



National Bank of Moldova

ANNUAL REPORT

2004

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1. Economic Situation of the Republic of Moldova in 2004

World Economy in 2004

The world economy in 2004 denoted further recovery trends: the growth rate of global economy increased for the third consecutive year and accounted for an estimate of 5.0%, reaching the highest level in the last three decades. Despite its global amplitude, economic expansion over 2004 was mainly due to the positive outcomes registered in the economy of the USA and of the developing countries (especially in Asia). During the year the world economy was influenced by a number of global factors, like the considerable increase of petroleum prices; the widening of budget and current account deficit in the United States of America and rapid growth of the Chinese economy, which, altogether, had a direct impact on the increase of inflation rate, the fluctuation of exchange rate and the growth rate of world economy.

Although the Gross Domestic Product (GDP) of the USA was inferior to the estimated volume, the 4.4%-growth rate recorded in 2004 exceeded by 1.4 p.p. the level of the previous year. The average annual inflation rose from 2.3% in 2003 to 2.7% in 2004, while unemployment rate reduced by 0.5 p.p. to 5.5%.

The fluctuations of main foreign currencies against US\$ over the reported year were generated by both fundamental and speculative factors. The twin-deficit problem (current account deficit and budget deficit) and the slow pace of new jobs creation in the USA marked the first half of the year. The US\$ evolution in the second half of 2004 was affected by the continuous increase of petroleum prices and the dynamics of basic macroeconomic indicators. As consequence, the main currencies denoted a considerable appreciation against US\$. Thus, in November to December 2004, the Great Britain Pound, Euro, the Japanese Yen and the Swiss Franc reached the highest historical quotations against US\$, partially also due to circulating speculations with regard to possible reorientation by Japan and other industrialized Asian countries (important holders of US Treasury securities) from the US\$ to other foreign currencies. The consolidation of inflationary pressures in the USA on the background of the economic upturn determined the US Federal Reserve to increase the federal funds rate by 1.25 p.p., from 1.0% at the beginning of 2004 to 2.25% in December 2004. Thus, US\$ tends to become more attractive as compared to Euro, as illustrated by the dynamics of yields on 2-year government bonds.

The economic growth in the Euro-zone slowed down to the 2nd semester of 2004 as a result of aggregate impact of external factors. According to estimates, economic growth accounted for 2.0%, exceeding by 1.5 p.p. the 2003 level. The average annual inflation rate kept the same 2.1%- value as recorded in the previous year. Unemployment rate increased by 0.1 p.p. and accounted for 8.8%. Gross Domestic Product in the Euro-zone major economies - Germany and France, rose by around 1.6% and 2.4%, respectively.

The appreciation of Euro against US\$ over 2004 generated contradictory discussions in the member states of the European Union, especially in Germany, according to which Euro consolidation reduced the competitiveness of European goods in the international market, ultimately affecting the economic growth in the region. In 2004 Euro appreciated against US\$ by 8.9%, varying within 1.1822 as of 13.05.2004 to 1.3637 as of 30.12.2004.

In May 2004 10 countries of the Central and Eastern Europe, including 3 former Soviet republics, adhered to the European Union, thus establishing an union of 25 European countries. Gross Domestic Product of the European Union over the reported period increased by 2.3%, having surpassed by 1.4 p.p. the economic growth in 2003. The average annual inflation rate accounted for 2.1% in 2004, as compared with the 1.9% - value registered in 2003.

Japanese economy continued to recover in 2004: economic growth accounted for 2.7%. The monetary authorities kept under permanent control the deflation persistence phenomenon observed in Japan over the previous years: consumer prices in 2004 stayed at the level of the previous year. The Japanese Yen appreciated over 2004 against US\$ by 4.5%, fluctuating within 114.51 Yen for 1 US\$ as of 13.05.2004 to 102.08 Yen for 1 US\$ as of 03.12.2004.

Chinese economy denoted high growth rates, increasing in 2004 by 9.5% in real terms, while the inflation rate constituted 3.9%.

Romania, according to preliminary data, demonstrated a real GDP growth of 7.2%; the annual average inflation rate accounted for 11.9%. ROL appreciated over the reported year by 11.7% against US\$.

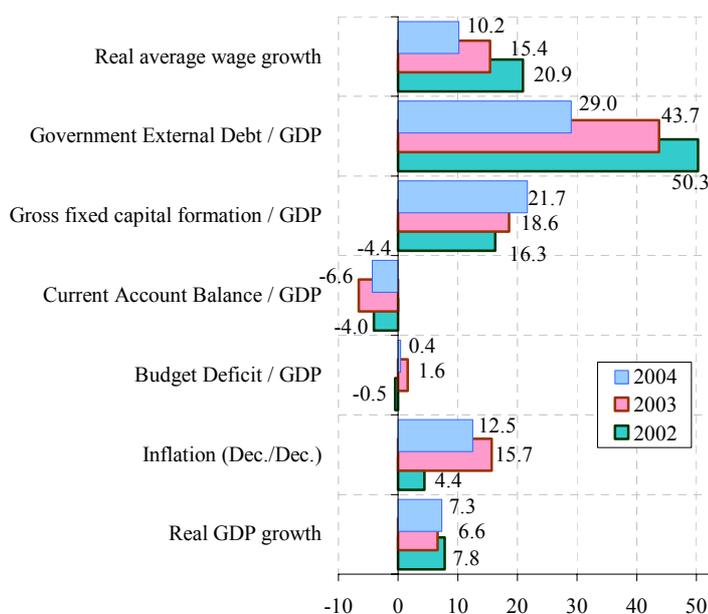
In Russia, due to favourable global economic environment, the economic growth accounted for 7.1%. The surplus of the current account balance and the state stable financial position contributed to the appreciation of the national currency of the Russian Federation by 5.1% against US\$, fluctuating within 29.27 RUR for 1 US\$ as of 12.08.2004 to 27.72 RUR for 1 US\$ as of 31.12.2004. The cumulative inflation rate in 2004 accounted for 11.7%, which is by 0.3 p.p. less than in 2003.

2004 was also a favourable year for the Ukrainian economy: the country recorded the fifth consecutive year of economic growth. According to estimates, real GDP growth accounted for 12.1%, reaching the highest level of growth since the proclamation of country independence. UKH appreciated over the year by 0.4% against US\$; cumulative annual inflation constituted 12.3%.

Real Sector*

The outcomes of economic development in 2004 denote the enlargement of activities within all main sectors, implying the relative macroeconomic equilibrium of the national economy. The output within the basic economic branches displayed increased values as compared to the previous year: in agriculture – by 20.4%; in industry – by 6.9%; investments in fixed capital – by 8.0%, altogether contributing to the 7.3%-increase of real GDP as compared to 2003 (chart no.1)

Chart no. 1. Macroeconomic indicators (%)



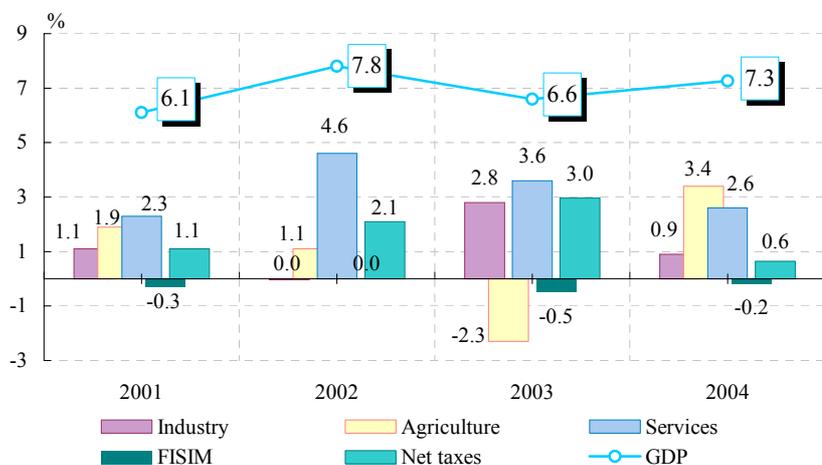
Gross Domestic Product (GDP) in 2004 amounted, according to preliminary data, to 31991.7 million lei in current prices. Respectively, GDP value per capita amounted to 8878.4 lei (equivalent of around US\$ 720.2), recording a nominal increase of 16.1% as compared to the previous year. GDP deflator, which characterises the dynamics of the general price level in economy, accounted for 8.0% (as compared to 14.8% in 2003).

According to **GDP by resources (VA method)**, GDP increase was generated by the 7.8% - real growth from the previous year of gross value added, including within production of goods – by 11.8% (in agricultural sector – by 18.3% and in industry – by 5.0%) and within services – by 5.1% (including

within constructions – by 34.0%). The **GDP structure** evolved according to previously observed patterns: services accounted for the largest weight of 53.1% (by 1.5 p.p. more than in 2003); agriculture accounted for 18.2% of GDP; industry – for 16.4% (against 17.6%); net taxes on goods and imports – for 14.5% (against 14.8%); and indirectly measured services by financial intermediaries (FISIM) – minus 2.2%.

Within GDP real growth, the

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

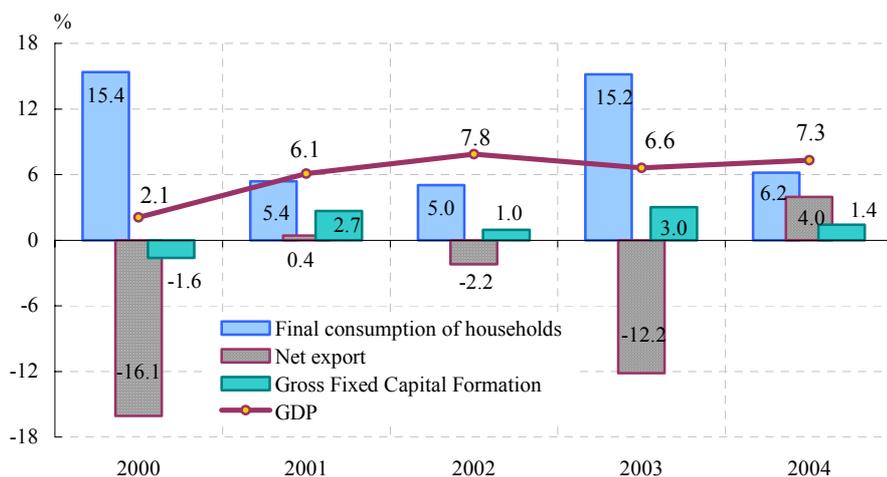


* based on data of the National Statistics Office of the Republic of Moldova

contribution of supply components accounted as follows: agriculture – for 3.4 p.p.; services – for 2.6 p.p.; industry – for 0.9 p.p.; net taxes – for 0.6 p.p. and FISIM – for minus 0.2 p.p. (chart no. 2).

Within the *GDP breakdown by uses*, the risen domestic aggregate demand displayed an increase by 3.4% of gross capital formation (including gross fixed capital formation – by 7.6%) and by 2.3% of final consumption (including by households – by 6.9%).

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



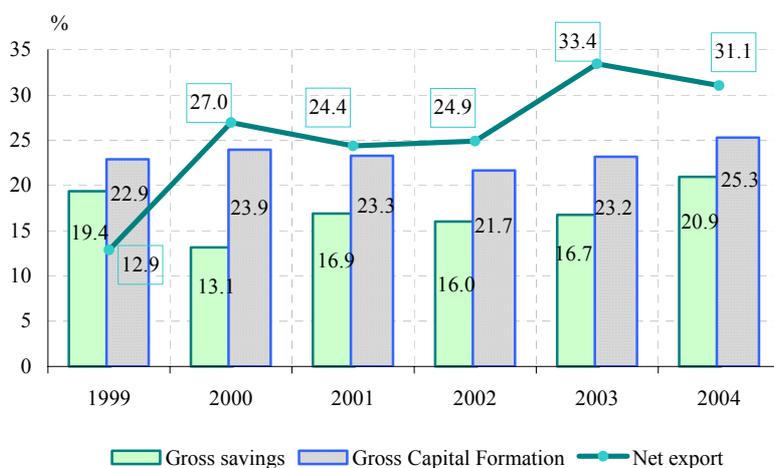
The dynamics of net export of goods and services implied the 4.7%- enlargement of exports and the 1.7%-reduction in real imports. Net exports in 2004 accounted for 4.0 p.p. of real GDP growth (chart no.3).

Within the *GDP structure by uses*, final consumption reduced by 4.5 p.p. from 2003 and accounted for 105.8%. At the same time,

gross capital formation rose to 25.3% of GDP value on the background of larger share of gross savings (20.9%) (chart no.4).

The investment rate, determined as ratio of gross fixed capital formation to gross value added in the economy, accounted for 25.4%, surpassing the indicators registered in the previous years (21.8% in 2003 and 18.7% in 2002).

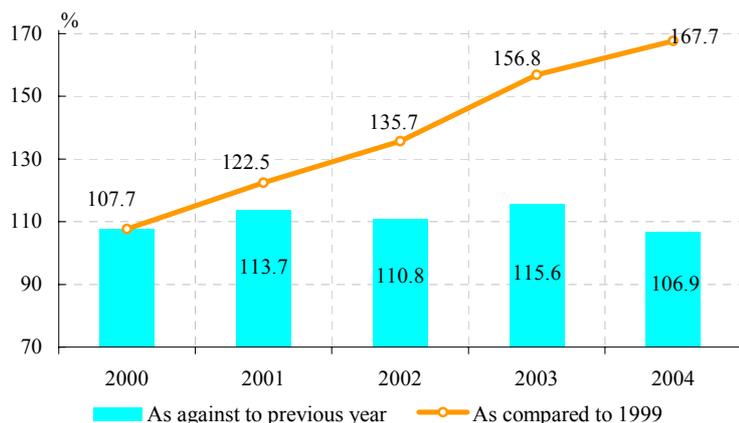
Chart no. 4. Evolution of gross savings and investments, (percent of GDP), %



The ratio between domestic supply and domestic aggregate demand accounted for 65.2%, exceeding by 1.4 p.p. the value in 2003.

Industrial output produced in 2004 by entities of all forms of property increased by 6.9% in real terms from the previous year and amounted to 17533.0 million lei in current prices.

Chart no. 5. Industrial production real growth index

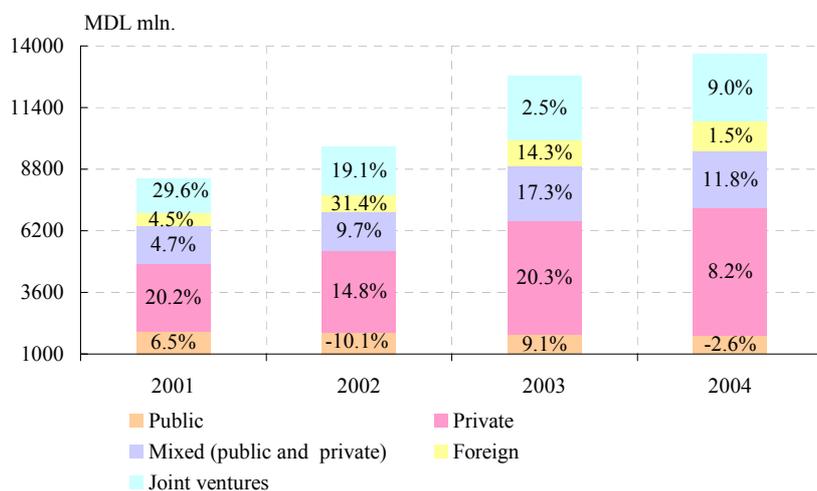


The volume of industrial output by large- and medium-size enterprises subject to monthly statistics amounted to 13656.1 million lei, by 6.9% more in real terms as compared to 2003 (chart no. 5). This upturn was mainly due to manufacturing industry (6.8 p.p of total industrial output growth). The mining and quarrying industry displayed a robust growth of 17.5%; while the value of electricity, gas, heating and water supply – a reduction by 0.4%.

Manufacture of food products and beverages constituted the main activity of the manufacturing industry (56.6%). The 3.3%-growth recorded within this sector contributed to the increase of general industrial output by 1.8 p.p. Yet, other industries recorded significant negative growth rates as compared to 2003: manufacture of equipment for motor vehicles – minus 53.4%; manufacture of computers, engineering devices and office supplies – minus 44.2%. However, considering the low weight of these

industries in total industrial output, their impact upon the aggregate growth rate was insignificant.

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



The majority of property forms denoted larger production values of industrial output in real terms (chart no. 6). However, mixed property (public and private) accounted for the largest increase of 11.8%.

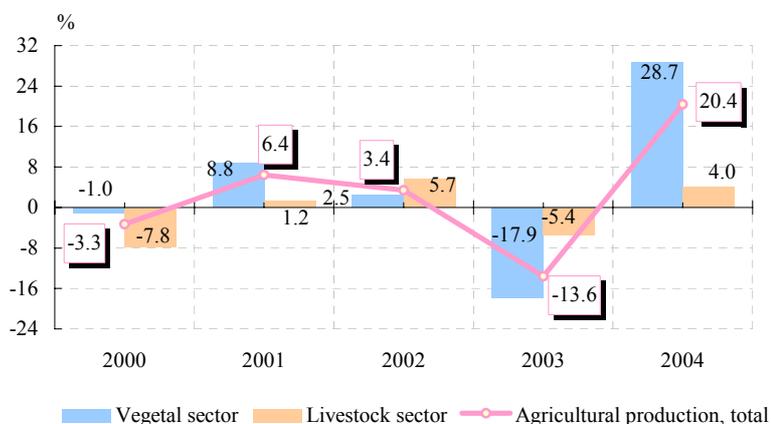
Despite the increased labour productivity in the industrial sector, the average growth rate in 2004 accounted for 5.8% as compared to 11.1% during

January-December 2003. The average industrial output value by employee amounted to 175.9 thousand lei. Out of the total number of enterprises subject to monthly statistics (619 enterprises), 47.2% registered smaller industrial output as compared to the previous year.

Agricultural output is estimated to amount to 12600.8 million lei, enlarging by 20.4% in comparable prices from the previous year

(chart no. 7). Both vegetal and livestock sectors denoted larger output volumes (by 28.7% and 4.0% respectively). The weight of farms and households production accounted for 68.0% of total agricultural output, while agricultural enterprises constituted 32.0% of total.

