assistance in its effective implementation, an exchange of information related to banking supervision took place in 2010.

External technical assistance and cooperation with other central banks

In 2010, the National Bank of Moldova has worked closely with supervisory authorities of other countries to exchange relevant information on authorization and supervision of banks' activity (confirming banks managers, knowing the banks' owners) and in preventing and combating money laundering. Thus, the NBM collaborated with the supervisory authorities from Romania, Russia, Latvia, Slovenia, France, Czech Republic, Egypt, Bosnia and Herzegovina, and Germany.

A working visit to the National Bank of Ukraine has been made during March 16 – 19, 2010 on the study of the legal and practical issues related to the implementation of international standards in combating money laundering and terrorist financing at the nation level.

In the context of the primary objective of the National Bank of Moldova, maintaining the inflation at a level that would allow the creation of a favorable framework for the development of Moldova's economy in the medium and long term, the NBM has received technical assistance from the IMF by the expert delegated to the NBM during August 2008 - August 2010, which greatly contributed to the development of a complex system of analysis and forecasting of inflation and of assessing the internal and external risks and uncertainties, which could create pressure to increase prices above the anticipated ones. Also, in 2010 the NBM has received assistance from IMF experts for the implementation of recommendations related to actions to be taken to manage the financial crises.

Thus, starting with June 2010 until December 2010, the NBM staff has conducted study visits to the NBR on various topics regarding the inflation targeting such as database management and seasonal adjustment, monetary statistics and analysis, public relations, public sector analysis, short and medium term forecasts of inflation and other macroeconomic indicators.

The NBM has received from the Central Bank of the Netherlands technical assistance in various fields, such as external quality assessment of the internal audit function within the NBM, according to the *International Standards for the Professional Practice of Internal Auditing*, the salary system, bonus system to motivate the employees and the NBM structure.

The U.S. Treasury Department has provided assistance to the NBM in areas such as training on International Financial Reporting Standards, techniques of making onsite inspections, special banking supervision and evaluation of problematical loans.

Besides these, the NBM has received consultancy from a financial expert under the Supreme Court of Justice in Luxembourg and consultant in banking activity and capital market within the project "Support to the implementation of agreements between Moldova and the EU", in the field of banking supervision for the approximation of the NBM activity to the European directives in the field.

2.11 National Bank of Moldova employees and professional development

Human resources policy promoted by the NBM during 2010 sought to ensure the achievement of a climate that would allow bank's employees to work efficiently and to achieve optimum results.

On December 31, 2010 the NBM payroll was completed at the level of 99.6 percent (468 employees of which 470 permanent employees). There are 7 doctors of technical sciences and economics working within the Bank.

In 2010, 43 employees of the Bank were promoted. The average age of the employees are persons aged up to 40 years - 258 workers, or 55.1 percent of total.

During the reporting year, 117 employees of National Bank of Moldova participated in refresher courses, which contributed to the improvement and modernization of the activity of the National Bank of Moldova.

During 2010, the first edition of a survey of employees has been organized, which helped at assessing the rate of satisfaction of employees on different aspects of work, level of involvement, etc.

2.12 Internal Audit

In 2010, similar to the previous years, the internal audit activity was performed according to the audit plan developed based on the ranking of risks associated with the activity processes of the National Bank of Moldova. As a result of the audit commitments were issued **24 reports** containing conclusions, opinions, and findings and where appropriate audit recommendations.

With a significant role as a stimulant of changes, the Internal Audit Department carried out in 2010, for the first time, a performance audit on the NBM organizational structure. As a result of the mission were formulated a series of recommendations / opinions to the top management of the Bank regarding the optimization of organizational structure and streamlining the activities.

In parallel with the planned audit missions, the internal audit carried out more activities such as: (i) verification and certification of financial statements and budget execution of the NBM for the financial year of 2009 and first nine months of 2010, (ii) reviewing and expressing the opinions on draft laws received from outside or initiated by the organizational structures of the NBM, (iii) cooperation in two special projects completed with the implementation within the National Bank of Moldova of *Information System for documentation and management of internal control system of the NBM*, and the *Electronic Register of Incidents*, (iv) conducting an investigation at the request of Council of Administration of the NBM, (v) coordinating the process of off-site evaluation of the credibility and safety of the NBM by the International Monetary Fund.

In accordance with the requirements of *Standards of Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (IIA, USA), the **first self-assessment** was made in 2010 and respectively, the **first mission of external assessment** of the quality to the internal audit function of the NBM, conducted by a team of experts certified in the field from the National Bank of the Netherlands. Following the external assessment, the internal auditing activity of the NBM was ranked as in "General Compliance" with the Code of Ethics and Standards of the IIA - the maximum acceptable rating. Also, the external evaluators made a number of recommendations to improve the performance in terms of professional development of the employees including in the field of fraud, IT audit planning missions, and in the filed of development of practices of documentation and data reporting.

During 2010, there were held activities to consolidate and improve the regulatory and methodological framework, mainly aimed at developing and implementing the *Anti-Fraud Policy of the NBM*, and in reviewing and adjusting the internal control and audit framework of the National Bank of Moldova to the practices applied in the European system of central banks.



2.13 Activity of the Council of Administration of the National Bank of Moldova

During 2010, there were held 59 meeting of the Council of Administration of the National Bank of Moldova, where 275 decisions have been examined and adopted with regard to the activity of the financial and banking sector, and acts have been approved and modified on the following fields:

1. Monetary and Foreign Exchange Policy of the NBM;
2. Payments System Oversight Policy of the Republic of Moldova;
3. Accounting Policy of the National Bank of Moldova;
4. Banking Regulation and Supervision;
5. Bookkeeping;
6. Balance of Payments;

During 2010, 35 general decisions of the Council of Administration of the National Bank of Moldova have been submitted for publication in the Official Monitor of the Republic of Moldova.

