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Summary

External environment

In the second half of 2009 and beginning of the current year, the decline in the global activity has gradually made space for re-launching in the major developing markets as well as in some of the advanced economies, so that by the end of 2010 it is expected an increase of the global production due to the expansionary monetary policy strategies, interest rates reduction, fiscal policy actions, improvement of the financial conditions and banks situation, as well as the international trade balance, which led to the improvement of the world economic situation.

The world economy is recovering faster than it was expected and the growth rate forecast for this year could reach the level of 4.2 percent. The recovery process is uneven, each region recording its own growth pace. As for advanced economies, the recovery process will still depend on the government support; the prospects for emerging countries are considered significantly better. Thus, the inflation in advanced countries will reach the level of 1.5 percent in 2010 and - 6.2 percent in the emerging countries. In general, the emerging countries have resisted better to the financial turmoil, due to the economic policies improvement: some of these countries benefit from the increased prices of raw material and a stronger set of economic policies than during the previous crises. Thus, there could be noticed the activity expenditure in the major emerging economies, including China, India and Brazil.

Macroeconomic situation

The economic crisis has affected the most sectors of the national economy, according to the operative data of the National Bureau of Statistics in 2009, the gross domestic product declined in real terms by 6.5 percent compared to 2008.

However, in the first three months of 2010, the industrial production volume in all forms of ownership has increased in real terms by 4.9 percent compared to the same period last year, while the global agricultural production increased by 10.6 percent. In the first months of 2010 there was a growth trend of retail trade and services rendered to population, which shows a gradual recovery of the domestic and external demand and domestic goods and services. Thus, in January and February 2010, the volume of exported goods increased by 18.8 and 14.2 percent respectively, as compared with the same months of 2009.

In 2009, the labour market was considerably affected by the economic activity restriction and by the

continuous climate of uncertainty. Also, an unemployment rate growth was recorded as a result of the further increase of the gap between the work force supply and demand. According to the NBS, the unemployment rate in 2009 constituted 6.4 percent, 2.4 percentage points higher than in 2008.

In spite of the international financial crisis, the average monthly salary of an employee during January-February 2010 recorded an upward trend in both nominal and real terms.

Dynamics of the inflationary process

The inflation rate in March 2010, for the last 12 months, measured by the consumer price index, constituted 8.1 percent as compared with the level of 1.0 percent recorded in March 2009. Thus, there is a continuing growth trend of this indicator that began in the second half of 2009.

In the component structure, in March 2010, the highest increase, compared to March 2009 (8.5 percent), was recorded in prices for non-foodstuff products, followed by the prices of services rendered to population (by 7.8 percent), while the foodstuff products prices increased by 7.0 percent.

After a continuous decline started in 2008, in September 2009 there was recorded an increment trend of the annual core inflation, after which the annual rate of core inflation rose by the level of 5.3 percent in March 2010.

Medium-term forecast on macroeconomics and inflation

The medium-term macroeconomic forecast (by the end of 2011) was developed based on the current information about the external environment, the current phase of the economic cycle in Moldova and the following assumptions:

- The evolution of regulated prices according to the forecast provided by the National Energy Regulatory Agency;
- Fiscal policy according to the information contained in the Medium Term Expenditure Framework;
- Tax adjustments proposed by the Ministry of Finance for 2011;
- The evolution of the external environment indicators according to the information contained in the publication of the international economic forecast "Consensus Forecats", April 2010 edition.

Under the base scenario, the annual pace of the CPI inflation will be 9.7 percent at the end of 2010 and will be within the positive range of a single digit during the year. However, the monetary policy goal for 2010 is compromised. The value of the single digit inflation will be possible by the maintenance of the base rate at the current levels and by any increase in base rate in order to achieve the lower inflation deviation from the declared target, as the range of the needed time for the momentum created by the change of the monetary policy rate to the real sector and inflation is therefore at least three quarters. It is considered necessary to manage the exchange rate during 2010 and at the beginning of 2011 according to the base scenario (chapter "Macroeconomic Forecasting").

According to the base scenario, i.e. the highest probability of achieving, the economic growth will constitute 2.2 and 4.5 percent for 2010 and 2011 respectively.

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