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

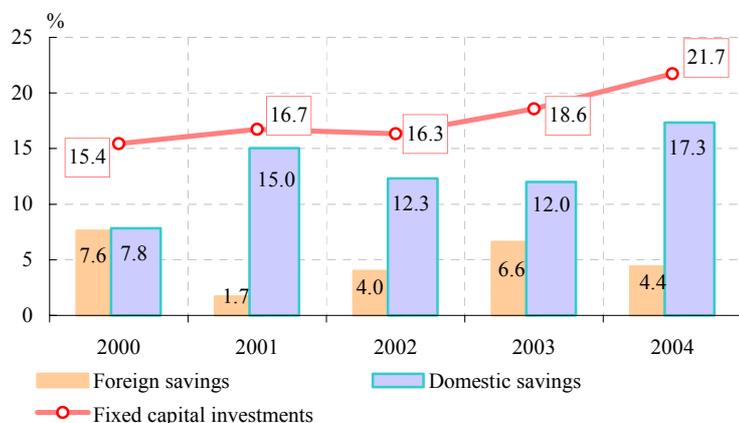


As of December 31, 2004, out of the total number of citizens that received land plots in the counterpart of the shares of land, 59.0% have established and relevantly registered over 292 thousand of farmers' entities and 41.0% have processed the land individually or have rented to other land owners.

The weight of *fixed capital investments* in 2004 increased to 21.7% of GDP. Financing of such investments through domestic savings (including transfers from abroad) was larger in 2004 as compared to previous year (chart no. 8): the weight of domestic savings in GDP

increased from 12.0% in 2003 to 17.3% in 2004, denoting a favourable, although modest, change in the overall consumption behaviour.

Chart no. 8. Savings – Investments Balance
(percent of GDP)



Fixed capital investments in the national economy amounted to 5002.7 million lei, which is by 8.0% in real terms more than in 2003. Investments in constructions and assembly, accounting for 50.7% of total, increased considerably by 37.0% as compared to 2003.

Investments in equipment, tools and inventory reduced by 14.0% in real

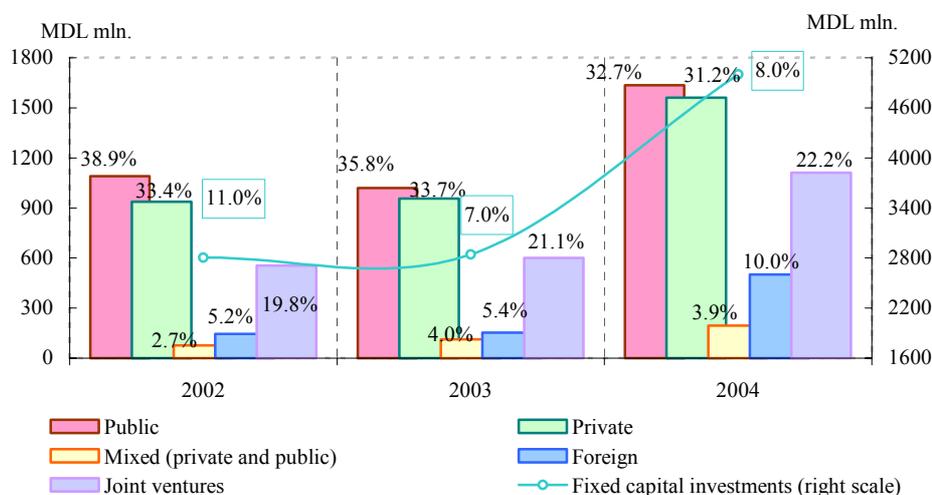
terms and amounted to 2281.2 million lei (45.6% of total investments).

Out of total investments, allocations for the public and private sectors hold the largest weights (32.7% and 31.2% respectively) (chart no. 9); investments in the private sector denoted the largest increase by 28.0%.

The value of investments in the production sector rose by 5.0% in real terms and amounted to 3702.0 million lei. Investments in the non-production sector increased by 19.0% from the end of 2003 and amounted to 1300.7 million lei.

According to sources of investments in 2004, like in previous years, own funds (including population funds) prevailed with 65.3% of total and amounted to 3266.7 million lei.

Chart no. 9. Volume and structure of fixed capital investments by forms of ownership (MDL mln.)



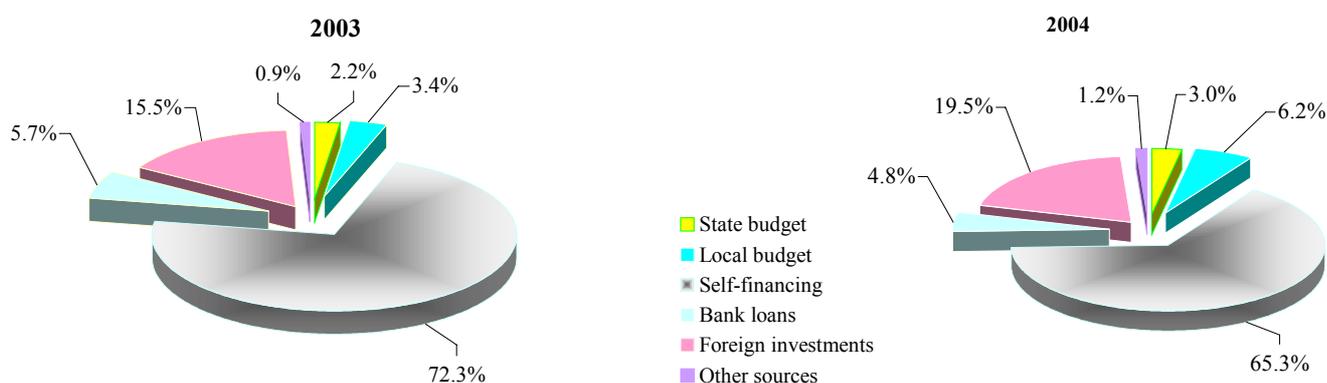
Investments on account of state and local budgets constituted 9.2% of fixed capital investments (chart no. 10).

During 2004 the brought into production of fixed assets amounted to 3353.5 million lei, 78.8% of which were made in the production sector.

Short- and long-term accounts receivable as of

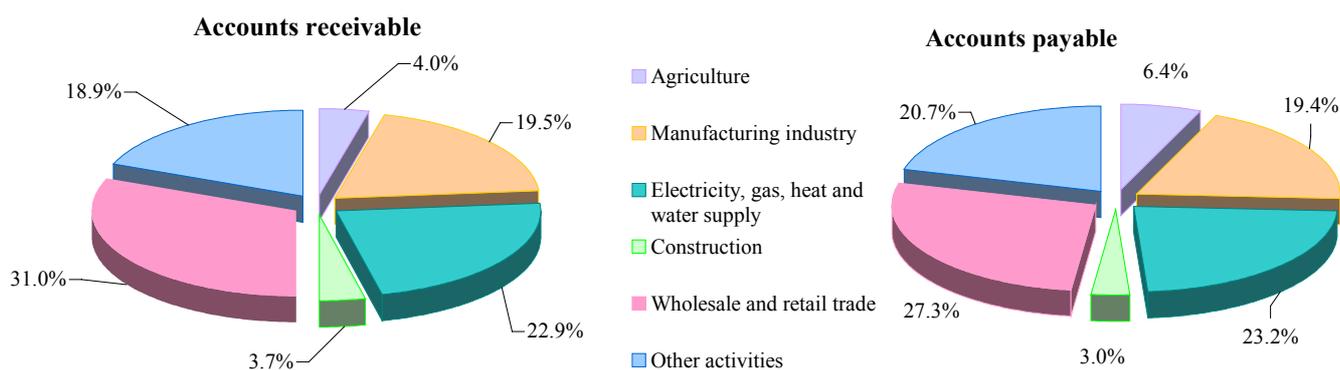
September 30, 2004 amounted to 24321.6 million lei, including long-term accounts receivable in a value of 2064.4 million lei. Short-term accounts receivable increased by 5.3% as compared to the end of 2003 and amounted to 22257.2 million lei, within which commercial invoices constituted 60.0%.

Chart no. 10. Structure of fixed capital investments by sources of financing (%)



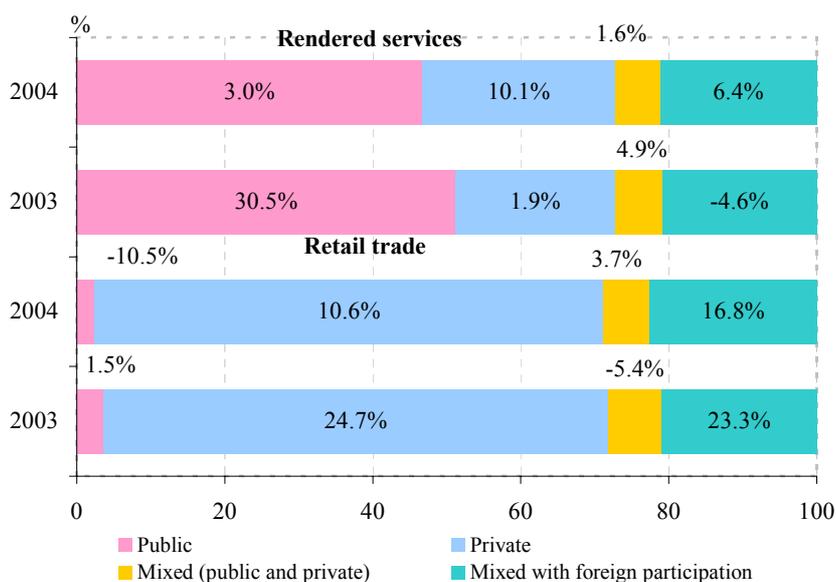
Short- and long-term accounts payable as of the same date amounted to 61290.9 million lei, within which long-term payables accounted for 28.6%. Short-term debt rose by 8.9% as compared to December 31, 2003 and totalled 43754.1 million lei. Similarly to short-term receivables, short-term commercial debts prevailed with 53.9% of total short-term payables. Short-term accounts receivable and payable of economic agents in breakdown by economic activities are shown in chart no.11.

Chart no. 11. Short-term accounts receivable and payable by main economic activities as of September 30, 2004 (%)



Retail trade turnover amounted to 17427.6 million lei, exceeding by 11.0% in real terms the value of the previous year. Goods traded through the formal sector totalled 8274.6 million lei, denoting a real increase of 10.8% as compared to 2003. A reduction by 10.5% of the retail trade turnover was noted only in public property (chart nr. 12).

Chart no. 12. Structure and dynamics of retail trade and of rendered services, by forms of ownership (%)



Private commercial units increased their turnover by 10.6% (accounting for 68.8% of total volume) and held the largest share of retail trade activity.

Retail sales in the local markets were estimated to amount to 9153.0 million lei, which is by 11.2% more than in 2003.

The value of **services rendered** to the population through the formal sector rose by 5.4% in real terms as compared to the previous year and amounted to 5641.5 million lei. All the property forms recorded increases of rendered services in 2004; public units accounted for

46.7% of total services (chart no. 12).

Services rendered to the population over the year by individuals totalled 1270.9 million lei, by 2.0% more than in the previous year.

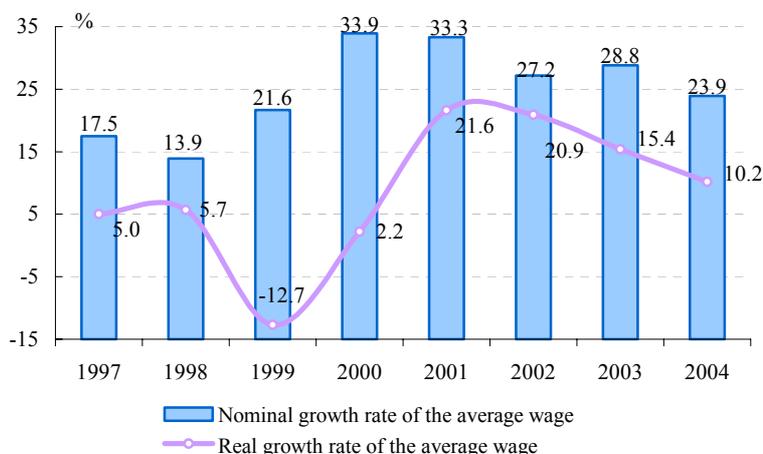
The interdependence between the dynamics of domestic trade with goods and services and the pattern of households aggregate final consumption intensified in 2004. Thus, against the breakdown of reduced growth of final consumption of households (from 18.5% in 2003 to 6.9% in 2004), a downward evolution has been registered also in retail trade (from 21.3% in 2003 to 10.8% in 2004) and in

services rendered to the population (from 13.5% in 2003 to 5.4% in 2004).

Economically active population (according to the data collected from 8208 households) constituted 1432.5 thousand persons, decreasing by 2.8% from 2003. The *activity rate** of the population aging 15 years old and over accounted for 49.7%. Unemployment, according to standards of the International Labour Office reduced by 0.6 thousand persons in 2004. *Unemployment rate* constituted 8.1% (7.9% in 2003).

The **number of employees in the economy**** (666.1 thousand employees) reduced over January to December 2004 by 10.3 thousand persons (by 1.5%) as compared to the same time period of 2003. The largest staff reduction was observed in agriculture – by 12.4%; electricity, gas and water – by 7.2% and health protection – by 2.5%. Such developments were induced by an increase of the number of self-employed persons and of those in search for work both in the domestic and external markets. Staff increases were recorded in the majority of economic activities.

Chart no. 13 . Evolution of the average annual wage (%)



The **average monthly wage** of an employee in the national economy in 2004 amounted to 1103.1 lei, which is by 10.2% in real terms more than in the previous year (chart nr. 13).

The wages fund totalled 7846.6 million lei in 2004. Significant wage increases were noted over the year in all activities. The salary level was set in accordance with the provisions of the Decision of the Government of the Republic of Moldova no. 1133 of 17.09.2003 on Increase of Wage of Budgetary Employees, being also adjusted to financial results of relevant entities' activity.

Wage arrears amounted as of December 31, 2004 to 134.9 million lei, reducing by 13.1 million lei as compared to the end of 2003.

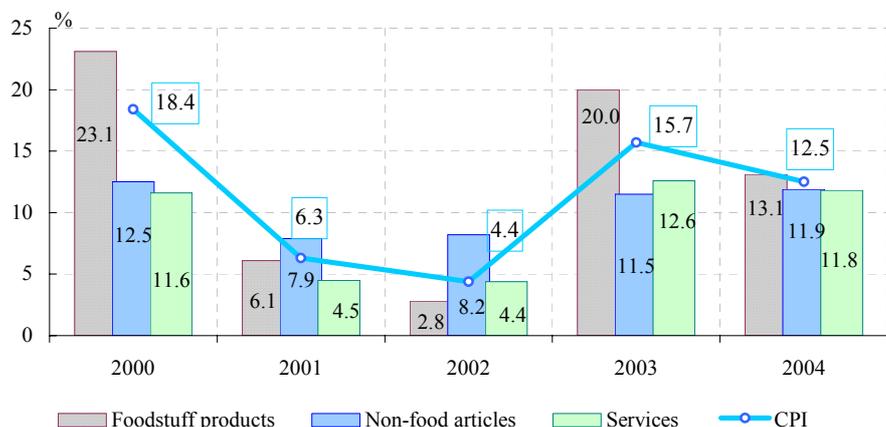
* Ratio between active population aging 15 years old and over and total population aging 15 years old and over

** Employed at enterprises with 20 and over employees (5647 economic units)

Evolution of Prices and Public Living Standard

Under the impact of economic environment, the growth rate of consumer prices in 2004 accounted for 12.5%, reducing by 3.2 p.p. from the previous year (chart no. 14).

Chart no. 14. Dynamics of CPI inflation in the breakdown by main components



Prices for foodstuffs increased by 13.1%, accounting for 6.1 p.p. or 48.8% of the inflation rate in 2004 (table no.1). The most significant rises in foodstuff prices were recorded for vegetables – by 59.9%; livestock products (meat, meat products and canned meat – by 29.9%, milk and dairy products – by 11.5%) and fruits – by 25.0%.

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

	2003			2004		
	price growth	contribution	contribution / CPI	price growth	contribution	contribution / CPI
CPI	15.7	15.7	100%	12.5	12.5	100%
Foodstuff products	20.0	9.3	59.2	13.1	6.1	48.8
Non-food articles	11.5	3.4	21.7	11.9	3.6	28.8
Services	12.6	3.0	19.1	11.8	2.8	22.4

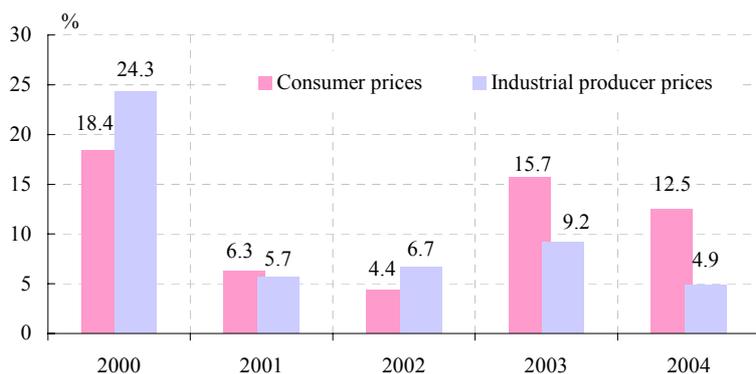
Source: National Statistics Office and National Bank of Moldova

Increases in prices for non-food articles and consumer services constituted 11.9% and 11.8% and accounted for 3.6 p.p. and 2.8 p.p. respectively of the inflation growth rate.

Within these two groups, the larger value of administratively regulated prices have essentially determined inflation dynamics: medical services prices – by 23.9%; telecommunications – by 23.8%; water supply and sewerage – by 23.3%; as well as fuel – by 23.2%, transportation services – by 20.0%. Prices for footwear and clothing rose by 14.4% and 14.2%, respectively.

However, starting with May 2004 prices for mill and bakery products denoted successive decreasing trends, reducing by 4.4% in annual dynamics as compared to December 2003.

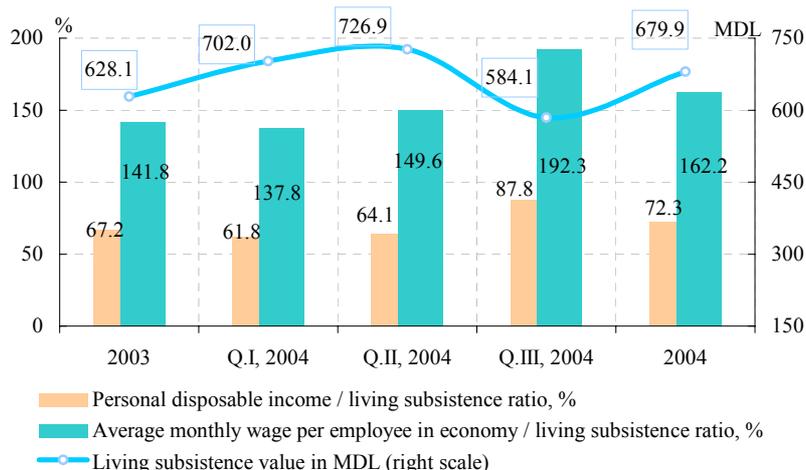
Chart no. 15. Growth rate of price level (%)



Industrial producer prices increased over the year by 4.9%. However, this level is by 4.3 p.p. less than in 2003 (chart no. 15). Increases in prices were noted in mining and quarrying industry – by 32.9%; manufacturing industry – by 5.2%, electricity, heating, gas and water supply – by 2.2%. Essential price hikes were registered in the following activities: textile industry – by 50.0%; manufacture of wearing apparel, dressing and dyeing of furs – by 49.1%; production, processing and preserving of meat and meat products – by 26.9%; production of metal products, except machinery and equipment – by 26.6%; production of cement, lime and gypsum – by 22.5%.