2.14 Completion and amendment of normative acts in 2010

Foreign exchange regulation

In 2010, the National Bank of Moldova activities related to foreign exchange regulation was focused on adopting and / or amending its normative acts, including with the enforcement of Law no. 62-XVI of 21 March 2008 on foreign exchange regulation (hereinafter - the Law no. 62-XVI of 21.03.2008), which granted to the NBM certain powers in the filed of foreign exchange regulation.

It should be also mentioned that the Law on foreign exchange regulation has been amended in 2010 by the Parliament of the Republic of Moldova.

The Law no. 116 of 17 June 2010 for the **amendment of completion of Law no. 62-XVI of 21 March 2008 on foreign exchange regulation** has entered into force on 20 July 2010. By the Law no. 116 of 17.06.2010 has been amended Article 21 and Article 22 of the Law no. 62-XVI of 21.03.2008.

The amendments made to paragraph (2) Article 21 of the Law no. 62-XVI of 21.03.2008 extended the range of operations that can be made in foreign currency between residents in the Republic of Moldova. The insurance, leasing and microfinance companies were allowed to receive / make transfers of payments and transfers in foreign currency in the Republic of Moldova in relations with other residents for operations related to the activity of these economic agents.

The amendments made to paragraph (1) and (2) Article 22 of Law no. 62-XVI of 21.03.2008 embodied the categories of residents that, according to Moldovan legislation, have the right to grant loans / credits in foreign currency for other foreign residents. Thus, after the amendments, this right, under certain conditions, is granted to licensed banks, resident individuals and the Ministry of Finance. It has also been extended the licensed banks right to grant loans in foreign currency in favor of resident legal entities that export goods (including leasing objects) and services for foreign currency cash, and in favor of legal entities engaged in insurance, leasing and microfinance activities.

Under the Law no. 62-XVI of 21.03.2008, the **Regulation on conditions and procedure for conducting foreign exchange operations** has been approved, which replaced a number of normative acts of the NBM regarding the foreign exchange regulation. This regulation was designed to develop and detail some provisions of the aforementioned law. Thus, this normative act aims to regulate, in terms of foreign exchange, the following aspects:

- regimes of residents and non-residents accounts opened with the licensed banks and used within the foreign exchange operations;
- procedure for conducting foreign exchange operations in the Republic of Moldova;
- rules for receiving / making payments and transfers (with and without cash) by residents and non-residents through licensed banks within foreign exchange operations;
- peculiarities of receiving / making payments and transfers within foreign exchange operations by the licensed banks;
- requirements for the documents to be submitted to the licensed banks by residents and non-residents in case of payments and transfers within foreign exchange operations;
- conditions associated with cash operations in foreign currency and traveler's checks in foreign currency within foreign exchange operations of the legal entities.

During the reporting year, the provisions of the regulation have been amended in the context of changing the procedure for conducting purchasing operations of foreign currency against national currency by resident legal entities from the licensed banks. Thus, examining the desirability of maintaining the deadline for keeping the foreign currency purchased against national currency from licensed banks in the current

accounts by the resident legal entities and taking into account the situation on the foreign exchange market, the regulation has been amended as follows:

- the resident legal entities have been granted with the right to purchase foreign currency against national currency from the licensed banks for any lawful purpose and without the supporting documents;
- the obligation of resident legal entities to keep the foreign currency purchased against national currency only in current accounts has been excluded;
- the maximum term of keeping the purchased foreign currency in the accounts of resident legal entities and the requirement of selling it against national currency in case of non-use have been excluded;

However, the provisions related to the submission of the supporting documents to the licensed banks in case of payments / transfers within the foreign exchange operations have been maintained.

Approval of the Regulation on conditions and procedure for conducting foreign exchange operations, which contains certain provisions that are touching upon the activity of duty-free shops, determined the amendment of the normative act of the NBM that regulates certain aspects of duty-free shops. In this context, the **Regulation on the procedure for issuance by the National Bank of Moldova of the permit for sale of goods against freely convertible foreign currency in duty-free shops**, which establishes the procedure for the issuance by the National Bank of the permit for sale of goods against freely convertible foreign currency in duty-free shops and the procedure for the reporting to the National Bank of Moldova by the owners of duty-free shops of the information on foreign currency collected from the sale of goods in duty-free shops. The procedure for the issuance by the NBM of the permit for sale of goods against freely convertible foreign currency in duty-free shops has been optimized, including by reducing the number of documents to be submitted to the NBM to obtain the aforementioned permit. The procedure for reporting by the owners of duty-free shops to the NBM has been simplified, including by reducing the number of reports presented to the NBM.

In order to develop the derivatives market whose price depends on foreign exchange rate (foreign exchange derivatives), to facilitate widespread use of reversible foreign exchange instruments, particularly the foreign exchange swap transactions with licensed banks as an instrument of monetary and foreign exchange policy, and to ensuring transparency in the principles applied by NBM when carrying out foreign exchange swap transactions with licensed banks, the NBM in 2010 has approved the **Regulation on Foreign Exchange Swap Transactions between the National Bank of Moldova and Banks**. General principles and standards to be observed by the participants on foreign exchange market of the Republic of Moldova for conducting foreign exchange operations, including swaps, are set forth in the Agreement on the interbank foreign exchange operations in the Republic of Moldova. The aforementioned regulation establishes the exact conditions for carrying out foreign exchange swap transactions between the NBM and the licensed banks, as an instrument of monetary and foreign exchange policy, such as: eligible banks, the currency of transactions, the minimum amount, transactions terms, the conditions for justification of certain foreign exchange swap transactions with proper documentation, rules for determining the foreign exchange rate of transactions.