The average monthly value of *living subsistence* in economy in 2004 amounted to 679.9 lei (chart no. 16). As compared to the

Chart no. 16. Public living standard indicators



previous year, living subsistence value increased by 8.2% in nominal terms on the background of the 12.4%-growth of average annual prices.

By categories of population, the maximum value of living subsistence was noted by economically active population (718.9 lei), especially by men (762.6 lei). Child support implied a monthly average allocation of 641.0 lei, providing the due differentiation of this indicator

depending on child age. The average monthly pension value increased over the year by 54.3% in nominal terms and amounted to 325.0 lei, covering by 56.3% the living subsistence within this category of population.

The ratio between the average nominal monthly wage of an employee in the economy (1103.1 lei) and the living subsistence accounted for 162.2%. Yet, the ratio between average disposable income per capita (491.4 lei) and living subsistence constituted 72.3%.

According to households budget surveys, the *average monthly disposable income* per capita (491.4 lei) increased by 3.5% in real

terms in 2004 as compared to the previous year. Structurally, the weight of wage earnings rose to 40.5% from 37.3% in 2003, while incomes from individual agricultural activity denoted a continuous downward trend.

The average monthly consumption expenditures per capita amounted to 479.2 lei in 2004, reducing by 0.8% in real terms from 2003. No significant modifications have been observed in the structure of these expenses: foodstuffs continued to prevail with 56.4% of total.

Public Sector Finance*

The *consolidated budget* for 2004 was projected as follows: budget revenues – 7318.8 million lei; and budget expenditures – 7557.0 million lei.

Consolidated budget revenues amounted to 7521.5 million lei, or 102.8% of approved projections. Compared to the previous year, total revenues increased by 13.6% (901,0 million lei). Consolidated budget expenditures amounted to 7390.1 million lei, or 97.8% of annual projections. The consolidated budget registered a surplus of 131.4 million lei, accounting for 0.4% of GDP.

Tax collection prevailed in the structure of consolidated budget revenues (91.3% in 2004 against 86.4% in 2003) and amounted to 6870.0 million lei, or 102.3% of set projections. Within fiscal revenues, indirect taxes accounted for 64.3%, direct taxes – for 23.9% and other taxes – for 11.8%.

Non-fiscal revenues amounted to 552.6 million lei, or 104.7% of set projections, accounting for 7.3% of total collected revenues of the consolidated budget. Revenues from capital transactions and grants amounted to 79.9 million lei and 19.0 million lei, respectively.

Consolidated budget expenditures allocated to social sector amounted to 3720.4 million lei (50.3% of total expenditures); state debt servicing totalled 772.8 million lei (10.5% of total expenditures), including 399.0 million lei for domestic debt and 373.8 million lei – for external debt; allocation to national economy valued 728.5 million lei (9.9% of total expenditures); implementation of the investment program constituted 497.4 million lei (6.7%).

Total *state budget* revenues in 2004 amounted to 5533.9 million lei, or 101.0% of provisions stipulated in the Law on the State Budget no. 474-XV of 27.11.2003), surpassing by 960.6 million lei (21.0%) the value of revenues collected in 2003. State budget expenditures amounted to 5412.0 million lei, or 99.9% of annual projections).

The state budget was closed in 2004 with a surplus of 121.9 million lei as compared to the value of 61.0 million lei provided in the Law on the State Budget for 2004. External commitments in a total amount of 881.2 million lei (with further recovery of funds paid for state guarantees in a value of 1.2 million lei) and repayments to bank accounts and other sources in an amount of 35.9 million lei were paid over the year mainly on the account of state budget surplus (121.9 million lei); NBM credit (594.0 million lei), proceeds from

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

sales of state securities (199.7million lei) and from privatisation of objects as in accordance with individual projects (20.7 million lei). Yet, balances in state budget accounts rose over the year by 20.4 million lei and amounted to 32.7 million lei as of 31.12.2004.

Revenues accumulated in 2004 for *budgets of territorial-administrative units* totalled 2883.6 million lei (including transfers from state budget and other transfers in an amount of 866.0 million lei and 30.0 million lei, respectively) and accounted for 108.5% of annual projections. Expenditures constituted 97.2% of projections and amounted to 2874.1 million lei. Overall, budgets of territorial-administrative units registered a surplus of 9.5 million lei.

Domestic public debt as of 31.12.2004 amounted to 3714.1 million lei and stayed in line with the provision (3714.4 million lei) stipulated in the Law on the State Budget for 2004 no. 474-XV of 27.11.2003.

Within total domestic public debt, credits extended by the National Bank of Moldova amounted to 2338.0 million lei and outstanding state securities – to 1376.1 million lei (including in the NBM portfolio – 400.0 million lei).

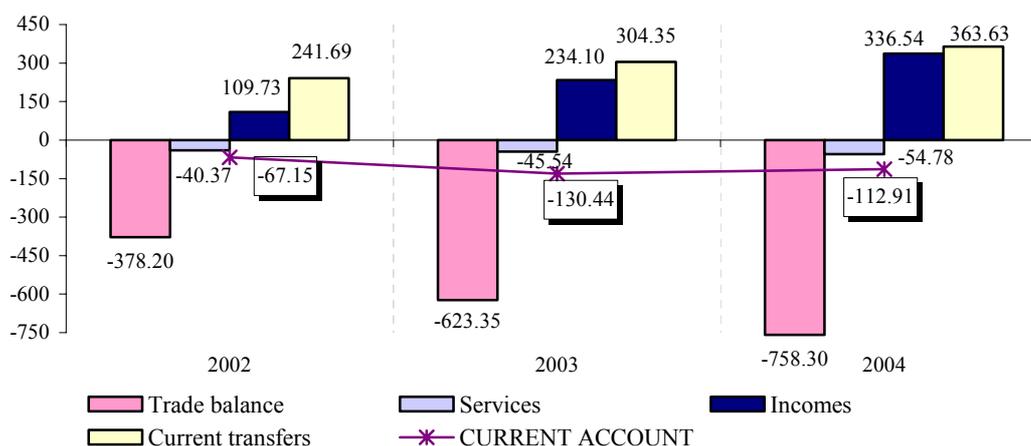
Balance of Payments

Table no.2. Dynamics of Balance of Payments of Moldova (main aggregates) (US\$ mln.)

	2002	2003	2004
CURRENT ACCOUNT	-67.15	-130.44	-112.91
Goods and Services	-418.57	-668.89	-813.08
Goods	-378.20	-623.35	-758.30
exports (FOB)	659.80	805.18	995.20
imports (FOB), including:	-1,038.00	-1,428.53	-1,753.50
imports of energy resources (without electricity)	-194.24	-232.83	-308.57
Services	-40.37	-45.54	-54.78
exports	216.65	254.22	322.28
imports	-257.02	-299.76	-377.06
Income (net), including:	109.73	234.10	336.54
compensation of Moldovan employees	221.00	332.00	480.00
interest on loans	-53.55	-43.15	-46.17
interest on governmental debt securities	-3.44	-2.18	-2.00
Current transfers (net) including:	241.69	304.35	363.63
workers' remittances	101.59	152.02	221.37
CAPITAL AND FINANCIAL ACCOUNT	86.61	60.52	-3.97
Capital transfers (net)	-15.30	-12.81	-5.35
Direct investment (net)	131.96	70.96	147.92
of which: in domestic economy	132.41	71.07	151.17
equity capital and reinvested earnings	82.81	56.46	177.13
loans from parent companies	49.60	14.61	-25.96
Portfolio investment (net)	-27.38	-23.75	-10.41
Assets *	-1.49	0.40	-1.46
equity securities			
debt securities	-1.49	0.50	-0.16
Liabilities	-25.89	-24.15	-8.95
equity securities	2.33	0.72	-1.45
debt securities	-28.22	-24.87	-7.50
Financial derivatives		0.05	0.57
Other investment (net)	24.29	40.14	11.29
Assets *	-43.86	-17.00	-52.81
currency and deposits abroad	-24.87	18.28	6.78
other flows	-18.99	-35.28	-59.59
Liabilities	68.15	57.14	64.10
long-term loans **	-2.92	-40.61	0.91
disbursed	143.51	86.31	150.34
reimbursed	-146.43	-126.92	-149.43
non-residents deposits	3.89	4.60	14.73
arrears on external debt service	43.62	57.13	-17.38
modification of debt for energy resources	17.70	-1.37	-12.66
other flows	5.86	37.39	78.50
Reserve assets*	-26.96	-14.07	-147.99
Errors and omissions	-19.46	69.92	116.88

* (+) - increase (-) - decrease; ** including rescheduled loans

Chart no. 17. Current Account in yearly dynamics (US\$ mln.)



The economic cumulative growth of 33.6% registered over the last five years had an essential effect upon the dynamics of the external sector of the national economy. The larger value of external trade, including the imports increase, supported by the growing volume of remittances, the significant increase of reserve assets and the external public debt reduction constituted the main features of the external sector of the national economy in 2004.

In 2004 current transactions registered a negative balance of US\$ 112.9 million (chart no. 17). The 13.4%-reduction from 2003 of the current account deficit was due to the superior increase of current transfers and income surplus (by 30.0%) over the increase of trade with goods and services deficit (by 21.6%). The current transfers and income surplus covered the trade with goods and services deficit by 86.1% (as compared to

80.5% in 2003 and 84.0% in 2002).

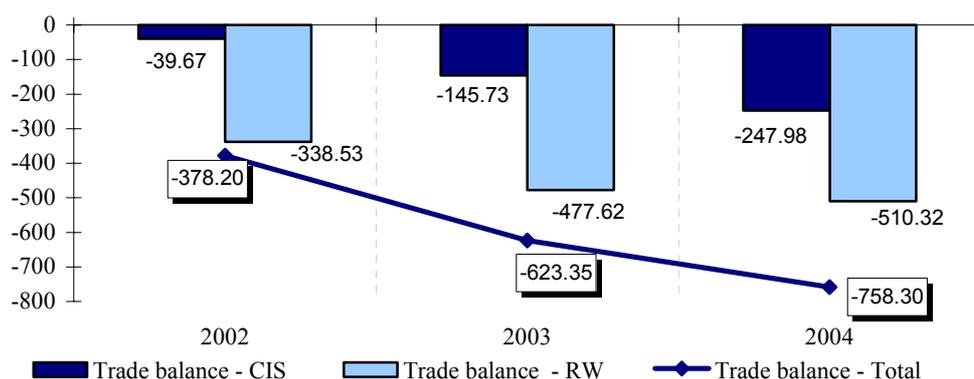
The value of *external trade with goods and services* increased from

Table no. 3. Foreign trade with goods and services in dynamics (US\$ mln.)

	2002	2003	2004
External trade	2171.47	2787.69	3448.04
Exports	876.45	1059.4	1317.48
Imports – FOB	1295.02	1728.29	2130.56
Trade with goods and services deficit	418.57	668.89	813.08
Coverage of imports by exports, %	67.7	61.3	61.8

the previous year by 23.7% (table no.3). Exports rose by 24.4% and imports – by 23.3%. Imports-coverage by exports accounted for 61.8%.

Chart no. 18. Trade balance by geographical regions (US\$ mln.)

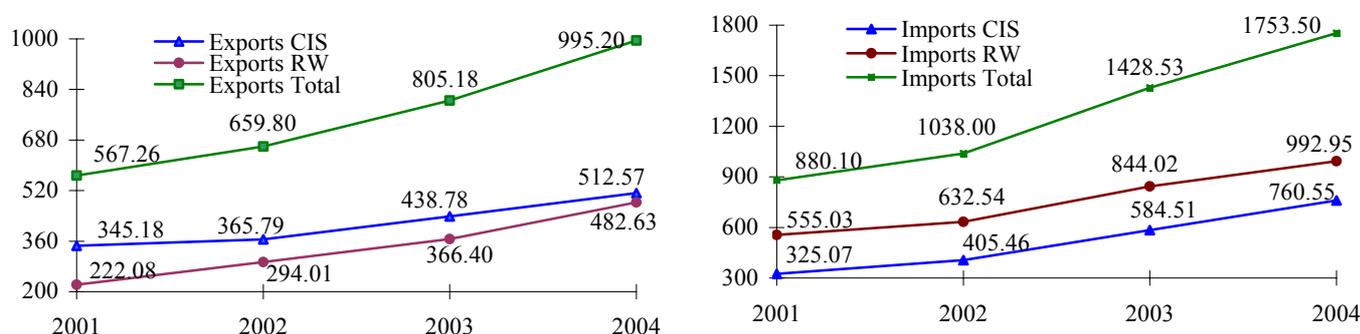


The trade balance with goods deficit increased by 21.6% as compared to the previous year and doubled as compared to 2002. The trade balance deterioration was mainly due to the fast growth of the negative balance of trade with goods with the CIS countries. Thus, the trade deficit with

CIS increased from the previous year by 70.2% (as compared to 2002 – by 6.3 times). The trade balance transactions with the rest of the world continued to register negative values, enlarging from 2003 by 6.8% (chart no. 18).

Both exports and imports of goods denoted increases as compared to 2003: exports growth rate accounted for 23.6%; imports growth rate – for 22.7% (chart no. 19).

Chart no. 19. Exports and imports (FOB prices) of goods in yearly dynamics (US\$ mln.)



According to data of the National Statistics Office, the larger negative balance in external trade with goods was determined by the deficit registered in trade relations with the following countries: Ukraine – US\$ 397.1 million (a 47.6%-increase); Germany – US\$ 89.8 million

(a 12.2%-increase); Romania – US\$ 130.2 million (a 82.8%-increase);

Table no. 4. Exports by countries (US\$ mln.)

	2002	Weight in the total 2002 %	2003	Weight in the total 2003 %	2004	Weight in the total 2004 %	2004 versus 2003 %
Total	643.89		789.17*		980.20*		124.2
of which:							
Austria	7.22	1.1	11.33	1.4	10.00*	1.0	88.3
Belarus	39.03	6.1	40.52*	5.1	58.71	6.0	144.9
Belgium	6.23	1.0	7.13*	0.9	10.33*	1.1	144.9
Bulgaria	3.39	0.5	6.18*	0.8	5.49	0.6	88.8
France	11.35	1.8	9.34	1.2	11.31	1.2	121.1
Germany	46.14	7.2	56.18	7.1	71.65*	7.3	127.5
Italy	56.83	8.8	82.40	10.4	136.62*	13.9	165.8
Kazakhstan	6.52	1.0	9.21	1.2	15.43	1.6	167.5
Great Britain	5.31	0.8	5.61	0.7	10.04	1.0	179.0
Romania	56.71	8.8	90.07*	11.4	98.58*	10.1	109.4
Russia	238.94	37.1	308.47	39.1	349.92*	35.7	113.4
USA	34.94	5.4	33.65	4.3	42.69	4.4	126.9
Turkey	4.12	0.6	7.24	0.9	12.19*	1.2	168.4
Ukraine	61.36	9.5	56.13	7.1	64.49*	6.6	114.9
Hungary	9.16	1.4	8.00	1.0	14.47	1.5	180.9

NSO data (shuttle trade not included)

* with some adjustments

Poland – US\$ 44.0 million (a 13.5%-increase); Turkey – US\$ 47.6 million (a 48.8%-increase). At the same time, increases were noted in external trade surpluses with a series of countries, including: Russia – US\$ 103.6 million (by 13.9%); and the USA – US\$ 25.0 million (by 2.2 times). Unlike the previous years, the trade balance with Italy reversed its

deficit trend (the deficit in 2003 amounted to US\$ 12.7 million) and registered a surplus of US\$ 26.3 million.

The main external trade markets of Moldovan goods did not modified. 79.6% of exports were directed towards the following trade partner countries: Russia (35.7%); Italy (13.9%); Romania (10.1%); Germany (7.3%); Ukraine (6.6%); Belarus (6.0%) (table no.4).

The larger value of exports was mainly supported by five sections of goods, which accounted for 76.8% of total exports and registered significant increases as compared to 2003: “row hides and skin, leather, fur skins and articles there of” – by 74.0% (7.9% in total exports); “textiles” – by 31.9% (17.4%); “vegetable products” – by 31.5% (12.2%); “machinery and equipment” – by 29.5% (4.0%); „foodstuffs, beverages, spirits, tobacco” – by 10.0% (35.3%) (table nr.5).

Exports of goods after processing in Moldova (textiles, ready-made cloths, footwear, plastic materials and tanned leather) accounted for 20.1% of total exports (as compared to 18.4% in 2003 and 20.4% in 2002). 99.1% of exports of these goods were directed to the rest of the world countries.

According to NSO data, 75.2% of goods were imported from 7 trade partners: Ukraine (26.0%); Russia (13.9%); Romania (12.9%); Germany (9.1%); Italy (6.2%); Belarus (3.7%); and Turkey (3.4%) (table no. 6)

Table no. 5. Exports by main groups of goods

	2002	2003	2004	structure of exports in 2004	2004 versus 2002	2004 versus 2003
	US\$ mln.			%		
Live animals; animal products	15.28	28.60	20.16	2.1	131.9	70.5
Vegetable products	106.07	91.25	119.98	12.2	113.1	131.5
Animal or vegetable fats and oils	16.81	28.91	41.19	4.2	2.5 times	142.5
Prepared foodstuffs; beverages, spirits; tobacco	267.37	314.35	345.94	35.3	129.4	110.0
Mineral products	11.39	20.61	30.36	3.1	2.7 times	147.3
Products of the chemical industry	7.19	8.97	9.29	1.0	129.2	103.6
Plastics and articles thereof; rubber and articles thereof	2.57	5.32	8.31*	0.9	3.2 times	156.2
Raw hides and skins, leather, furskins and articles thereof	23.35	44.77	77.89	7.9	3.3 times	174.0
Wood and articles of wood (furniture not included)	0.98	1.71	3.58	0.4	3.7 times	2.1 times
Pulp of wood, paper, paperboard and articles thereof	5.33	10.70	8.13	0.8	152.5	76.0
Textiles and textile articles	107.53	129.67	171.01	17.4	159.0	131.9
Footwear, headgear, umbrellas and the like	9.55	15.14	21.96	2.2	2.3 times	145.0
Articles of stone, plaster, cement; ceramic products; glass and glassware	14.08	15.84	17.16	1.8	121.9	108.3
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coins	0.16	0.19	0.17		106.3	89.5
Base metals and articles of base metals	7.01	19.39	29.89	3.1	4.3 times	154.2
Machinery and mechanical appliances; electrical equipment; television image and sound recorders and reproducers	24.83	30.31	39.26*	4.0	158.1	129.5
Vehicles, aircraft and associated transport equipment	13.37	10.33*	16.87*	1.7	126.2	1.6 times
Optical, photographic, cinematographic, medical or surgical instruments and apparatus; clocks and watches; musical instruments, parts and accessories thereof	6.72	7.19	8.12*	0.8	120.8	112.9
Other goods and products	4.30	5.92	10.93	1.1	2.5 times	184.6
TOTAL	643.89	789.17*	980.20*	100.0	152.2	124.2

NSO data (shuttle trade not included)

*with some adjustments

Increases were noted over the year in the majority of imported goods groups: “base metals” – by 59.4% (6.3% in total imports); “minerals”

Table no. 6. Imports by Countries (FOB prices) (US\$ mln.)