The National Bank of Moldova has also amended in 2010 some normative acts on foreign exchange regulation, such as:

• **Regulation on authorization of certain foreign exchange operations by the National Bank of Moldova**. The need to amend the regulation in question was determined mainly by the approval of the Regulation on conditions and procedure for conducting foreign exchange operations, which inter alia establishes the rules for receiving / making payments / transfers with or without cash by residents and nonresidents through licensed banks within the foreign exchange operations. This allowed the optimization of certain provisions of the amended regulation, which are focused only on the description of the

requirements to the NBM permits presented to the licensed banks, specific actions for the payments / transfers within the authorized foreign exchange operations and the peculiarities of payments / transfers made by the licensed banks within the authorized foreign exchange operations. It has also been amended the Report on the authorized foreign exchange operations, which allows obtaining more extensive information related to the payments and transfers within the authorized foreign exchange operations.

- The amendment of the **Regulation on the Setting of the Official Exchange Rate of Moldovan Leu against Foreign Currencies** was mainly determined by the need to amend the list of foreign currencies against which NBM quotes the MDL. The list was filled with some more foreign currencies (Albanian lek, Macedonian denar, Indian rupee, South Korean won, Malaysian ringgit, Hong Kong dollar). The name of the national currency of China has been changed and the Estonian kroon was excluded from the list, taking into account that Estonia changed over the euro starting with 2011.

- Taking into account the terminology used by the Law no. 62-XVI of 21.03.2008 on foreign exchange regulation and taking into account the adoption of a series of new normative acts, the **Decision of the Council of Administration of the National Bank of Moldova no.207 of 15 August 2007** “On some peculiarities of financial institutions' activities related to the process of legalization of capital and transfer / export of certified funds from the Republic of Moldova by individuals” has been amended accordingly (unification of terminology, amendment of references to new normative acts).

Prudential regulation

To ensure the increase of safety degree of the activity of banks, a number of actions aimed at strengthening the domestic banking system have been undertaken during 2010. Thus, the improvement of banking regulation and supervision has been further promoted.

To further strengthen the domestic banking system, by raising the level of capital investment in banks, the **Regulation on Risk Weighted Capital Adequacy** has been amended and supplemented (Decision of the Council of administration of the National Bank of Moldova no.57 of 26.03.2010). Thus, in order to increase banks' capacity to cover losses resulted from their financial activity, particularly in the global financial crisis, the minimum requirement to the Tier I capital increased to 200 million lei. Banks are to comply with the new requirements in stages: from 31 December 2011 - 150.0 million lei, and from 31 December 2012 - 200.0 million lei.

However, taking into account that the share capital is the main element of the company's equity, the requirement to the share capital of banks has been set at the level of minimum 100.0 million lei. It should be mentioned that all banks have complied with the new requirements by December 31, 2010.

In order to direct the banks to maintain an adequate level of capital requirement, the banks have been required to have internal capital management policies, including their monitoring and evaluation. These policies should include stress testing related to risks (credit, foreign exchange, interest rate risk, etc.), capital management plans, taking into account different stress scenarios. Moreover, the banks are required to notify the National Bank of Moldova about the intention to distribute the capital.

According to international practice, a number of international organizations and multilateral development banks provide different financial products, including complete and partial credit guarantees. The aim of such products is providing support to its customers, including banks, in the long-term diversification of financial resources (including in foreign currency), credit risk transfer (totally or partly) on the aforementioned institutions. The use by banks of such instruments leads to the diversification of exposures portfolio and to the minimization of risks related to bank exposures.

Taking into account that the exposures provided by the aforementioned institutions do not represent a risk, according to the international practice, they are excluded from the total amount of exposures and this exposure value does not form allowances / provisions.



In this context, some normative acts of the National Bank of Moldova have been amended and supplemented regarding the “large” exposures and the classification of contingent liabilities and assets and allowances for losses on assets and provisions for losses on contingent liabilities (the Decision of the Council of Administration of the National Bank of Moldova no.86 of 30.04.2010) to reduce bank exposure with those provided by the aforementioned institutions and to revoke the compulsoriness of banks to form allowances / provisions on these exposures value.

An essential condition for ensuring the effective functioning of the banking system is the establishment by banks of adequate internal control systems. Hence, to oblige the banks to have and maintain internal control systems, under the Recommendations on internal control systems in banks of the Republic of Moldova, the **Regulation on internal control systems in banks** has been elaborated (the Decision of the Council of Administration of the National Bank of Moldova no.96 of 30.04.2010), which was supplemented with some new provisions related to the process of outsourcing of activities of the bank, physical security of banks, independent and objective assessment of collateral, management and control of risks to which the bank is exposed in the course of its activity, ensuring the continuity of its activity.

There were also refined the requirements for the planning, development, implementation, maintenance and monitoring of an effective information security management system. Within the information security management system, the project requires banks to have a risk treatment plan that includes measures and actions needed to be taken, resources, responsibilities and deadlines for implementation according to the priorities of risk information security management.

Taking into account that the Regulation contains provisions relating to risk management and control need, to which the bank is exposed in the course of its activity, in order to avoid double treatment of risks there were given definitions for credit risk, liquidity risk, country risk, transfer risk, foreign exchange risk, operational risk, etc.

In order to encourage the development of a more diverse regulatory approach to credit risk, which will contribute to preventing the excess of such risk, the **Regulation on assets and contingent engagements classification, allowance for assets losses and provisions for contingent engagements losses** has been amended and supplemented (the Decision of the Council of administration of the National Bank of Moldova no.229 of 18.11.2010).

Taking into account the international practice and as a result of supervision practice adjustments, there have been specified exact factors on classification of assets and contingent liabilities, in accordance with the categories determined by the regulation. Simultaneously, there have been embodied aspects to be taken into account in assets and contingent liabilities assessment.

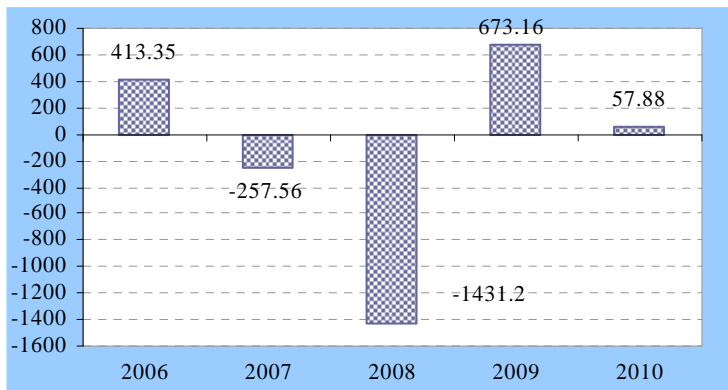
Taking into consideration the importance of appropriate risk management and credit monitoring, the regulation has been supplemented by a new chapter on credit risk management policies. Thus, in order to permanently maintain an appropriate credit risk environment and properly controlled, the banks should have internal policies and procedures for credit risk management to provide identification, monitoring and evaluation of credit risk depending on the risk profile of the bank.

2.15 Analysis of financial situation for 2010

General Considerations

In accordance with the Law on the National Bank of Moldova no. 548-XIII of 21.07.1995, the primary objective of the National Bank of Moldova is to achieve and maintain price stability.

Chart no. 2.47. Evolution of available profit for distribution (losses) (million, lei)



Source: NBM

The basic functions of the NBM are provided in the Law on National Bank of Moldova no.548 - XIII of 21 July 1995. In accordance with this, the NBM operations are performed in order to promote and support the monetary and foreign exchange policy in the state, to ensure the continuing stability of the banking system, national currency issuance, foreign exchange reserves management, etc. Accordingly, maximizing the profit from the activity of the NBM is not a purpose itself and can not serve as an impediment to achieve its primary objective and functions. However, the National Bank of Moldova shows a continuing concern for limiting its operating expenses in line with the principle of proper management.

Considering the above, it should be mentioned that the financial results of the NBM is directly dependent on the need to conduct monetary and foreign exchange operations in order to achieve the given objective and fulfill the basic functions of the NBM .

The evolution of the financial results level over the last five years is shown in the Chart no. 2.47.

According to the Law on the NBM, the amount of profits available for distribution is distributed in the amount of 50.0 percent for the increase of statutory capital and in the amount and 50.0 percent is transferred to the state budget. In case of losses, these are covered by the General Reserve Fund and its debit balance to be covered by the Government.

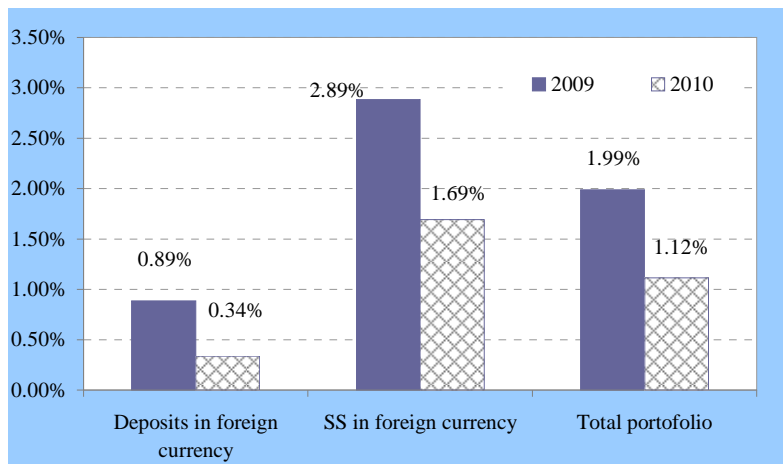
According to the financial situation, the NBM registered in 2010 a profit available for distribution in the amount of 57.88 million lei, which is characterized mainly by the following developments as compared to the situation of 2009:

- The decrease in revenues from managing the foreign exchange reserves of about 373.0 million lei, driven by lower average rates of profitability related to investments in foreign exchange reserves, and by the reduction of the volume of sales of foreign currency on the domestic market;
- The increase of expenditure related to the sterilization operations by about 164.0 million lei, driven by the significant increase of the volume of operations for sterilizing the liquidity excess in the banking system;
- The decrease of revenues from state securities by about 146.0 million lei, driven by the significant decrease of interest rates on these instruments in the market;
- The unfavorable development of exchange rate of the Moldovan Leu against foreign currencies, which resulted in unrealized losses from exchange rate differences in the amount of 717.0 million lei.

The impact of monetary policy on the financial situation of the National Bank of Moldova

The market situation of 2010, characterized by the emergence of liquidity excess in the banking system, as a result of the recovery after the crisis, has determined the NBM to return to the firm management of liquidity excess, placing it in the net debtor position in relation to the banking system.