	2002	weight in the total 2002 %	2003	weight in the total 2003 %	2004	weight in the total 2004 %	2004 versus 2003 %
Total	1038.52		1402.80		1772.78*		126.4
of which:							
Austria	13.47	1.3	18.08	1.3	23.21	1.3	128.4
Belarus	38.84	3.7	49.77	3.5	65.69	3.7	132.0
Belgium	14.76	1.4	19.65	1.4	22.93	1.3	116.7
Bulgaria	26.45	2.5	40.72	2.9	38.43	2.2	94.4
France	18.47	1.8	24.34	1.7	37.40	2.1	153.7
Germany	90.14	8.7	136.20	9.7	161.49	9.1	118.6
Italy	74.85	7.2	95.05	6.8	110.30	6.2	116.0
Netherlands	13.96	1.3	18.70	1.3	24.09	1.4	128.8
Poland	24.42	2.4	43.22	3.1	50.50	2.8	116.8
Romania	122.66	11.8	161.28	11.5	228.79	12.9	141.9
Russia	159.32	15.3	217.48	15.5	246.36	13.9	113.3
USA	44.16	4.3	22.17	1.6	17.74	1.0	80.0
Turkey	27.65	2.7	39.24	2.8	59.79	3.4	152.4
Ukraine	217.43	20.9	325.12	23.2	461.57	26.0	142.0
Hungary	21.82	2.1	25.22	1.8	32.75	1.8	129.9

Source: NSO data (estimations on shuttle trade not included)

* with some adjustments

– by 29.3% (21.7% in total); “textiles” – by 28.6% (8.6% in total); “chemicals” – by 22.0% (9.1% in total); “machinery and equipment” – by 12.0% (13.5% of total). Yet, imports of “vegetable products” recorded a significant reduction of 10.6% (4.2% in total) (chart no. 7).

Table no. 7. Imports by main groups of goods (FOB prices)

	2002	2003	2004	structure of imports in 2004	2004 versus 2002	2004 versus 2003
	US\$ mln.			%		
Live animals and animal products	23.85	24.84	38.78	2.2	162.6	156.1
Vegetable products	43.47	82.28	73.54	4.2	169.2	89.4
Animal or vegetable fats and oils	7.07	5.50	7.42	0.4	105.0	134.9
Prepared foodstuffs; beverages, spirits; tobacco	72.64	91.98	105.25	5.9	144.9	114.4
Mineral products	237.06	297.73	384.87	21.7	162.4	129.3
Products of the chemical industry	115.83	132.68	161.81	9.1	139.7	122.0
Plastics and articles thereof; rubber and articles thereof	49.34	69.32	101.21	5.7	2.1 times	146.0
Raw hides and skins, leather, fur skins and articles thereof	16.24	36.31	72.54	4.1	4.5 times	199.8
Wood and articles of wood (furniture not included)	16.13	22.95	33.98	1.9	2.1 times	148.1
Pulp of wood, paper, paperboard and articles thereof	44.64	56.38	66.45	3.8	148.9	117.9
Textiles and textile articles	100.60	118.42	152.31	8.6	151.4	128.6
Footwear, headgear, umbrellas and the like	4.52	7.05	10.03	0.7	2.2 times	142.3
Articles of stone, plaster, cement; ceramic products; glass and glassware	30.71	52.71	64.37	3.6	2.1 times	122.1
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coins	2.27	3.27	4.16	0.2	183.3	127.2
Base metals and articles of base metals	48.95	70.26	111.98	6.3	2.3 times	159.4
Machinery and mechanical appliances; electrical equipment; television image and sound recorders and reproducers	146.39	214.01	239.74	13.5	163.8	112.0
Vehicles, aircraft and associated transport equipment	50.72	75.24	94.58*	5.3	186.5	125.7
Optical, photographic, cinematographic, medical or surgical instruments and apparatus; clocks and watches; musical instruments, parts and accessories thereof	14.86	22.69	20.88	1.2	140.5	92.0
Other goods and products	13.23	19.18	28.88	1.6	2.2 times	150.6
TOTAL	1038.52	1402.80	1772.78*	100.0	170.7	126.4

NSO data - (shuttle trade not included)

* with some adjustments

Imported agricultural products and foodstuffs rose by 10.0% as compared to the previous year and kept on holding a significant weight of 12.7% in total imports (as compared to 14.6% in 2003 and 14.2% in 2002).

According to customs statistics, imported energy resources in 2004 amounted to US\$ 308.6 million, surpassing by 32.5% the value imported in 2003 (table no.8). The majority of these imports came from Ukraine – 41.2%; Russia – 29.0%; Romania – 20.0%; and Belarus – 6.6%.

The volume of imported coal reduced by 30.7% as compared to the previous year, of fuel oil – by 8.9%. At the same time, an increase was registered for imports of natural gas – by 2.0%, diesel fuel – by 6.5% and petrol – by 4.8%.

The imports of electrical energy in an amount of 1835.5 million Kw/h totalled US\$ 45.4 million. The Republic of Moldova restarted in the

previous year the export of electricity, in 2004 it accounted for US\$ 14.1 million (424.0 million Kw/h).

Table no. 8. Imports of energy resources (FOB prices)

	2002	2003	2004	weight in the total 2004	2004 versus 2003
	US\$ mln.			%	
Energy Resources – total (US\$ mil.)	194.24	232.83	308.57	100.0	132.5
From CIS (US\$ mil.)	162.86	199.12	238.11	77.2	119.6
Coal (US\$ mln.)	4.06	9.90	9.25	3.0	93.4
(thou. tons)	149.70	266.84	184.98		69.3
Natural gas (US\$ mln.)	81.36	79.50	83.61	27.1	105.2
(mln. m ³)	1145.31	1238.08	1263.02		102.0
Fuel (US\$ mln.)	77.44	109.72	145.25	47.1	132.4
Fuel oil (US\$ mln.)	2.92	2.72	3.06	1.0	112.5
(thou. tons)	24.02	21.51	19.15		89.0
Diesel (US\$ mln.)	37.94	54.19	76.58	24.8	141.3
(thou. tons)	190.44	237.41	231.04		97.3
Gasoline (US\$ mln.)	21.33	33.06	38.07	12.3	115.2
(thou. tons)	98.37	137.35	108.36		78.9
Other (US\$ mln.)	15.25	19.75	27.54	8.9	139.4
From the rest of the world (US\$ mln.)	31.38	33.71	70.46	22.8	2.1 times
Fuel oil (US\$ mln.)	0.02		0.07		
(thou. tons)	0.14		0.44		
Diesel (US\$ mln.)	11.88	11.26	24.49	7.9	2.2 times
(thou. tons)	58.66	47.34	72.26		152.6
Gasoline (US\$ mln.)	16.01	18.25	41.53	13.5	2.3 times
(thou. tons)	69.35	65.27	104.00		159.3
Other (US\$ mln.)	3.47	4.20	4.37	1.4	104.0

The value of *external trade with services* advanced by 26.2% as against 2003, for both exports – by 26.8% and imports – by 25.8%. Services rendered to CIS countries increased by 13.5%, to the rest of the world countries – by 33.2%, while imports of services from CIS went up by 16.4%, from the rest of the world – by 29.3%.

The balance of services registered a deficit in an amount of US\$ 54.8 million, increasing by 20.3% versus 2003 (table no. 9). Transportation (38.3%)

and travel (32.8%) prevailed in external trade.

Income balance with services equalled to US\$ 336.5 million during the reported period, which is by 43.8% more as compared to the previous year (table no. 10). Compensation of employees working abroad constituted an important source of financial inflows in the Republic of Moldova. In 2004 this income was preliminarily estimated at US\$ 480.0 million.

Income on investment recorded a negative balance of US\$ 108.5 million determined by scheduled interest payments on governmental bonds (US\$ 2.0 million) and loans: on IMF loans (US\$ 2.5 million), governmental

loans (US\$ 20.3 million), commercial banks loans (US\$ 2.0 million) and other sectors loans (US\$ 21.4 million), including on loans

Table no. 9. Balance of services (US\$ mln.)

	2002			2003			2004		
	exports	imports	balance	exports	imports	balance	exports	imports	balance
Transportation	109.23	76.20	33.03	127.07	99.93	27.14	148.74	119.03	29.71
of which:									
transit of gas	28.26		28.26	30.80		30.80	39.86		39.86
Travel	50.35	95.41	-45.06	58.04	105.07	-47.03	94.96	134.59	-39.63
Communications	19.96	13.96	6.00	24.40	19.02	5.38	24.69	19.02	5.67
Other services	37.11	71.45	-34.34	44.71	75.74	-31.03	53.89	104.42	-50.53
Balance of services	216.65	257.02	-40.37	254.22	299.76	-45.54	322.28	377.06	-54.78

received from parent companies (US\$ 6.9 million).

In 2004 the surplus of *current transfers* registered US\$ 363.6 million:

Table no. 10. Income Balance (US\$ mln.)

	2002			2003			2004		
	credit	debit	balance	credit	debit	balance	credit	debit	balance
Compensation of employees	221.00	32.00	189.00	332.00	38.00	294.00	480.00	35.00	445.00
Investment income	8.38	87.65	-79.27	8.79	68.69	-59.90	10.04	118.50	-108.46
Income on direct investment		36.74	-36.74		27.29	-27.29		74.78	-74.78
dividends		5.31	-5.31		3.66	-3.66		4.30	-4.30
interest		8.75	-8.75		6.83	-6.83		7.65	-7.65
reinvested earnings		22.68	-22.68		16.80	-16.80		62.83	-62.83
Income on portfolio investment	2.22	3.69	-1.47	2.83	2.83	0.00	2.37	2.25	0.12
dividends		0.25	-0.25	0.05	0.64	-0.59		0.24	-0.24
interest	2.22	3.44	-1.22	2.78	2.19	0.59	2.37	2.01	0.36
Income on other investment	6.16	47.22	-41.06	5.96	38.57	-32.61	7.67	41.47	-33.80
dividends	6.16	47.22	-41.06	5.96	38.57	-32.61	7.67	41.47	-33.80
Income balance	229.38	119.65	109.73	340.79	106.69	234.10	490.04	153.50	336.54

Table no. 11. Current transfers (US\$ mln.)

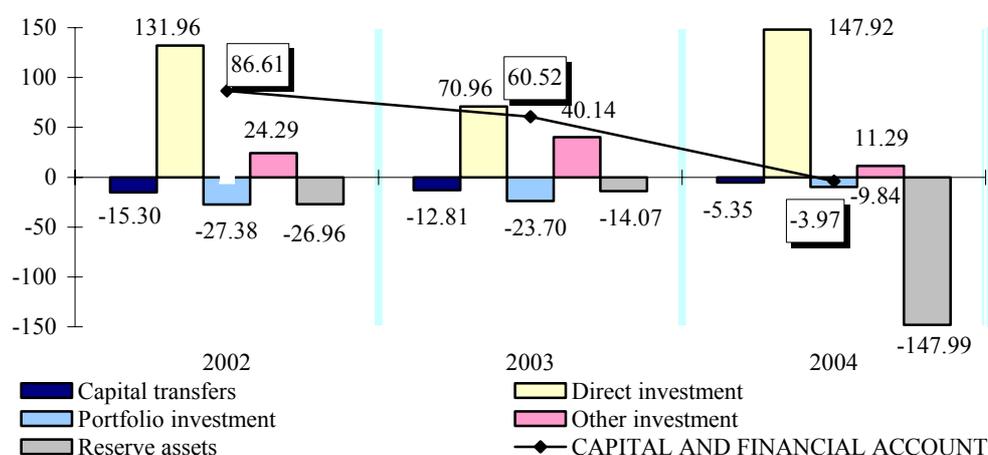
	2002			2003			2004		
	credit	debit	balance	credit	debit	balance	credit	debit	balance
Total current transfers	260.98	19.29	241.69	331.82	27.47	304.35	398.82	35.19	363.63
of which:									
grants and technical assistance	95.45	0.31	95.14	119.78	2.47	117.31	116.49	2.28	114.21
governmental transfers for education	9.85	0.82	9.03	10.95	0.63	10.32	8.62	0.46	8.16
humanitarian aid	34.52	0.04	34.48	22.91	0.03	22.88	17.67	0.03	17.64
fees to international organizations	0.02	3.16	-3.14	0.02	4.73	-4.71		4.71	-4.71
workers remittances	101.59	0.97	100.62	152.02	0.83	151.19	221.37	0.77	220.60
other	19.55	13.99	5.56	26.14	18.78	7.36	34.67	26.94	7.73

inflows raised by 20.2% as against 2003, while outflows – by 28.1% (table no.11). The weight of workers' remittances in total inflows of current transfers from abroad accounted for 55.5% (according to preliminary estimations), while the weight of grants and technical

assistance constituted 29.2%.

The capital and financial account recorded in 2004 a negative balance in an amount of US\$ 4.0 million, mainly caused by the direct investment net flows increase, previously estimated at US\$ 147.9

Chart no. 20. Capital and Financial Account – the main aggregates (US\$ mln.)



million, as well as by the reserve assets growth by US\$ 148.0 million (chart no. 20).

Capital transfers recorded net outflows of US\$ 5.4 million. Transfers of migrants leaving / arriving for permanent living from / into the country, with net outflows of US\$ 14.1 million determined the capital transfers negative balance.

Partial debt cancellation of some commitments to creditor has generated capital transfers inflows in an amount of US\$ 6.0 million.

The net value of foreign direct investment in the national economy equalled to US\$ 151.2 million during the reported year. The equity capital inflows of about US\$ 126.2 million were mainly performed in other sectors. The non-residents' equity capital was especially directed towards the power sector, production of appliances and tools and wine

making sectors with main investors from Spain, Russia, the Netherlands, etc. The withdrawn equity capital registered during the year US\$ 9.5 million. The earnings reinvested by foreign investors during the year were estimated at US\$ 60.5 million (table no. 12).

Table 12. Direct Investment in Dynamics (US\$ mln.)

	2002			2003			2004		
	credit	debit	balance	credit	debit	balance	credit	debit	balance
Direct investment	167.62	35.66	131.96	98.43	27.47	70.96	249.91	101.99	147.92
abroad		0.45	-0.45		0.11	-0.11	1.81	5.06	-3.25
in the national economy	167.6			98.43	27.36	71.07	248.10	96.93	151.17
including:	2	35.21	132.41						
<i>equity capital</i>	70.71	10.58	60.13	47.42	7.76	39.66	126.19	9.52	116.67
banks	10.39	7.64	2.75	3.67	2.05	1.62	8.68	1.22	7.46
other sectors	60.32	2.94	57.38	43.75	5.71	38.04	117.51	8.30	109.21
<i>reinvested earnings</i>	22.68		22.68	16.80		16.8	62.83	2.37	60.46
banks	5.16		5.16	6.08		6.08	6.56	2.37	4.19
other sectors	17.52		17.52	10.72		10.72	56.27		56.27
<i>other capital (other sectors)</i>	74.23	24.63	49.60	34.21	19.60	14.61	59.08	85.04	-25.96
<i>Structure of direct investment flows by sectors (%)</i>									
	100	100	100	100	100	100	100	100	100
banks	9.3	21.7	6.0	9.9	7.5	10.8	6.1	3.7	7.7
other sectors	90.7	78.3	94.0	90.1	92.5	89.2	93.9	96.3	92.3

The external loans from parent companies to their subsidiaries (other capital) were disbursed in an amount of US\$ 59.1 million. The outflows of other capital constituted US\$ 85.0 million, out of which US\$ 37.0 million represented reimbursements according to the agreement, and US\$ 48.0 million – other capital loans swapped for equity capital. It should be mentioned that US\$ 14.1 million out of the scheduled reimbursements were not paid. The disbursed credits were mainly oriented towards the power sector.

Portfolio investments were insignificant and registered a negative balance of US\$ 10.4 million (table no. 13).

Table no. 13. Portfolio Investment (US\$ mln.)

	2002	2003	2004
Portfolio investment (net)	-27.38	-23.75	-10.41
<i>Assets</i>	-1.49	0.40	-1.46
Equity securities – other sectors		-0.10	-0.16
Debt securities - banks	-1.49	0.50	-1.30
<i>Liabilities</i>	-25.89	-24.15	-8.95
Equity securities	2.33	0.72	-1.45
banks	1.56	-0.25	-0.60
other sectors	0.77	0.97	-0.85
Debt securities – bonds and notes - general government	-28.22	-24.87	-7.50

In 2004 the banking sector carried out financial operations in the form of forex swaps, indicated in the balance of payments as *financial derivatives* with a positive balance of US\$ 0.6 million.

The balance of *other investments* in 2004 generated

a surplus of US\$ 11.3 million: external assets increased by US\$ 52.8 million and liabilities to non-residents – by US\$ 64.1 million. Balances of both assets and liabilities were influenced by *trade credits* – short-term transactions resulting from postponement of payments and payments in advanced on external on trade with goods and services. Thus, trade credits extended to non-residents (assets) were appreciated at approximately US\$ 60.0 million, while those received from abroad – at US\$ 78.2 million in net value.

External assets in the form of *foreign currency and deposits* decreased by US\$ 6.8 million in net value, out of which those of commercial banks – by US\$ 5.8 million, while those of economic agents of other sectors and of individuals – by US\$ 0.7 million (according to preliminary estimates).

External commitments (*liabilities*) – other investments increased by US\$ 64.1 million in net value, or by 12.2% more as compared to the previous year growth.

Table no. 14. Evolution of External Loans (US\$ mln.)

	2002		2003		2004	
	dis-bursed	reim-bursed	dis-bursed	reim-bursed	dis-bursed	reim-bursed
Monetary authorities (IMF loans)	12.36	17.87		22.26		21.61
Governmental loans including: rescheduled	43.53	43.42	25.36	47.98	40.41	59.46
	12.40	10.40	2.48		17.73	15.42
Banking loans	17.85	10.77	16.05	6.61	22.89	20.83
long-term	14.45	5.27	7.45	6.61	19.89	11.73
short-term	3.40	5.50	8.60		3.00	9.10
Other sectors' loans	74.87	81.48	58.28	50.85	99.16	59.35
long-term	73.17	79.87	53.50	50.07	90.04	56.63
short-term	1.70	1.61	4.78	0.78	9.12	2.72
TOTAL	148.61	153.54	99.69	127.7	162.46	161.25
TOTAL except for rescheduled	136.21	143.14	97.21	127.7	144.73	145.83

External loans recorded in 2004 insignificant inflows in net value of US\$ 1.2 million. Situation by sectors is shown in table no. 14.