Chart no. 2.48. Evolution of foreign exchange reserves



Source: NBM

associated with these operations in 2010 constituted 217.0 million lei, compared with 32.8 million lei recorded in 2009. The impact of increased sterilization volume on the expenses generated by the monetary operations was mitigated by lower average interest rates on certificates issued by the National Bank of Moldova placed from 10.62 percent annually in 2009 to 6.74 percent annually during 2010.

The set of all monetary policy instruments applied by the NBM during 2010 in order to sterilize the liquidity excess in the banking system (issuing Certificates of the National Bank of Moldova, required reserves, overnight deposits) has resulted in expenditure in the amount of 249.3 million lei, compared to 85.3 million lei in 2009.

Reduced balance of loans granted to banks, as a result of the occurrence of excess liquidity in the market, generated the reduction in revenue from lending activity of banks. Thus, NBM income from lending operations constituted 47.6 million lei in 2010, compared with 56.9 million lei recorded in 2009.

The decrease of interest rates on state securities on the market in 2010 (6.18 percent annually in 2010 compared to 12.35 percent annually in 2009) resulted in the achievement of revenue 2.1 times lower than in 2009 from holding state securities in the NBM portfolio.

The impact of state foreign exchange reserves management operations on the financial situation of the National Bank of Moldova

Foreign exchange reserves rose by 16.30 percent as of 31 December 2010 or about USD 240.65 million compared to 31 December 2009 (from USD 1476.68 million to USD 1717.33 million).

The revenues related to the management of foreign reserves and other foreign exchange operations accounted for about 304.70 million lei in 2010, by 55.04 percent less than in 2009. The substantial reduction of revenues is explained by the fact that in 2009 the NBM intervened in the foreign exchange market by selling the amount of approximately USD 638.67 million, thus generating the biggest part of income from operations in foreign currency, which constituted 357.93 million lei in 2009. For comparison, in 2010 the revenue from the operations in foreign currency accounted for only 60.88 million lei.

Another factor that influenced the reduction in revenues related to the management of foreign reserves constituted the reduction of interest in international financial markets. Thus, the average weighted

profitability of deposits (sight and term deposits) fell from 0.89 percent annually in 2009 to 0.34 percent annually in 2010 and the average weighted profitability of state securities in foreign currency from 2.89 percent annually 2009 to 1.69 percent annually in 2010. Simultaneously, following the evolution of the events in EU countries, especially in peripheral countries (Ireland, Greece, Portugal and Spain), and the vulnerabilities of the European banking system, the NBM undertook during 2010 a series of measures to reduce the share of investments in instruments with exposure to those markets and reduced the maximum permissible maturity for monetary market instruments. These measures have contributed to lower revenues for the management of foreign exchange reserves.

It should be mentioned that in accordance with best international practices and the Law on the NBM, the main criteria for selection of reserve assets are the insurance of basic amounts and liquidity. Thus, only after ensuring these two criteria, the instruments profitability in which the state foreign exchange reserves are invested, shall be taken into account.

Official exchange rate impact on the financial situation of the National Bank of Moldova

Appreciation of MDL against the currencies of foreign exchange reserves has led to record in 2010 net unrealized losses from exchange rate differences in the amount of

Table no. 2.15. Evolution of the official exchange rate, (MDL)

	2010	2009	Appreciation, %
	at the end of the year	at the end of the year	
USD/MDL	12.1539	12.3017	1.2
EUR/MDL	16.1045	17.6252	8.6
GBP/MDL	18.7578	19.4965	3.79
XDR/MDL	18.7174	19.2151	2.59

717.37 million lei. However, these unrealized losses did not affect the volume of profit available for distribution, whereas under the Law on the NBM, the unrealized losses from exchange rate differences shall be covered by the appropriate reserves established from the unrealized income of the previous years.

Table no. 2.16. Share of significant balance sheet items (%) and the annual average rates related to the financial instruments (%)

	2010		2009	
	Share	Annual average share	Share	Annual average share
ASSEST				
Foreign assets	86.6	1.12	81.48	1.99
State securities	9.2	6.18	9.99	12.35
Loans granted to banks (short/medium term)	4.1	-3.72	8.40	10.62/ 4.46
Other assets	0.1	-	0.13	-
LIABILITIES				
National currency in circulation	46.3	-	44.24	-
Available funds of the Government, including:	13.7		12.66	
- on sight, lei	8.4	1.21	9.29	1.51
- on term, lei	0.2	11.17	0.05	19.60
- on sight, FCC	5.1	-	3.32	-
Available funds of the banks, including:	12.3		13.71	
- LORO accounts, including:	4.2		2.63	
required reserves in MDL, paid		3.67		2.00
- Required reserves in FCC, including:				
paid	5.7	0.23	6.15	0.49
- "Overnight" deposits	2.5	3.67	4.93	2.00
Certificates of the NBM	15.1	6.74	13.79	10.62
Loans received from the IMF (EFF and ECF)	10.2	0.30	8.44	0.46
Other liabilities	0.2	-	1.62	-
Capital and reserves	2.2	-	5.53	-

The impact of the financial results on the capital and reserves of the National Bank of Moldova

The activities carried out by the NBM during 2010, in order to meet its fundamental objective and main functions, have had some influence on the NBM financial results based on the field of activity. This is also reflected in the balance sheet structure (Table no. 2.16).

The impact of the main activities of the NBM on the financial result is reflected in Table no. 2.17.