In 2004 the NBM reimbursed US\$ 21.6 million to IMF. The Government of the Republic of Moldova has

received US\$ 22.7 million, out of which US\$ 20.2 million within projects supporting structural reforms. It should be mentioned that two loans in an amount of US\$ 17.7 million were rescheduled under favourable conditions, while another loan was partially forgiven (US\$ 5.5 million). Within the governmental sector the amount to be repaid, as well as advance repayments without rescheduled amounts, totalled US\$ 44.0 million.

In the banking sector the new loans' disbursements on external loans exceeded by US\$ 2.1 million the repayments.

Private companies received US\$ 99.2 million from external loans, while scheduled repayments equalled US\$ 50.2 million, US\$ 9.2 million were repaid in advance.

The non-residents' currency and deposits within the national banking system increased during the year by US\$ 14.7 million in net value, exceeding the level recorded in 2003 by US\$ 10.1 million.

Other liabilities in form of governmental arrears reduced in net value by US\$ 39.9 million, out of which US\$ 7.8 million due to the rescheduling of loans. Other sectors' arrears increased in net amount by US\$ 9.9 million: on principal repayments (including those from parent companies) by US\$ 33.4 million and on interest repayments by US\$ 3.8 million. Loans' rescheduling has determined the reduction of arrears on private external debt by US\$ 14.7 million. Arrears on imports of energy resources reduced by US\$ 12.7 million in net value.

The *reserve assets** rose during the year by around US\$ 148.0 million in net value. Out of reserves US\$ 127.7 million went for external debt servicing, US\$ 3.1 million – for embassies support, US\$ 3.0 million – for international organizations' fees. The main source of reserves' replenishment still remained the domestic foreign exchange market, where the NBM purchased foreign currency in an amount of US\$ 277.8 million. The stock of reserve assets constituted US\$ 470.3 million at the end of December 2004. The exchange rate fluctuation of other reserve currencies as against US\$ contributed to the growth of reserve assets stock by US\$ 19.8 million. The level of reserve assets at the end of 2004 was sufficient to cover the current imports of goods and services for 2.7 months.

Table no.15. Main Macroeconomic Indicators of Moldova

	UM	2002	2003	2004
Current account balance / GDP	%	-4.0	-6.6	-4.4
Current account without transfers/ GDP	%	-18.6	-22.0	-18.4
Transfers (net) /GDP	%	14.5	15.4	14.0
Balance of goods and services /GDP	%	-25.2	-33.8	-31.3
Exports of goods and services /Imports of goods and services	%	67.7	61.3	61.8
Exports of goods and services /GDP	%	52.7	53.5	50.8
Imports of goods and services/GDP	%	77.9	87.3	82.1
Reserve assets / Imports of goods and services	months	2.49	2.10	2.65
External debt	US\$ mil.	1814.9	1924.5	1924.5
External debt/GDP	%	109.2	97.2	74.2

Source: NSO, BNM

* according to methodology of the Balance of Payments, 5th edition

The main external sector indicators of the Republic of Moldova for the reported period are shown in table no. 15.

Table no.16. Gross External Debt by sector (US\$ mln.)

	end of 2002	end of 2003	end of 2004
General Government	774.83	808.46	699.18
<i>Short-term</i>	<i>32.70</i>	<i>70.43</i>	<i>21.10</i>
Other debt liabilities*	32.70	70.43	21.10
Arrears	32.70	70.43	21.10
<i>Long-term</i>	<i>742.13</i>	<i>738.03</i>	<i>678.08</i>
Bonds and notes	119.18	94.31	31.76
Loans	622.95	643.72	646.32
Monetary authorities	152.92	144.13	130.53
<i>Short-term</i>	<i>1.51</i>	<i>2.08</i>	<i>4.59</i>
Currency and deposits	1.51	2.08	4.59
<i>Long-term</i>	<i>151.41</i>	<i>142.05</i>	<i>125.94</i>
Loans	151.41	142.05	125.94
Banks	41.66	55.51	70.06
<i>Short-term</i>	<i>18.16</i>	<i>31.09</i>	<i>37.46</i>
Loans		8.60	2.50
Currency and deposits	18.16	22.49	34.96
<i>Long-term</i>	<i>23.50</i>	<i>24.42</i>	<i>32.60</i>
Loans	23.50	24.42	32.60
Other Sectors	670.57	719.86	839.88
<i>Short-term</i>	<i>464.90</i>	<i>508.59</i>	<i>593.98</i>
Loans	0.71	4.73	11.55
Trade credits	107.66	133.21	212.32
Other debt liabilities*	356.53	370.65	370.11
Arrears	33.49	46.63	56.84
Other	323.04	324.02	313.27
of which debt for energy resources	301.39	300.02	287.06
<i>Long-term</i>	<i>205.67</i>	<i>211.26</i>	<i>245.90</i>
Loans	205.67	211.26	245.90
Direct Investment: Intercompany lending	174.90	196.58	184.84
Debt liabilities to direct investors	174.90	196.58	184.84
Arrears *	23.58	29.95	42.33
Other	151.32	166.63	142.51
TOTAL	1814.88	1924.54	1924.49

* corresponds to other liabilities from international investment position

The gross external debt of Moldova at the end of 2004 ran into US\$ 1924.5 million, decreasing by 13.5% and 9.4% in governmental and monetary authorities sectors, accordingly, while the banking and other sectors external debt (including intercompany lending) registered an increase of 26.2% and 11.8%, respectively (table no. 16).

Within sectorial structure of external debt other sectors held the highest weight in total - 43.7% as compared to 37.8% in 2003. At the same time, the weight of the governmental sector dropped from 42.0% to 36.3% (chart no. 21).

Chart no. 21. Structure of external debt by sectors in 2004

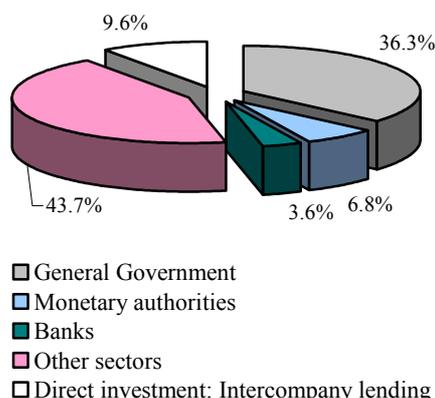
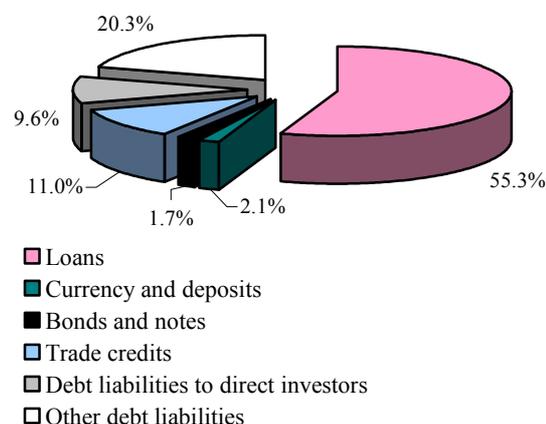


Chart no. 22. Structure of external debt by types of liabilities in 2004



Public and publicly guaranteed debt constituted US\$ 884.1 million,

Table no. 17. External Public and Publicly Guaranteed Debt and Nonguaranteed Private Sector Debt (US\$ mln.)

	end of 2002	end of 2003	end of 2004
Public and Publicly Guaranteed Debt	988.40	1010.51	884.09
<i>Short-term</i>	<i>38.32</i>	<i>79.43</i>	<i>35.31</i>
Currency and deposits	1.51	2.08	4.59
Other debt liabilities*	36.81	77.35	30.72
Arrears (on principal and interest)	36.81	77.35	30.72
<i>Long-term</i>	<i>942.78</i>	<i>923.26</i>	<i>840.69</i>
Bonds and notes	119.18	94.31	31.76
Loans	823.60	828.95	808.93
Direct Investment: Intercompany lending	7.30	7.82	8.10
Debt liabilities to direct investors	7.30	7.82	8.10
Arrears			8.10
Other	7.30	7.82	
Nonguaranteed private debt	826.49	914.03	1040.40
<i>Short-term</i>	<i>478.96</i>	<i>532.77</i>	<i>621.82</i>
Loans	0.71	13.33	14.05
Currency and deposits	18.16	22.49	34.96
Trade credits	107.66	133.21	212.32
Other debt liabilities *	352.42	363.74	360.49
Arrears (on principal and interest)	29.38	39.71	47.22
Other	323.04	324.02	313.27
<i>Long-term</i>	<i>179.93</i>	<i>192.51</i>	<i>241.84</i>
Loans	179.93	192.51	241.84
Direct Investment: Intercompany lending	167.60	188.75	176.74
Debt liabilities to direct investors	167.60	188.75	176.74
Arrears*	23.58	29.95	34.23
Other	144.02	158.80	142.51
Total	1814.89	1924.54	1924.49

* corresponds to other liabilities from international investment position

by 12.5% less as against the previous year-end, and private non-guaranteed debt amounted to US\$ 1040.4 million, recording an increase of 13.8% as compared to the end of 2003, mainly resulting from the growth of trade credits stock (table no.17).

Loans (55.3%) prevailed in the structure of external debt by types of liabilities, followed by other liabilities containing arrears on external debt service and debt for energy resources imports (chart no. 22).

As of 31 December 2004 external liabilities in the form of loans and debt securities (including related arrears) accounted for 70.6% in total external debt (table

no. 18). In the structure by debtors of these types of commitments, the public sector liabilities prevailed with 64.7% as against nonguaranteed external liabilities of the private sector. The weight of the latter continued, however, its ascendant trend (from 27.7% in 2002 to 35.3% at the end of 2004).

The external debt structure by creditors in form of loans and debt securities reveals that international organizations remained the main creditors of the Republic of Moldova (50.4%). Within these organizations, the World Bank represented the main financing source (56.3%), followed by IMF (18.4%), the rest of the loans were granted by the European Union, EBRD and IFAD.

The stock of public external debt in form of loans and debt securities was mainly influenced by the following:

- the Government of the Republic of Moldova redeemed state

Table no. 18. Stock of External Liabilities in Form of Loans and Debt Securities*(US\$ mln.)

	end of 2002	end of 2003	end of 2004
Monetary authorities	151.41	142.05	125.94
Loans (from the IMF)	151.41	142.05	125.94
Direct governmental debt	746.24	779.98	670.75
Loans	595.68	617.15	620.80
Arrears on loans	0.39	14.63	18.19
Debt securities	119.18	94.31	31.76
Arrears on debt securities	30.99	53.89	0.0
Private debt guaranteed by the government**	89.24	86.40	82.82
Banks	3.17	0.80	0.00
Loans	3.17	0.80	0.00
Other sectors	86.07	85.60	82.82
Loans	80.64	76.77	62.19
Arrears on loans	5.43	8.83	20.63
Private debt non-guaranteed by the government	377.63	434.31	479.86
Banks	20.33	32.22	35.10
Loans	20.33	32.22	35.10
Other sectors	357.30	402.09	444.76
Loans	304.33	332.42	363.31
Arrears on loans	52.97	69.66	81.45
TOTAL	1364.52	1442.74	1359.37

* including arrears on principal and interest

** loans under the guarantee of the government serviced by the economic agents and by the government

Table no.19. External Debt in Form of Loans and Debt Securities by Creditors* (US\$ mln.)

	end of 2002	end of 2003	end of 2004
Monetary authorities	151.41	142.05	125.94
IMF	151.41	142.05	125.94
Direct governmental debt	746.24	779.98	670.75
Multilateral creditors	377.22	405.01	413.26
IBRD and IDA	330.87	364.74	385.76
EBRD	8.29	7.32	6.35
EU	35.41	27.50	13.61
IFAD	2.65	5.45	7.54
Bilateral creditors	206.50	216.53	225.73
USA	56.27	57.27	57.27
Japan	23.86	25.96	27.31
Russia	91.68	95.02	98.30
other	34.69	38.28	42.85
Other creditors	12.35	10.24	
Debt securities	150.17	148.20	31.76
Private debt guaranteed by the government	89.24	86.40	82.82
Multilateral creditors	67.64	60.86	54.69
EBRD	67.64	60.86	54.69
Other creditors	21.60	25.54	28.13
Private debt nonguaranteed by the government	377.63	434.31	479.86
Multilateral creditors	79.35	84.34	91.51
Other creditors	298.28	349.97	388.35
TOTAL	1364.52	1442.74	1359.37

*including arrears on principal and on interest

promissory notes to Gazprom with discount in an amount of US\$ 114.5 million and also rescheduled bilateral loans received from the governments of Turkey (US\$ 8.3 million) and Romania (US\$ 9.4 million). The loan received from Hewlett Packard was reimbursed in an amount of US\$ 10.2 million, of which US\$ 5.5 million were forgiven;

- the governmental sector benefited in 2004 from disbursements only within previously started projects (US\$ 22.7 million). During the reported period the Government of the Republic of Moldova did not contract any new loans.

The stock of non-guaranteed private liabilities totalled US\$ 479.9 million (table no. 19). The drawings within this sector practically doubled and constituted US\$ 181.1 million versus US\$ 107.22 million in 2003. Some debtors of the private sector redeemed a part of liabilities to their foreign parent companies (in an amount of US\$ 63.3 million) in the swap for the increase of equity capital held by foreign creditors. Some payments

on loans' principal (US\$ 9.2 million) were performed in advance. The ratio of external debt to GDP fell from 97.2% at the end of 2003 to 74.2% at the end of 2004 (table no. 20).

Table no. 20. Macroeconomic Indices of External Indebtedness of Moldova

	UM	2002	2003	2004
External debt	US\$ mln.	1814.9	1924.5	1924.5
External debt / GDP	%	109.2	97.2	74.2
Exports of goods and services	US\$ mln.	876.5	1059.4	1317.5
External debt in the form of loans and debt securities	US\$ mln.	1364.5	1442.7	1359.4
Public external debt service* (schedule)	US\$ mln.	120.8	129.6	111.4
Public external debt service * (actual)	US\$ mln.	94.1	89.4	136.5
Governmental external debt service** (actual)	US\$ mln.	59.5	52.4	103.2
Public external debt service * (schedule) / Exports of goods and services	%	13.8	12.2	8.5
Public external debt service * (actual) / Exports of goods and services	%	10.7	8.4	10.4
Governmental external debt service (actual) / revenue of consolidated budget	%	15.9	11.0	16.9

* debt in form of loans and debt securities; including loans guaranteed by the government

**including payments by the government on guaranteed loans

The real public external debt service in form of loans and debt securities raised in relation with the exports of goods and services from 8.4% at the end of 2003 to 10.4% at the end of 2004.

2. Activity of the National Bank of Moldova

Monetary and Foreign Exchange Policy Implementation in 2004

Monetary and Foreign Exchange Policy Objectives and Results

Within the framework of the state economic policy, the National Bank of Moldova works out and implements the Monetary and Foreign Exchange Policy, which is aimed at achieving and maintaining the stability of the national currency. To reach this objective, the National Bank of Moldova establishes and maintains monetary, credit and exchange market conditions conducive to the orderly, balanced and sustained economic development of the state and, especially, of the market-based financial and foreign exchange system.

The Monetary and Foreign Exchange Policy for 2004 was formulated based on provisions of the Law on the National Bank of Moldova and was subject to coordination with the state relevant financial and economic authorities and approval by the Council of Administration of the National Bank of Moldova on 12 December 2003.

The macroeconomic framework applied for the elaboration of the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2004 included the Medium-Term Expenditure Framework for the years 2004 to 2006 (approved by the Government of the Republic of Moldova following the protocol decision no. 8 of 09.07.2003). The basic indicators of the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2004 provided as follows:

- inflation rate within 8% to 10%;
- real GDP growth by 5.0%;
- average estimated exchange rate of 15.2 MDL for US\$ 1 for 2004;

The monetary program for 2004 provided as follows:

- increase of broad money M2 by 24.1%;
- increase of reserve money by 23.6% as compared to end-2003 to the value of 4702.7 million lei;
- increase of crediting of national economy by 42.0%.

Owing to continuous changes in the external and internal economic environment, the Monetary and Foreign Exchange Policy was

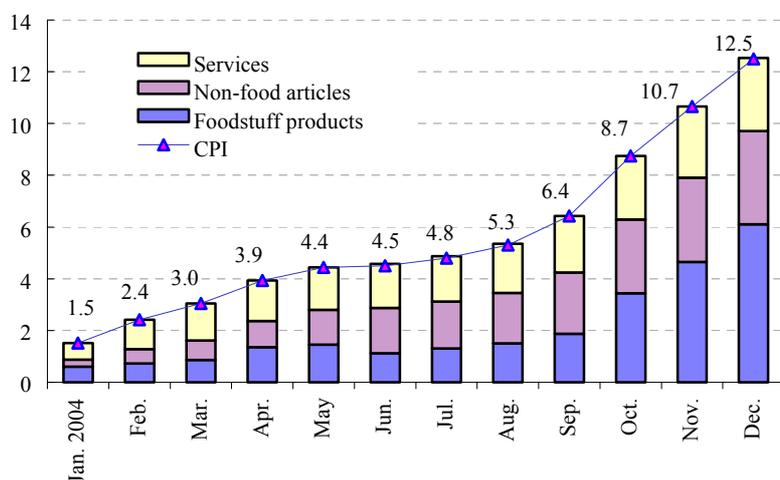
required to timely adjust its actions and instruments in order to increase their efficiency. The dynamics of macroeconomic indicators denoted partial dissimilarities with the macroeconomic forecast used as basis for the elaboration and implementation of the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2004. As the modification of assumptions used within the elaboration of the NBM Monetary and Foreign Exchange Policy for 2004 affected the initially established program indicators, the Council of Administration of the National Bank of Moldova rectified the Monetary and Foreign Exchange Policy for 2004, establishing as follows:

- increase of broad money M2 by 42.0%;
- increase of reserve money by 41.2% to the value of 5370.0 million lei;
- required reserves ratio at 10.0%. The required reserves regime provided the maintenance of reserves means separately in MDL and free convertible currency;
- increase of crediting of national economy by around 24.0%.

Real GDP growth in 2004 accounted, as according to preliminary data, for 7.3% in real terms. The volume of external trade has increased since the previous year by 23.7%, including exports – by 24.4% and imports – by 23.3%. The average annual exchange rate in 2004 accounted for 12.33 MDL for US\$ 1. As in accordance with the Law (no.195-XV of 17.06.2004) on Completion of Article 27 of the Law on the State Budget for 2004, the National Bank of Moldova extended to the Government of the Republic of Moldova a loan, which value in Moldovan Lei was equivalent to US\$ 50.0 million, for external debt servicing.

The growth rate of consumer prices over 2004 constituted 12.5%, including of foodstuffs – 13.1%; non-food products – 11.9%; and services – 11.8%.

Chart no. 23. Components contribution to CPI in 2004 (%)



Increases in prices were mainly determined by non-monetary factors: administrative increase of prices on telecommunication services – by 23.8%; medical services – by 23.9%; and transportation – by 20.0%. The inflation imported from countries - trade partners of Moldova, mainly as a result of risen oil price in the global market (the price for Brent oil rose by 34.9% in 2004) and in

the domestic market – by 23.2%; significant fluctuations of the exchange rate of EUR / US\$; enlarged domestic demand as result of remittances from abroad were the major factors that have severely impacted the inflationary process.

In conditions of heavy inflows of foreign currency, the National Bank of Moldova had, with the view to preventing an excessive appreciation of the national currency, to intervene in the domestic foreign exchange market to acquire the foreign currency surplus. As a result, the NBM enlarged its foreign exchange reserves, thereby providing additional issuance of national currency. Under these circumstances, the NBM actions were aimed at striking a right balance between a maximum allowable monetary expansion and the non-admission of excessive appreciation of the national currency.

Within this context, the National Bank of Moldova acquired over the year US\$ 277.8 million, enlarging the value of its foreign exchange reserves by US\$ 168.0 million (55.6%) to the level of US\$ 470.3 million. Purchases of foreign exchange by the NBM were balanced by significant sterilisation operations, which amounted to 2794.9 million lei over 2004.

The monetary base or the net issue of money by the National Bank of Moldova increased by 39.7% (1509.1 million lei) from the end of 2003 and amounted to 5313.1 million lei, staying in line with the provisions set in the rectified Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2004. Adequately, the balance of currency in circulation went up by 959.4 million lei (35.0%) and of overall banks' reserves – by 547.9 million lei (51.5%).

Broad money M2 rose by 44.7% over the reported year, including deposits in national currency - by 54.0%. Deposits in foreign currency (expressed in US\$) denoted a moderate growth of 31.7% in 2004 as compared with the pace of 51.4% registered in 2003. The dynamics of broad money M2 led to an increase of monetization level up to 25.4% from 20.4% in December 2003. The upward trend of this indicator illustrates the positive dynamics of financial intermediation in the national economy.

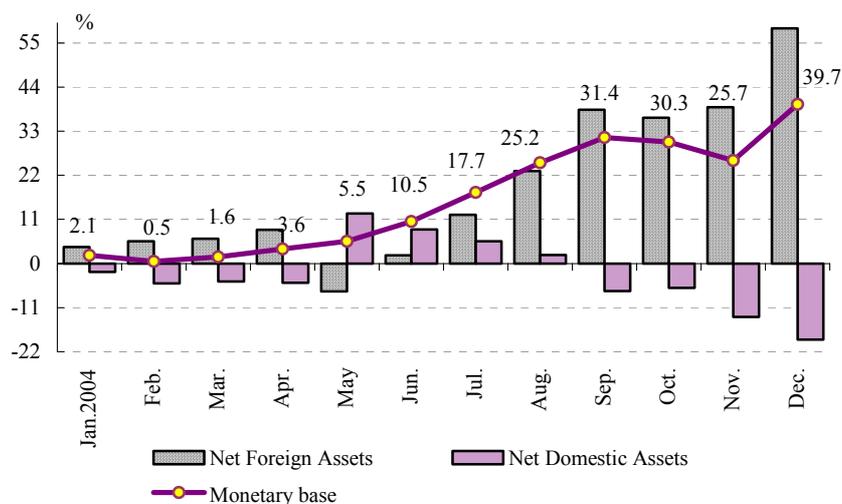
Monetary Indicators Dynamics

Monetary Base

Monetary Base, which includes currency in circulation (outside the banking sector) and reserves of commercial banks maintained on correspondent accounts with the National Bank of Moldova, increased

by 1509.1 million lei (39.7%) over 2004 and amounted to 5313.1 million lei as of 31.12.2004.

Chart no. 24. Components contribution to the monetary base growth
(dec.2003=100%)



The enlarged value of this indicator was mainly due to the higher volume of operations conducted by the National Bank of Moldova in the foreign exchange market. Net foreign assets denoted considerable increases over the year, while net domestic assets reduced as a result of intensified sterilisation operations (chart no. 24).

These developments resulted in the increase of the weight of *banks' reserves* within monetary

base (from 28.0% in 2003 to 30.3% in 2004). Over the reported year, banks' reserves rose by 547.9 million lei (51.5%) and amounted to 1611.4 million lei. Within overall reserves structure the value of required reserves reduced by 110.4 million lei (13.5%) and excessive reserves increased by 658.3 million lei due to conjuncture factors. First, starting from July 2004, the regime of required reserves computation and maintenance underwent significant changes that determined the modification of banks' reserves structure. Second, pursuing the objective of maintaining the national currency stability and consolidation of the international reserves at an adequate level, the National Bank of Moldova noticeable increased the volume of foreign exchange purchases in the market.

Monetary Aggregates' Development

Broad Money M3 has increased by 37.7% (3210.6 million lei) since the end of 2003 and amounted to 11719.7 million lei. The evolution of broad money over 2004 embodies two distinctive periods: in the first semester of the year the average monthly growth rate of broad money accounted for 1.1%, while in the second semester for 4.3%.

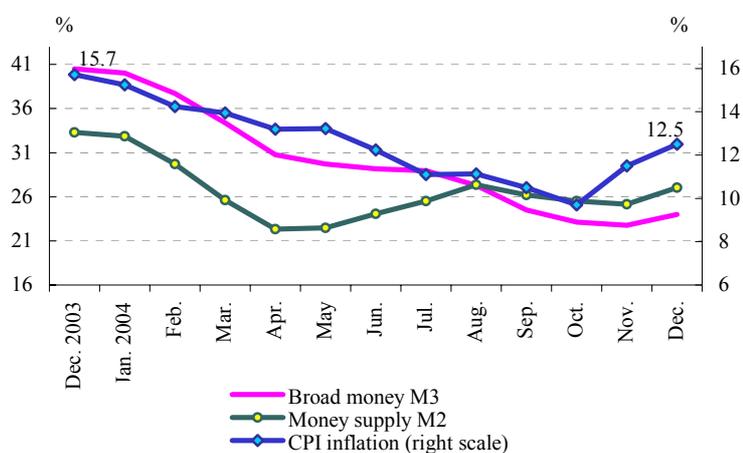
The growth of broad money M3 was generated by the positive dynamics of relevant components, especially by the 44.7%-increase of the monetary aggregate M2 (*currency in circulation + deposits in MDL + money market instruments*) as compared to the 24.4%-increase in 2003 (table no. 21).

The real increase of broad money M2 reached 28.6% against the background of a 7.3%-real GDP growth over the reported year.

Table no. 21. **Broad money by components** (MDL mln.)

	2003	2004	Growth rate changes, %	Absolute change
Broad money M3	8509.1	11719.7	37.7	3210.6
Broad money M 2	5621.9	8137.0	44.7	2515.1
Currency in circulation	2740.5	3699.9	35.0	959.4
Deposits*	5767.8	8019.3	39.0	2251.5
in MDL	2880.6	4436.6	54.0	1556.0
in foreign currency	2887.2	3582.7	24.1	695.5
Money market instruments	0.8	0.5	-45.8	-0.3

* According to IMF methodology, out of total deposits with the banking system are excluded: deposits of commercial banks and other financial institutions; state budget accounts; extra-budgetary funds; deposits of non-resident individuals and businesses

Chart no.25. **Twelve-month growth in CPI inflation and in monetary aggregates (%)**

However, annualised growth rates of monetary aggregates were in line with the annual inflation trend during 2004, considering a lag of around half a year (chart no. 25).

The contributions of deposits in MDL and currency in circulation to the 2515.1 million lei annual growth of broad money M2 were 61.9% and 38.1% respectively. The contribution of individuals' deposits to the M2 growth reached 35.0% in 2004, as compared to 27.8% in 2003. Within the M2 structure, the weight of deposits in

national currency rose from 51.2% in 2003 to 54.5% in 2004, including of time deposits – to 31.6%. Correspondingly, the weight of currency in circulation in broad money M2 reduced from 48.8% in December 2003 to 45.5% in December 2004.

Currency in circulation increased by 959.4 million (35.0%) and amounted to 3699.9 million lei. The average monthly growth rate of currency in circulation (2.5%) was inferior to that of broad money M2 (3.1%). The significant upsurge of currency in circulation noted in the 3rd quarter of 2004 was due to a seasonal growth of demand for cash holdings, resulted from foreign currency sales by individuals and from acquisition of agricultural products.

Net foreign assets (convertible) of the banking sector increased over 2004 by US\$ 169.8 million (82.4%), including the international reserves of the National Bank of Moldova – by US\$ 168.0 million (55.6%).

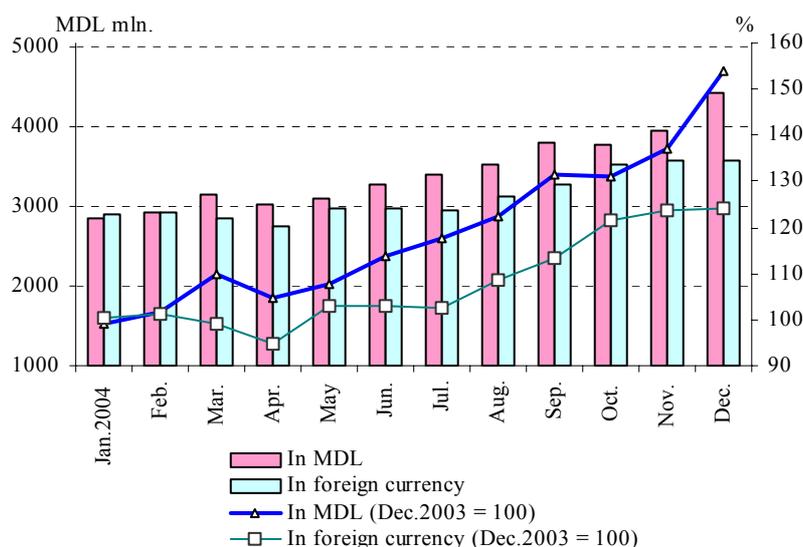
Net domestic assets rose by 1355.1 million lei (23.7%) and amounted to 7064.1 million lei. *Domestic credit* within the banking system increased by 1828.7 million lei (23.2%) and totalled 9706.5 million lei mainly due to the increase of credits to economy (by 1344.1 million lei or 22.2%) and of net claims on Government (by 484.6 million or 26.6%).

Money velocity (M2) followed over the year a downward trend and reduced from 4.91 to 3.93, displaying a level of money supply adequate to the money demand of the real sector of the national economy and population.

Deposits Market

*The balance of deposits** in the banking sector amounted to 8019.3 million lei as at year-end and accounted for 68.4% of broad money M3. The 39.0%-increase in deposits was mainly due to the dynamics

Chart no. 26. Deposits dynamics in 2004



of deposits in national currency, which enlarged by 1556.0 million lei or 54.0%. Deposits in foreign currency denoted a slower growth – by 695.5 million lei or 24.1% (chart no. 26). Denominated in US\$, these deposits amounted to US\$ 287.5 million as of 31.12.2004.

The balance of time deposits in MDL experienced a substantial augmentation by 75.0% or 1102.7 million lei over the year. Within these deposits, deposits held by individuals rose from the end of 2003 by 71.8% (847.0 million lei).

The appreciation tendency of the national currency against US\$ in the first half of the year on the background of high interest rates resulted in the rapid enlargement of the balance of deposits attracted in national currency to the detriment of those in foreign currency.

The *balance of time deposits in foreign currency* increased by 32.0% and amounted to 2393.6 million lei. Denominated in US\$, these deposits rose by US\$ 55.0 million and totalled US\$ 192.1 million as of 31.12.2004.

The balance of time deposits in foreign currency of individuals experienced a slower growth rate as compared with time deposits in

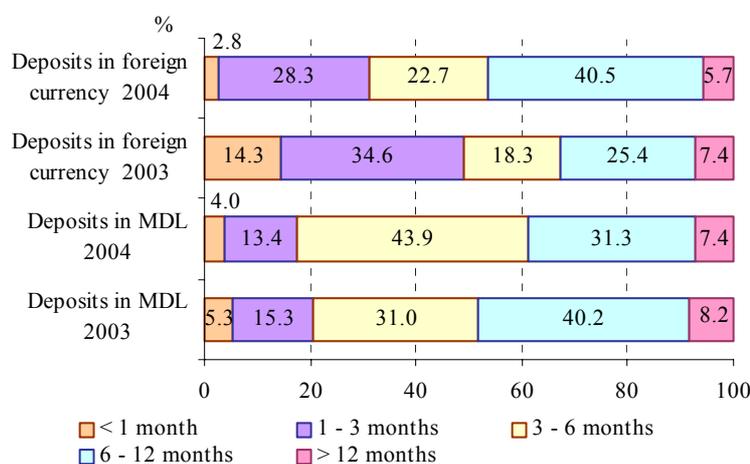
* according to the IMF methodology out of total deposits of the banking sector are excluded: deposits of commercial banks and other financial institutions; state budget accounts; extra-budgetary funds; deposits of non-resident individuals and legal entities.

MDL (42.8% or 50.7 million US\$). This trend was mainly determined by larger workers' remittances and transfers from abroad by citizens of the Republic of Moldova.

The weight of deposits in foreign currency in total deposits decreased by 5.4 p.p., determining the reduction of deposit dollarisation from 50.1% in December 2003 to 44.7% in December 2004. At the end of 2004 *deposits in foreign currency* (denominated in MDL) made up 30.6% of total broad money M3 as compared to 33.9% as of 31.12.2003.

The volume of time deposits in MDL in 2004 amounted to 3493.9 million lei. The 85.1%-increase of this indicator in the reported year exceeded the 8.8% - increase in 2003 and was impacted by both the evolution of the national currency exchange rate and more attractive

Chart no. 27. Composition of time deposits attracted in MDL and foreign currency (%)

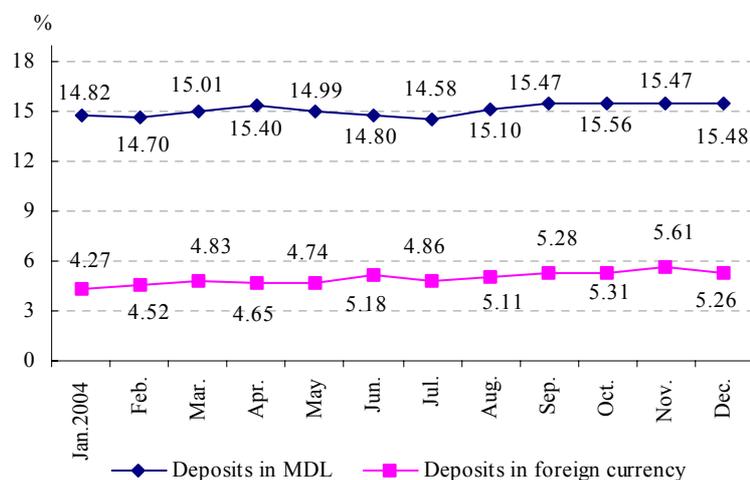


interest rates applied by banks on deposits in MDL. Time deposits for terms of 3 to 6 months, being the largest component of total deposits in MDL with the share of 43.9%, increased their weight by 12.9 p.p. (949.0 million lei) at the expense of the decrease by 8.9 p.p. of the share of deposits for terms of 6 to 12 months. (chart no. 27).

The volume of time deposits in foreign currency amounted in 2004 to 3338.7 million lei, surpassing by 431.3 million lei (14.8%) the value recorded in the

previous year. Denominated in US\$, these deposits totalled US\$ 270.8 million, rising by 29.9%. Deposits of individuals accounted for 86.1% of total time deposits attracted in foreign currency.

Chart no. 28. Dynamics of average weighted interest rates on time deposits in 2004 (%)



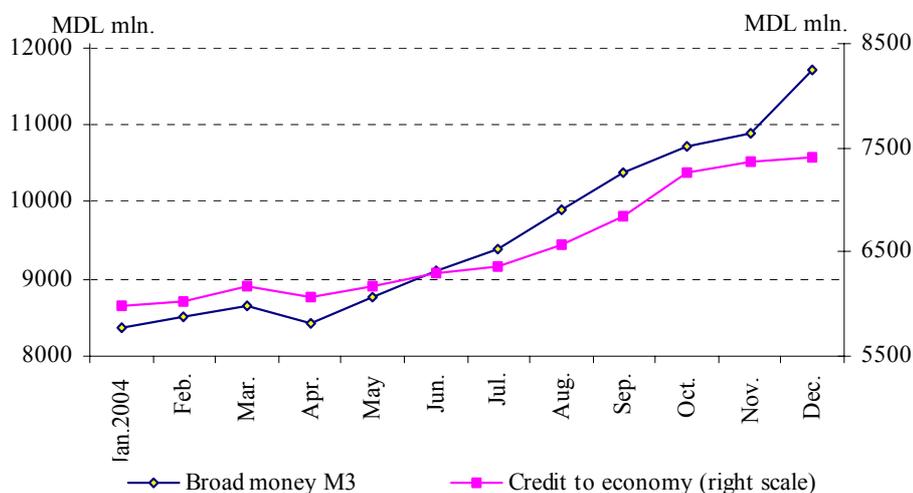
Deposits breakdown by terms evinced that deposits placed for a term of 6 to 12 months prevailed within the structure of deposits in foreign currency, amounting to 1352.6 million lei or US\$ 109.7 million (increasing by US\$ 56.6 million from the previous year); time deposits placed for a term of 1 to 3 months reduced their weight by 6.3 p.p. and accounted for 28.3% (chart no. 27).

The ascendant dynamics of interest rates on deposits followed the rising

trend of interest rates in the period of September to December 2003 on the background of a significant increase of credits extended to national economy. The demand for credit resources by commercial banks induced the rise in offered interest rates on deposits. This upward trend of average weighted interest rates on time deposits in national currency and foreign currency could be also observed in 2004 (chart no.28).

The *average annual interest rate on time deposits in national currency* increased by 2.48 p.p. from the previous year and accounted for 15.16%. The *average annual interest rate on time deposits in foreign currency* rose by 1.88 p.p. and accounted for 5.0%.