On December 31, 2010 the capital and reserves of the NBM registered a positive

level of 521.58 million lei, down by 714.32 million lei, as compared to the situation at the end of 2009. This decrease was caused mainly by the unrealized losses from exchange rate differences from the revaluation of foreign exchange stocks in the amount of 717.37 million lei and from the revaluation of investment securities in foreign currency in the amount of 26.16 million lei. These unrealized losses were covered by the appropriate unrealized reserves established in the previous years, being included in the profit available for distribution.

Table no. 2.17. Financial result, (thousands, lei)

Activities	2010			2009		
	Income	Expenses	Financial result	Income	Expenses	Financial result
Monetary-lending operations	190,718	287,719	-97,001	380,714	207,870	172,844
Foreign exchange reserves management	304,692	77,743	226,949	677,713	115,591	562,122
National currency issuance	14,014	32,502	-18,488	20,704	38,024	-17,320
Other operations, including operating costs	20,580	74,161	-53,581	25,840	70,328	-44,488
Total operating activities	530,003	472,125	57,878	1,104,971	431,813	673,158

The situation of capital and reserves of the Bank is reflected in Table no. 2.18.

Debit balance of general reserve fund, which was recorded at the end of 2008-2009, was not covered by the

Ministry of Finance during 2009-2010 by issuing state securities in accordance with the Law on the National Bank of Moldova.

On December 31, 2010 the general reserve fund was increased by 28.94 million lei (or the debit balance of GRF has been reduced), representing 50.0 percent of the profit available for distribution.

Table no. 2.18. Capital and reserves, (thousands, lei)

	31 December 2010	31 December 2009
Authorized capital	288,923	288,923
General reserve fund	-745,409	-774,348
Total statutory capital	-456,486	-485,425
Reserve of unrealized gains from exchange rate differences from the revaluation of foreign exchange stocks	884,100	1,601,468
Reserve of unrealized gains from the revaluation of investment securities	93,967	120,131
Other reserves	308	344
Total capital and reserves	521,889	1,236,518

III. Annexes

Table no. 1. EVOLUTION OF MACROECONOMIC INDICATORS

	2007	2008	2009	2010
Nominal gross domestic product (million, lei)	53429.6	62921.5	60430.0	71849.0
– compared to the same period last year, in real terms (%)	103.0	107.8	94.0	106.9
GDP deflator (%)	115.9	109.2	102.2	111.2
Industrial production (million, lei)	26173.5	29988.4	23266.6	27056.5
– compared to the same period last year, in real terms (%)	98.7	101.5	77.8	107.0
Producer price index of industrial production (average)	113.4	110.4	97.0	107.9
Agricultural production (million, lei)	12825.0	16503.0	13242.0	19715.0
– compared to the same period last year, in real terms (%)	76.9	132.1	90.1	107.9
Investment in fixed capital (million, lei)	15335.8	18123.1	10818.9	12927.4
– compared to the same period last year, in real terms (%)	121.9	101.7	65.1	116.7
Deficit (-), surplus (+), public budget (million, lei)	-123.6	-630.0	-3836.6	-1778.0
- to GDP (%)	-0.2	-1.0	-6.3	-2.5
Consumer price index (average)	112.3	112.7	100.0	107.4
Consumer price index (at the end of period)	113.1	107.3	100.4	108.1
Average number of personnel per period (thousands, persons)	621.6	618.1	593.4	579.2
The number of officially registered unemployed at the end of period (thousands, persons)	66.7	51.7	81.0	92.0
BIM unemployment rate	5.1	4.0	6.4	7.4
Average wage (lei)	2065.0	2529.7	2747.6	2971.7
– compared to the same period last year, in real terms (%)	108.4	108.7	108.6	100.7
Wage arrears at the end of period (million, lei)	72.5	102.0	153.5	111.6
Public and publicly guaranteed external debt (million, USD)	944.0	957.4	1139.8	1348.8
Total external debt (million, USD) ¹	3345.4	4093.8	4364.1	4778.7
Domestic debt (million, lei)	3748.7	3509.9	5104.9	5304.9
– loans from the NBM guaranteed with SS	1932.2	-	-	-
– state securities in circulation,	1816.4	3509.9	5104.9	5304.9
including SS in NBM portfolio	400.0	2213.4	2213.4	2213.4

¹ Balance at the end of period; for 2009 – estimated data

Source: National Bureau of Statistics, Minister of Finance and National Bank of Moldova

Table no. 2. INFLATION DYNAMICS

	% changes compared to the previous month			% changes compared to December of the previous year			% changes compared to the same month of the previous year		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
January	1.4	-0.1	2.4	1.4	-0.1	2.4	13.9	5.7	2.9
February	1.5	-1.1	2.3	2.9	-1.2	4.8	14.9	3.0	6.5
March	1.1	-0.8	0.7	4.1	-2.0	5.5	15.4	1.0	8.1
April	1.6	0.3	0.3	5.8	-1.7	5.8	16.2	-0.3	8.1
May	1.5	0.2	0.1	7.4	-1.5	5.9	16.9	-1.6	7.9
June	-1.1	-0.3	-0.5	6.2	-1.8	5.4	15.6	-0.8	7.8
July	-0.9	-0.6	-0.6	5.3	-2.4	4.7	13.4	-0.5	7.6
August	0.7	-1.1	-0.9	6.0	-3.4	3.7	11.7	-2.2	7.8
September	0.6	0.6	0.8	6.7	-2.9	4.5	10.7	-2.3	8.0
October	0.8	1.5	1.5	7.5	-1.4	6.1	9.8	-1.6	8.0
November	0.0	1.0	0.6	7.5	-0.5	6.7	8.5	-0.7	7.7
December	-0.2	0.9	1.3	7.3	0.4	8.1	7.3	0.4	8.1