Chart no.29. Monetary aggregates in 2004



Credits Market

*The total balance of credits to economy** as at the end of 2004 amounted to 7399.3 million lei, recording a 22.2%-increase since the previous year (chart no. 29). The industry and trade sectors exhibited over the year a larger credit demand, accounting for 51.1% of total credits (by 33.8% more than in 2003); credits extended to

Table no. 22. Breakdown of loans by sectors of economy (MDL mln.)

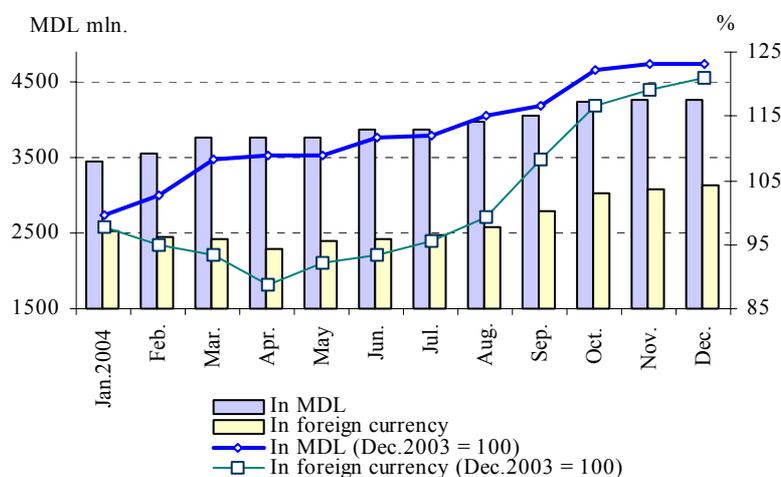
	As of 31.12.2003	Weight in the total, 2003 (%)	As of 31.12.2004	Weight in the total, 2004 (%)	Absolute change	Percentage change, %
Loans to agriculture and manufacture of foodstuff products	1783.1	29.4	1908.2	25.8	125.1	7.0
Loans for real estate, construction and development	406.2	6.7	471.3	6.4	65.2	16.0
Consumer credit	166.7	2.8	280.8	3.8	114.1	68.4
Loans to energy and fuel industry	402.6	6.6	348.0	4.7	-54.6	-13.6
Loans to industry and trade	2828.3	46.7	3784.1	51.1	955.7	33.8
Loans for road construction and transportation	100.1	1.7	205.9	2.8	105.9	105.8
Other loans	368.2	6.1	401.0	5.4	32.8	8.9
Total	6055.2	100.0	7399.3	100.0	1344.1	22.2

* according to IMF methodology, from total credits to economy (including accrued interest on credits) are deducted interbank credits and credits extended to Government

agriculture and food industry increased by 7.0% and constituted 25.8% of total credits (table no. 22).

The *balance of credits in national currency* rose by 23.2% (803.2 million lei) and amounted to 4272.0 million lei, accounting for 57.7% of total credits to economy.

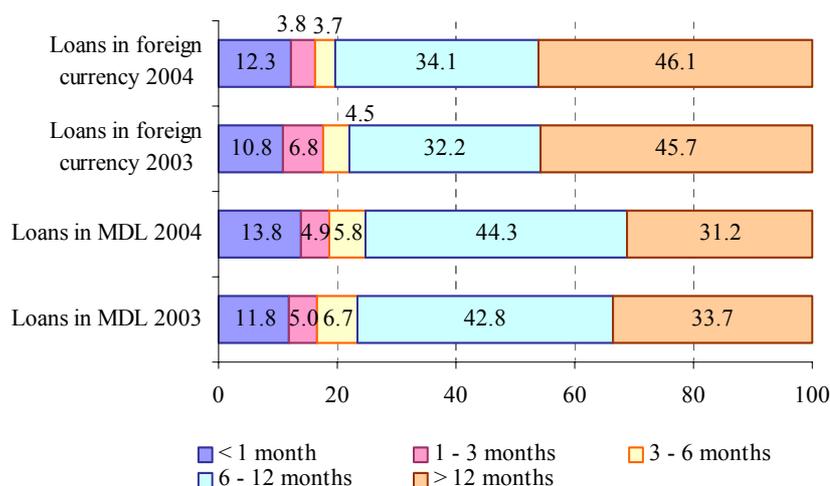
Chart no. 30. Credits to economy



The *balance of credits in foreign currency* increased by US\$ 55.4 million (28.3%) and totalled US\$ 251.0 million. Denominated in MDL, these credits rose by 20.9% due to the nominal appreciation of MDL against US\$ (chart no. 30).

The volume of *new credits extended in national currency* increased by 18.6% (against 15.3% in the previous year) and amounted to 5716.1 million lei.

Chart no. 31. Structure of loans by terms extended in national and foreign currency (%)



The breakdown of credits by terms denotes an increase (by 1.5 p.p.) of the weight of credits extended for a term of 6 to 12 months, which accounted for 44.3%; credits extended for a term of over 12 months accounted for 31.2% (33.7% in 2003). This dynamics denotes the continued development of medium- and long-term financing (chart no. 31).

The volume of *new credits extended in foreign currency* increased by

4.5% from the previous year and amounted to 3478.2 million lei in 2004. The equivalent in US\$ rose by US\$ 43.3 million (18.1%) and totalled US\$ 282.1 million.

The larger demand for longer terms credits in foreign currency determined the increase of the weight of new credits extended for a term of over 12 months (from 45.7% in 2003 to 46.1% in 2004), which enlarged over the year by US\$ 20.8 million in value terms (chart no. 31).

Chart no. 32. Dynamics of average weighted interest rates on loans in 2004 (%)

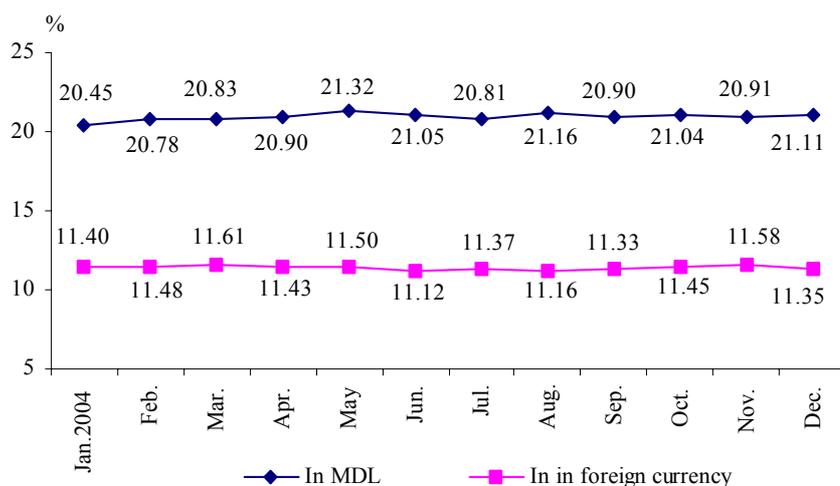
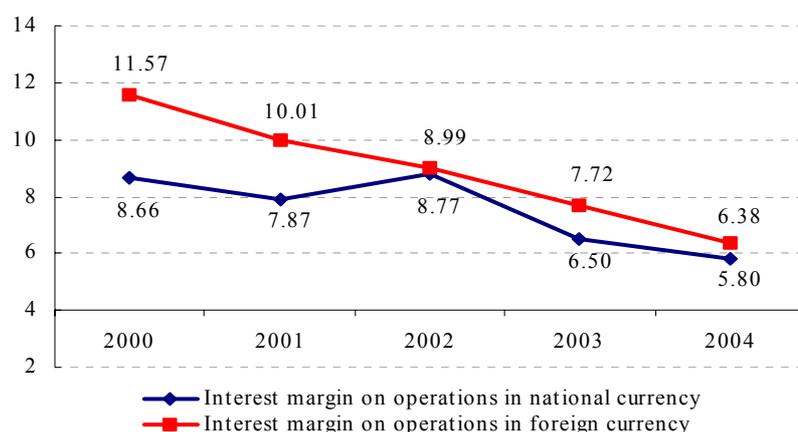


Chart no. 33. Interest margin on banks' operations in national and foreign currency in 2000-2004 (percentage points)



Average interest rates on extended credits followed a similar trend as in 2003, still less ascendant (chart no. 32).

The *annual average weighted interest rate on new credits in national currency* increased by 1.78 p.p. and accounted for 20.96% in 2004.

The *annual average weighted interest rate on new credits in foreign currency* increased by 0.54 p.p. and accounted for 11.39% in 2004.

The *bank margin* (difference between annual average interest rates on credits and deposits) on transactions conducted by commercial banks in national and foreign currency continued the descendant trend, reducing by 0.70 p.p. and 1.34 p.p. down to 5.80 p.p. and 6.38 p.p., respectively (chart no. 33).

Monetary Policy Instruments

Interest Rate Policy

In 2004 the National Bank of Moldova has continuously aimed at orienting interest rates in the money market through setting the interest rate corridor, borne by the interest rate on overnight deposits and the interest rate on overnight credits. The rate on 2-month State Securities (SS) buying REPOs, which is the NBM base rate, served as reference point in establishing the interest rates on NBM monetary instruments.

Within the context of a cautious interest rate policy, the National Bank of Moldova set the relevant interest rates depending on economic and financial indicators, including monetary indicators; dynamics of inflationary processes; interest rates on bank deposits and credits; exchange rate of the national currency; real GDP growth; etc.

Over the year the National Bank of Moldova approved the following decisions within interest rate policy:

Table no. 23. Interest rates on monetary instruments

Date of Decision effectiveness	Decision
2 April 2004	<ul style="list-style-type: none"> – The base rate is maintained at 14.0% per year. – The interest rate on overnight credits is maintained at 17.0% per year. – The interest rate on overnight deposits is maintained at 3.0% per year. – The interest rate on Lombard facility is maintained at 16.0% per year. – The base rate on long-term credits is maintained at 11.5% per year.
29 June 2004	<ul style="list-style-type: none"> – The base rate is maintained at 14.0% per year. – The interest rate on overnight credits is maintained at 17.0% per year. – The interest rate on overnight deposits is increased from 3.0% per year to 5.0% per year. – The interest rate on Lombard facility is maintained at 16.0% per year. – The base rate on long-term credits is maintained at 11.5% per year.
1 October 2004	<ul style="list-style-type: none"> – The base rate is increased from 14.0% per year to 14.5%. – The interest rate on overnight credits is maintained at 17.0% per year. – The interest rate on overnight deposits is maintained at 5.0% per year. – The interest rate on Lombard facility is maintained at 16.0% per year. – The base rate on long-term credits is maintained at 11.5% per year.
31 December 2004	<ul style="list-style-type: none"> – The base rate is maintained at 14.5% per year. – The interest rate on overnight credits is maintained at 17.0% per year. – The interest rate on overnight deposits is maintained at 5.0% per year. – The interest rate on Lombard facility is maintained at 16.0% per year. – The base rate on long-term credits is maintained at 11.5% per year.

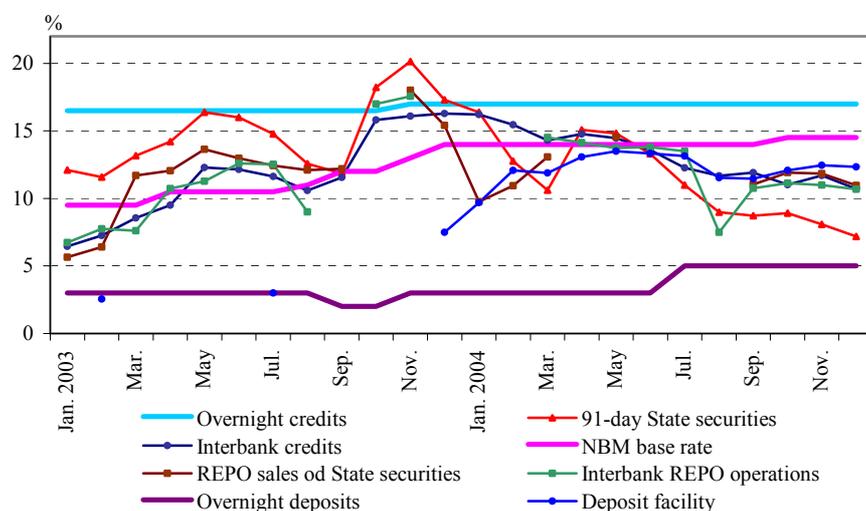
In the first semester of 2004 the National Bank of Moldova did not modify the interest rates.

At the end of June 2004, considering the dynamics of interest rates in the interbank market and with the view to efficiently promoting the monetary policy, the interest rate corridor has been narrowed - by

increasing by 2.0 p.p. the interest rate on overnight deposits accepted by the National Bank of Moldova to the level of 5.0% per year. At the same time, the base rate was increased at the end of September 2004 (chart no. 34).

The National Bank of Moldova continuously established the base rate on long-term credits, which accounted in 2004 for 11.5% per year.

Chart no. 34. NBM interest rate corridor, rates on NBM operations on money market, interbank interest rate, 91-day State securities yield (%)

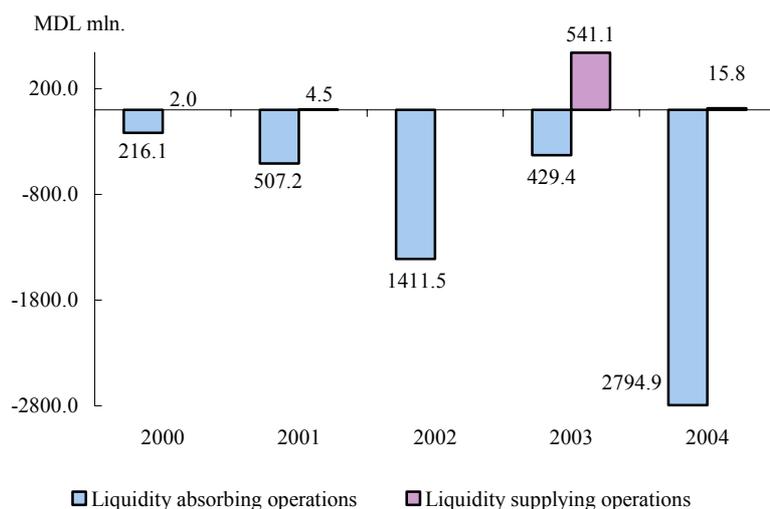


Interest rates on monetary instruments, set by the National Bank of Moldova, served as signal for the financial market participants with regard to monetary policy orientation.

Liquidity Management Operations of the National Bank of Moldova

Money supply, supplemented on the account of NBM interventions in the foreign exchange market, was balanced by enlarged market-based liquidity sterilisation operations, including SS selling REPOs, SS outright sales and deposit auctions.

Chart no. 35. NBM operations on money market (MDL mln.)



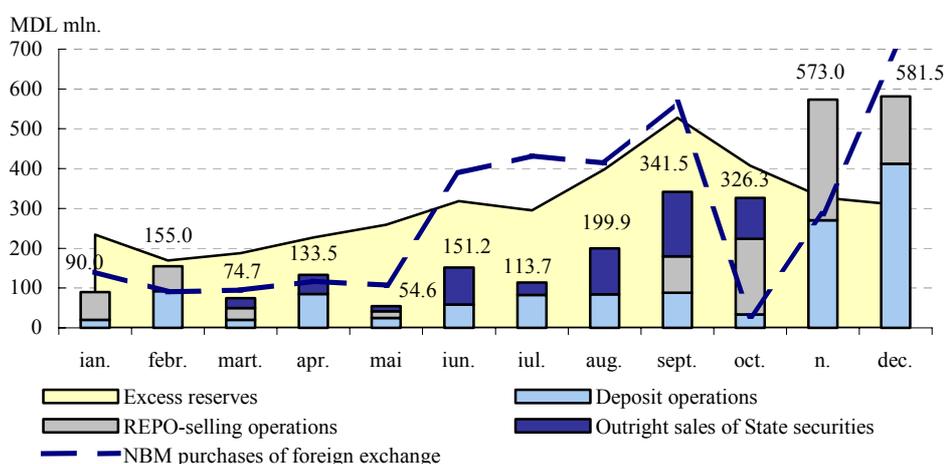
The aggregate value of liquidity absorbing operations of the National Bank of Moldova in 2004 amounted to 2794.9 million lei, denoting a 6.5-time increase from 2003 and a 9.0%-growth as compared to the overall volume sterilised in 2000-2003 (chart no. 35).

The National Bank of Moldova supplied the conjunctionally determined liquidity demand by a series of banks through overnight credits, which registered an insignificant, as compared to the

previous year, volume of 15.8 million lei.

In the second half of the year the National Bank of Moldova essentially increased the volume of liquidity sterilisation operations, especially in September to December 2004, when the National Bank of Moldova absorbed a value of 1822.3 million lei, or around 65.0% of total amount sterilised in 2004 (chart no. 36).

Chart no. 36. Banks' excess reserves and volume of excess liquidity absorbing operations in 2004 (MDL mln.)



The average monthly interest rate on absorbing operations varied over the year within 9.75% and 14.03%, staying in line with money market interest rates.

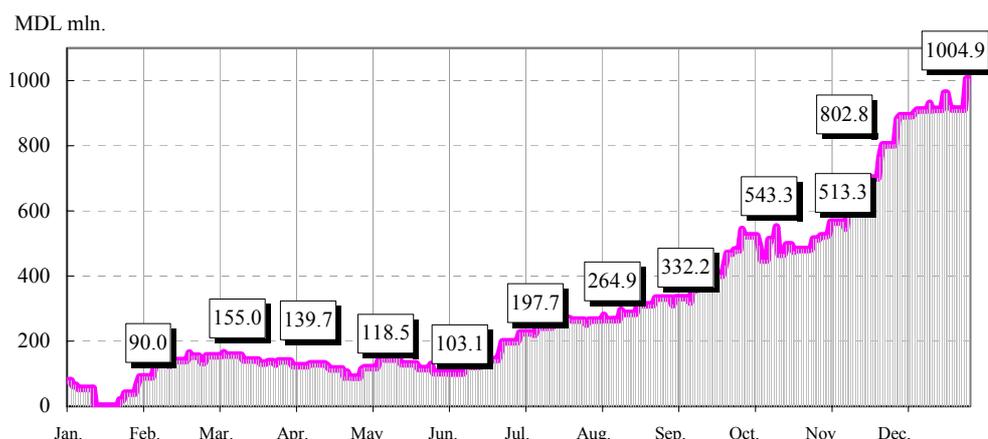
The interest rates on sterilisation operations conducted by the National Bank of Moldova in 2004 denoted lower levels as compared to 2003. The

absorption made the National Bank of Moldova assumed significant

expenditures totalling 25.4 million lei as compared to 2.6 million lei in 2003.

The daily balance of sterilisation operations denoted ascendant trend over the year (chart no. 37). The average daily balance of these operations in 2004 amounted to 308.3 million lei.

Chart no. 37. Daily balance of NBM sterilization operations in 2004 (MDL mln.)