Source: National Bureau of Statistics

Table no. 3. **GROSS DOMESTIC PRODUCT**

	Million, lei, current prices		Real growth, %		Weight, %	
	2009	2010	2009	2010	2009	2010
<i>by categories of resources</i>						
Gross domestic product	60430.03	71849.0	-6.0	6.9	100.0	100
Gross value added	50809.3	59895.0	-6.4	6.1	84.1	83.4
Goods	13165.0	18102.0	-16.0	7.8	21.8	25.2
Agriculture	5134.0	8582.0	-9.9	7.2	8.5	11.9
Industry	8031.0	9520.0	-19.9	8.1	13.3	13.3
Services	38629.0	43281.0	-3.6	6.2	63.9	60.2
Construction	2109.0	2300.0	-26.8	7.3	3.5	3.2
Wholesale trade	7954.0	9253.0	-0.1	8.9	13.2	12.9
Transport and communications	7226.0	8216.0	-8.6	11.0	11.9	11.4
Other services	21340.0	23512.0	0.5	3.5	35.3	32.7
Financial intermediation services indirectly measured	-985.0	-1488.0	-	-	-1.6	-2.0
Net taxes on products and imports	9621.0	11954.0	-4.2	11.6	15.9	16.6
<i>by categories of uses</i>						
Final consumption	68574.0	82611.0	-6.9	7.1	113.5	115.0
households	53353.0	65649.0	-8.1	9.0	88.3	91.4
government and non-profit institutions serving households	15221.0	16962.0	-2.0	0.3	25.2	23.6
Gross capital formation	13985.0	16997.0	-38.8	18.7	23.1	23.6
gross fixed capital formation	13655.0	16306.0	-30.9	17.2	22.6	22.7
inventories variations	330	691	-	81.0	0.5	0.9
Net export	-22129.0	-27759.0	-	-	-36.6	-38.6
export	22282.0	28447.0	-7.8	12.8	36.9	39.6
import	44411.0	56206.0	-19.3	13.7	73.5	78.2

Source: National Bureau of Statistics, National Bank of Moldova

Table no. 4. INTEREST RATES ON MONETARY INSTRUMENTS

Date of adoption by the Council of Administration of the NBM	Decision
28 January 2010	<ul style="list-style-type: none"> – Base rate (on short term) has been increased from 5.0 to 6.0 percent annually; – Base rate (on long term) has been increased from 5.0 to 6.0 percent annually; – Rate on overnight loans has been increased from 7.5 to 9.0 percent annually; – Rate on overnight deposits has been increased from 2.0 to 3.0 percent annually.
25 March 2010	<ul style="list-style-type: none"> – Base rate (on short term) has been increased from 6.0 to 7.0 percent annually; – Base rate (on long term) has been increased from 6.0 to 7.0 percent annually; – Rate on overnight loans has been increased from 9.0 to 10.0 percent annually; – Rate on overnight deposits has been increased from 3.0 to 4.0 percent annually.
30 December 2010	<ul style="list-style-type: none"> – Base rate (on short term) has been increased from 7.0 to 8.0 percent annually; – Base rate (on long term) has been increased from 7.0 to 8.0 percent annually; – Rate on overnight loans has been increased from 10.0 to 11.0 percent annually; – Rate on overnight deposits has been increased from 4.0 to 5.0 percent annually.

Table no. 5. MONETARY INDICATORS (million, lei, at the end of period)

	2007	2008	2009	2010
Monetary Aggregates				
Monetary base	9537.2	11633.6	10456.3	12114.9
M0 (money in circulation)	6664.9	7578.7	8849.0	10107.6
Sight deposits	4258.6	4030.5	4357.8	5612.6
M1	10923.6	11609.2	13206.8	15720.2
Term deposits	7455.9	10148.0	7733.9	9049.3
Monetary market instruments	17.3	16.9	1.3	1.3
M2	18396.7	21774.1	20942.0	24770.7
Deposits in foreign currency	8947.4	9906.7	11742.3	12280.5
M3	27344.1	31680.7	32684.4	37051.2
Velocity of money in circulation (M2)	3.64	3.06	3.23	2.9
Money multiplier (M2)	1.93	1.87	2.0	1.9
Deposits (total)	20661.9	24085.2	23834.1	26942.4
Deposits of legal entities	6447.9	6843.2	7224.2	8477.4
including in foreign currency	1992.1	2062.1	2852.0	2816.0
Deposits of individuals	14214.0	17242.0	16609.9	18465.0
including in foreign currency	6955.3	7844.6	8890.3	9464.4
Credits				
Payment requests of the NBM to banks	33.5	26.4	1865.4	979.4
Payment requests to the non-governmental sector, total	20883.8	25122.6	23884.1	26915.5
in national currency:	11768.9	14779.9	13202.3	15528.8
– to state enterprises	334.6	246.8	229.9	395.9
– to private sector	6395.6	8887.0	8302.3	9573.2
– to individuals	4662.0	4648.1	3720.0	4271.6
– to other financial institutions	376.7	998.0	950.1	1288.1
in foreign currency	9114.9	10342.7	10681.8	11386.6

Source: National Bank of Moldova

Table no. 6. AVERAGE WEIGHTED RATE ON TERM DEPOSITS

	New attracted deposits				
	total	in MDL		in foreign currency	
		volume million, lei	interest rate %	volume million, lei	interest rate %
January 2009	3004.1	1536.5	20.69	1467.6	11.81
February	2902.8	1360.8	19.84	1542.0	11.67
March	3385.1	1257.5	19.36	2127.6	10.18
April	2650.4	1044.6	18.72	1605.8	9.66
May	3249.6	1660.2	16.04	1589.4	9.70
June	3716.6	1946.2	15.04	1770.4	8.16
July	3188.5	1718.2	14.85	1470.3	6.72
August	3166.8	1467.8	12.99	1699.0	5.62
September	3243.4	1517.1	10.77	1726.3	4.88
October	3025.4	1563.2	10.66	1462.2	4.44
November	2798.5	1520.3	10.56	1278.2	4.20
December 2009	3695.5	1855.3	9.79	1840.2	3.81
Total 2009	38026.7	18447.7	14.66*	19579.0	7.61*
January 2010	2862.0	1479.9	9.70	1382.0	3.59
February	3220.5	1537.4	8.45	1683.1	3.63
March	3016.7	1388.5	9.11	1628.2	3.37
April	2621.3	1346.7	8.31	1274.6	3.37
May	3193.5	1952.7	6.45	1240.9	3.32
June	3231.2	1884.0	6.65	1347.2	3.32
July	2918.8	1596.0	7.79	1322.7	3.43
August	2884.3	1347.0	7.99	1537.4	3.52
September	3181.9	1543.9	7.43	1638.0	3.48
October	2884.0	1600.5	6.79	1283.5	3.43
November	3144.1	1858.4	6.82	1285.7	3.18
December 2010	3358.9	2013.7	6.54	1345.2	3.29
Total 2010	36507.3	19548.7	7.56*	16958.6	3.42*

Source: National Bank of Moldova

* Average per period

Table no. 7. AVERAGE WEIGHTED RATE ON LOANS

	New granted loans				
	total	in MDL		in foreign currency	
		volume million, lei	interest rate %	volume million, lei	interest rate %
January 2009	870.4	510.3	23.25	360.1	13.20
February	1318.9	803.2	22.93	515.7	14.06
March	1352.5	729.3	23.13	623.2	13.30
April	1035.0	562.8	22.57	472.2	12.85
May	979.2	446.5	22.23	532.7	13.11
June	1093.6	597.7	18.94	495.9	13.09
July	1086.7	651.5	17.97	435.2	12.71
August	1110.7	566.3	17.65	544.4	12.70
September	1366.5	703.0	19.04	663.5	11.89
October	1129.1	611.5	19.63	517.6	12.13
November	1126.7	681.0	18.88	445.6	11.82
December 2009	1777.3	964.9	18.63	812.4	10.58
Total 2009	14246.5	7828.0	20.31*	6418.5	12.51*
January 2010	938.6	560.9	17.03	377.7	10.67
February	1189.4	619.2	17.78	570.2	10.37
March	2191.9	1167.6	17.25	1024.3	10.21
April	1889.2	1039.4	16.85	849.8	10.29
May	2023.5	946.4	16.81	1077.0	10.15
June	2247.7	1149.3	16.46	1098.4	10.49
July	1819.2	995.0	16.02	824.1	10.43
August	1825.9	919.5	16.44	906.3	9.29
September	2151.1	1056.1	15.80	1095.0	9.77
October	2170.1	1078.9	15.88	1091.2	9.65
November	2320.6	1077.7	15.24	1242.8	9.31
December 2010	2662.5	1329.6	14.76	1332.9	9.38
Total 2010	23429.8	11939.9	16.25*	11489.9	9.91*

Source: National Bank of Moldova

* Average per period

Table no. 8. PROFIT RATE OF SS ISSUED ON THE PRIMARY MARKET (%)

	The monthly weighted average rate by types of SS			The monthly nominal weighted average rate
	91 days	182 days	364 days	
January 2009	16.80	17.47	18.08	17.45
February	12.78	14.00	14.94	13.62
March	15.88	16.22	16.60	16.00
April	23.80	24.36	25.00	23.99
May	14.08	14.36	14.63	13.61
June	12.57	13.56	13.72	12.18
July	9.19	11.38	12.49	9.10
August	3.16	6.62	9.43	4.84
September	4.98	7.42	8.88	5.52
October	6.28	10.81	11.34	8.04
November	5.08	9.95	11.03	7.38
December 2009	2.78	6.08	7.91	4.51
The monthly weighted average rate – 2009	9.54	10.49	12.65	9.32
January 2010	3.43	4.55	5.89	4.21
February	4.79	6.56	7.18	5.77
March	6.56	8.47	9.06	7.54
April	7.04	8.38	9.03	7.83
May	7.05	8.04	8.78	7.67
June	7.04	7.62	8.35	7.49
July	7.02	7.32	8.10	7.35
August	7.04	7.14	7.65	7.21
September	7.04	7.20	7.33	7.16
October	7.07	7.30	7.47	7.25
November	7.11	7.32	7.46	7.27
December 2010	7.12	7.40	7.46	7.30
The monthly weighted average rate – 2010	6.62	7.33	7.80	6.98

Source: National Bank of Moldova

Table no. 9. OFFICIAL EXCHANGE RATE (lei)

	2008		2009		2010	
	at the end of period	average per period	at the end of period	average per period	at the end of period	average per period
USD (1\$)	10.4002	10.3895	12.3017	11.1134	12.1539	12.3663
EUR (1€)	14.7408	15.2916	17.6252	15.5248	16.1045	16.3995
RUB (1)	0.3548	0.4196	0.4066	0.3520	0.3978	0.4072
RON (1)	3.6673	4.1571	4.1595	3.6666	3.7544	3.8968

Source: National Bank of Moldova