Open Market Operations

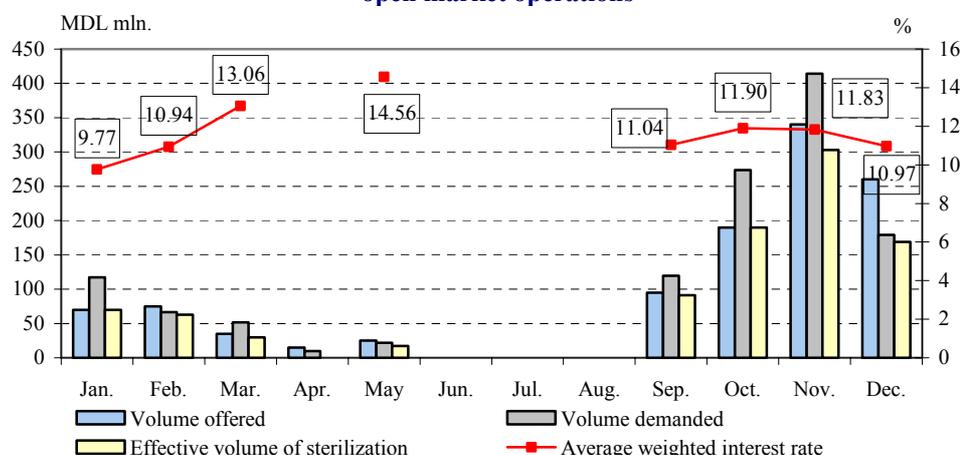
Open Market Operations resumed over the year to SS selling REPOs and outright sales of SS from the portfolio of the National Bank of Moldova.

Over the reported year, within open market operations, the National Bank of Moldova held 31 auctions of SS selling from the NBM portfolio and 27 SS selling REPOs.

SS selling REPOs

Overall, state securities offered for sale through repurchase agreements amounted to 1105.0 million lei. Banks' demand totalled 1253.9 million lei; the actual sterilised amount totalled 933.0 million lei.

Chart no. 38. Reverse REPO of SS within open market operations



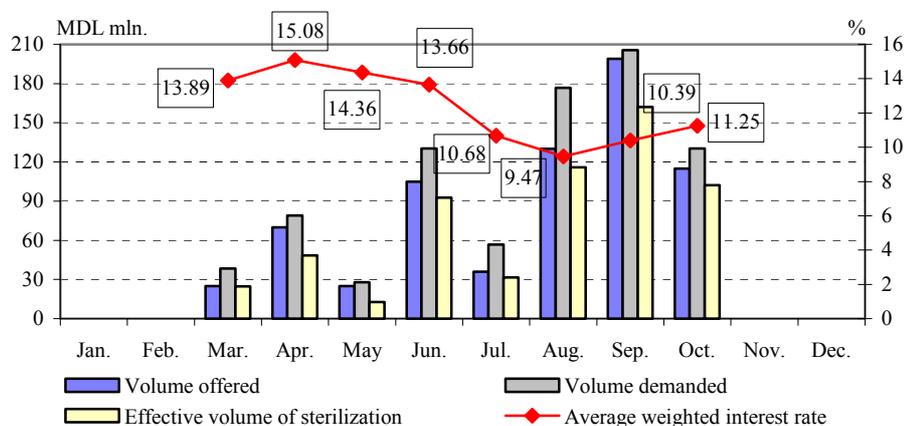
The maximum traded volumes were registered in the 4th quarter of the year (chart no. 38).

The average weighted term of REPOs constituted 37 days and the average weighted annual interest rate accounted for 11.49% (as compared to 12.40% in 2003).

Sales of SS from NBM portfolio

In 2004 the National Bank of Moldova resumed the outright sales of SS from its own portfolio within open market operations.

Chart no. 39. Outright sales of State securities within open market operations



at auctions held in 2004 amounted to 705.0 million lei. Banks' demand totalled 844.8 million lei; the value of sold securities constituted 590.2 million lei at selling / buying price.

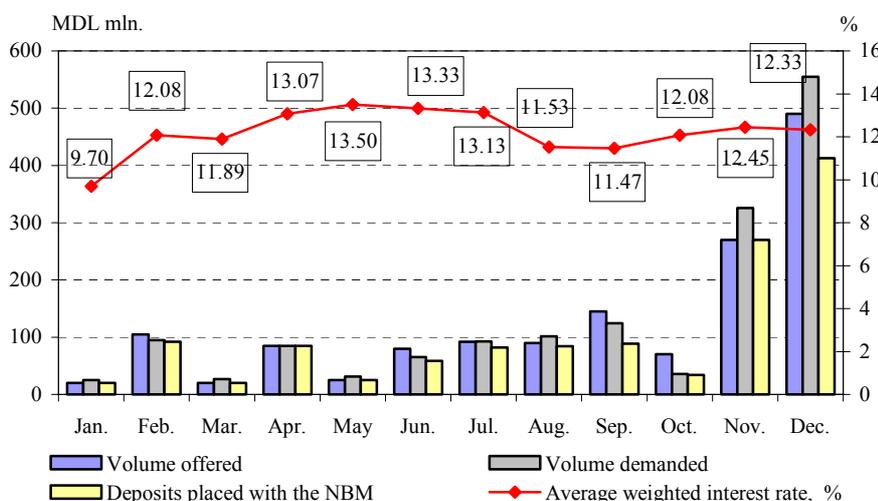
The average weighted term of sold SS constituted 67 days and the annual average weighted interests rate accounted for 11.50% (chart no. 39).

Deposit Operations

The value offered by the National Bank of Moldova at the 43 deposit auctions held in 2004 totalled 1491.9 million lei. The aggregate amount of bids placed by commercial banks amounted to 1563.0 million lei, exceeding by 71.1 million lei the traded amount; accepted bids valued 1271.7 million lei (chart no. 40).

Unlike in previous years, in 2004 the National Bank of Moldova increased the deposit term: the maximum term of placements constituted 57 days (as compared to 14 days in 2003 and 28 days in 2002).

Chart no. 40. Deposit facility in 2004



The average monthly interest rate on placed deposits accounted for 9.7% per year in January (the lowest value) and 13.5% per year in May (the highest value). The average weighted annual rate on accepted deposits accounted for 12.34% (as compared to 4.8% in the previous year).

Required Reserves

The requirements with regard to reserves' computation and maintenance in the first semester of 2004 were similar to those in effect in 2003: the ratio of required reserves accounted for 12.0% of resources attracted in national currency and foreign currency (recalculated in MDL); the reserve basis remained unchanged. Starting with July 2004, the regime of required reserves' computation and maintenance was subject to significant modification. As in accordance with the provisions of the Regulation on Required Reserves Regime, approved following the Decision of the Council of Administration of the National Bank of Moldova no. 85 of 15.04.2004 and the Decision of the Council of Administration no. 114 of 20.05.2004 with regard to the computation of required reserves ratio and approval of stages of transition to separated reserving, starting with the attracted resources' observing period of 1 – 15 July 2004:

- banks hold their required reserves separately in MDL and free convertible currency from resources attracted in relevant currencies;
- the calculation basis of required reserves includes resources attracted in non-convertible currencies;
- banks maintain their required reserves only in accounts with the National Bank of Moldova (the provision stipulating required reserves maintenance in banks' vaults in a ratio under 2.0% of attracted resources was abrogated);
- the ratio of required reserves was reduced from 12.0% to 10.0%.

To avoid the impact upon the money market conditions, the National Bank provided a transitory period for the relevant passing to separate reserving (starting with July 2004 till April 2005). Within this time-period, required reserves are established both in national currency and free convertible currency within the determined proportions of reserves' ratios.

As result, the amount of required reserves in MDL in December 2004 totalled 696.6 million, reducing by 112.8 million lei or around 13.9% from December 2003. Required reserves in US\$ and Euro amounted to US\$ 12.2 million and Euro 5.3 million as of 31.12.2004 (by US\$ 10.4 million and Euro 4.5 million more than as of 31.07.2004).

Lombard Facility and Overnight Credits

In 2004, on the background of liquidity surplus within the banking system, the value of liquidity provision instruments (Lombard facility and overnight credits) was not essential.

To obtain short-term liquidity, as well as to comply with reserve requirements, three commercial banks applied for overnight credits in the 1st quarter of 2004. The total value of extended overnight credits amounted to 15.8 million lei.

Lending Activity

Direct Credits to Commercial Banks

The National Bank of Moldova has further monitored over 2004 the credits extended to commercial banks in the period of 1992-2002 for purposes of completion of the housing co-operatives construction works.

The balance of credits extended to banks in 2004 reduced by 13.8% (from 72.3 million lei as of 31.12.2003 down to 62.3 million lei as of 31.12.2004).

Government Debt to the National Bank of Moldova

The National Bank of Moldova executed the provisions of the budgetary policy for 2004 based on the Law on the State Budget for 2004 no. 474-XV of 27.11.2003, the Law no. 195-XV of 17.06.2004 on the Completion of Article 27 of the Law on the State Budget for 2004, the Law on the State Debt and State Guarantees no. 943-XIII of 18.07.1996 and the Law on the National Bank of Moldova no. 548-XIII of 21.07.1995.

Within the structure of domestic public debt in 2004, the debt to the National Bank of Moldova (2738.0 million lei as at year-end) prevailed, accounting for around 73.7%.

Lending Activity

Under the scope of the Law on the State Budget for 2004, Article 27 (d), in 2004 the National Bank of Moldova extended a credit to the Government in a value equivalent in MDL to US\$ 50.0 million for purposes of external debt payment. Thus, the Government debt to the National Bank of Moldova in form of loans increased by 594.0 million lei and amounted to 2338.0 million lei as of 31.12.2004.

Loans previously extended by the National Bank of Moldova to the Government were re-concluded, based on the Law on the State Budget for 2004, in an amount of 9670.5 million lei. Loans were re-concluded for a term of up to 91 days. The market interest rate

applied on these loans to the Government varied within 6.56% and 12.53% per year.

State Securities in the Portfolio of the National Bank of Moldova

The Government debt to the National Bank of Moldova in form of state securities in the portfolio of the National Bank did not register modifications as compared to the situation as of 31.12.2003 and amounted to 400.0 million lei (at purchasing price) as at the end of 2004.

Over the reported year the National Bank of Moldova re-issued state securities from own portfolio at market interest rates, mainly at maturities of 91 days, with the minimum term of 63 days and the maximum term of 175 days. Interest rates on issued securities varied within 6.56% and 15.71%; the average weighted interest rate accounted for 10.43% per year.

Table no. 24. Domestic public debt contracted from the National Bank of Moldova in 2004 (MDL mln.)

	Balance as of December 31, 2003	Loans extended in 2004	Weight, %	Balance as of December 31, 2004	Weight, %
1. Loans contracted from the National Bank of Moldova					
- for external debt servicing	1125.7	594.0	52.5	1719.7	62.8
- for budget deficit financing	288.5	-	13.4	288.5	10.5
- for State securities redemption	329.8	-	15.4	329.8	12.1
Total loans	1744.0	594.0		2338.0	
2. State securities in the National Bank of Moldova portfolio	400.0	-	18.7	400.0	14.6
Total Government debt to the National Bank of Moldova	2144.0	594.0	100.0	2738.0	100.0

As a result of open market operations conducted by the National Bank of Moldova with SS and accrued interest, the *balance-sheet value of Government debt* amounted, as of 31.12.2004, to 2740.99 million lei, including:

- loans extended to the Government – 2360.65 million lei, including 22.61 million lei as accrued interest;
- SS portfolio of the National Bank of Moldova (considering SS outright sales) – 380.34 million lei (including 383.93 million lei as SS at nominal value and 3.59 million lei as non-amortised discount).

Financial Markets

Primary Market of State Securities

Due to favourable financial situation in 2004, the Ministry of Finance financed the budget deficit through issuance of state securities at reduced budgetary expenditures for servicing domestic public debt, referring to issued state securities.

Acting as fiscal agent of the State in performing selling, recording and redemption of state securities, the National Bank of Moldova held 215

Chart no. 41. Offer, demand and sales of State securities, 2000-2004 (MDL mln.)

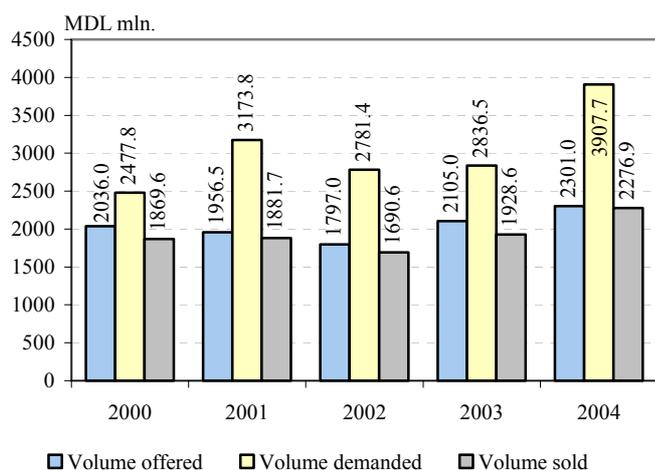
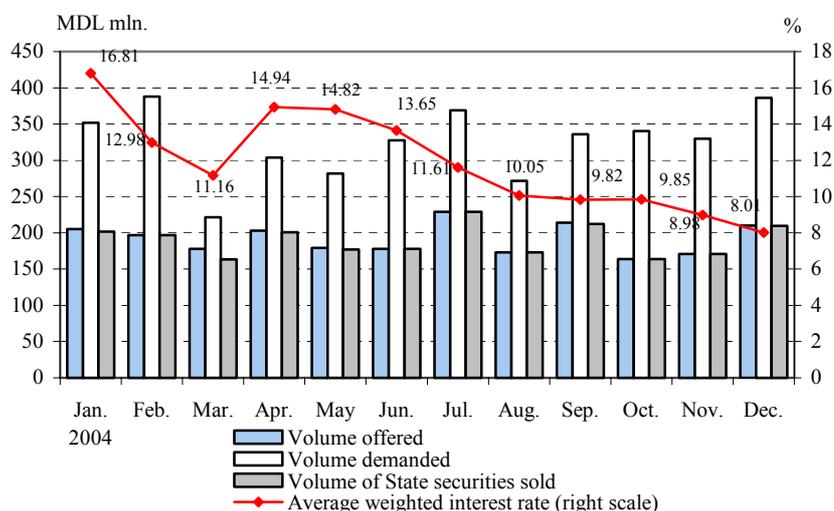


Chart no. 42. Dynamics of offer, demand and sales of State securities on the primary market in 2004



issues of state securities over the year. The offer of the Ministry of Finance at primary market auctions amounted to 2301.0 million lei, increasing by 196.0 million lei from the previous year. The total value of bids at auction denoted an enlargement by 1071.2 million lei (or 37.8%) as compared to 2003 and amounted to 3907.7 million lei (chart no. 41).

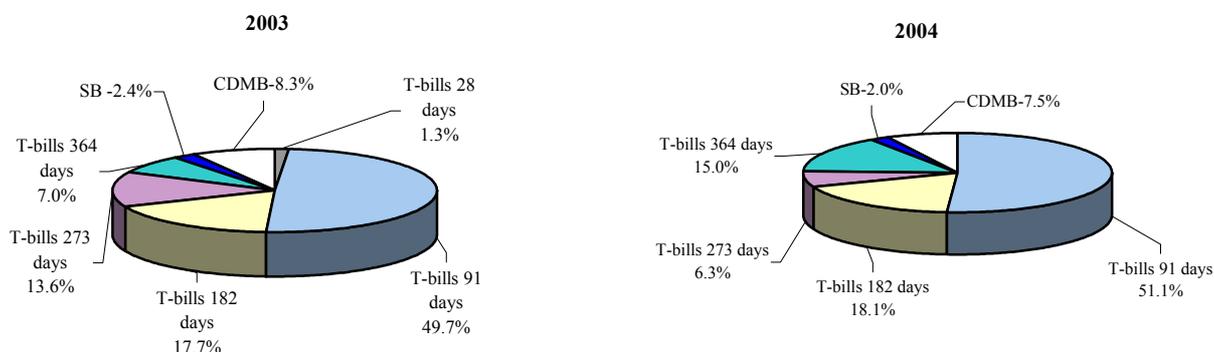
The value of adjudged state securities totalled 2276.9 million lei in nominal terms and accounted for 98.95% of announced offer, reaching a peak value in both absolute and relative terms. This situation determined the prevailing balance in the monthly dynamics between offered and sold state securities (chart no. 42).

Out of total adjudged securities, commercial banks acquired 1792.8 million lei for own portfolio. Although the value acquired by banks increased in absolute terms as compared to the previous year, their weight in total issue reduced from 84.4% in 2003 to 78.7% in 2004.

Due to the material participation in the market of state securities of the National House of Social Insurance and of the Bank Deposits Guarantee Fund, SS bought on investors' account increased by 183.4 million lei from the previous year, accounting for 21.3% of total value and amounting to 484.1 million lei.

No 28-day Treasury Bills (T-Bills) were issued over the reported year; 56-day cash discrepancy management bonds (CDMB) placed in 2003 over the whole year were auctioned in 2004 only in the 1st and 2nd quarters (chart no. 43).

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



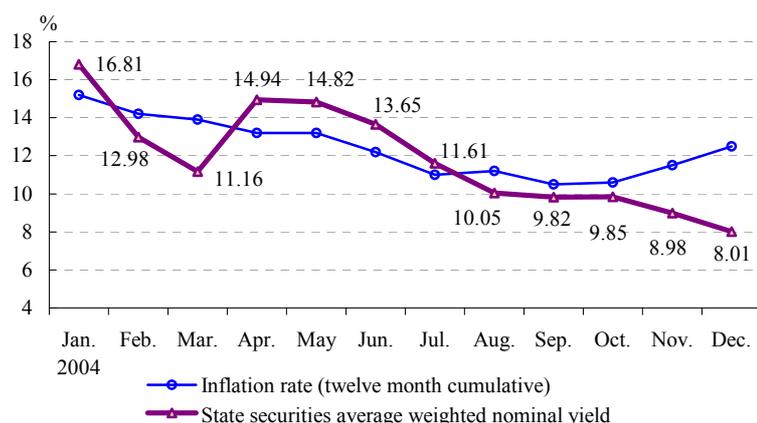
The Ministry of Finance modified the promoted issue policy in August 2004, by reducing the number of maturities offered at auction from 4-5 types in the previous year to 3 types: 91-day, 182-day and 364-day T-Bills, as a rule.

As result, the weight of 273-day T-bill issued only in the 1st semester of 2004 accounted for 6.3% as compared to 13.6% in 2003. At the same time, the weight of 364-day T-Bills increased from 7.0% in 2003 to 15.0% in 2004.

Like in the previous year, state bonds (SB) have been issued over the year, bearing a fixed interest rate. However, the Ministry of Finance launched in 2004 two issues of 2-year state bonds with floating rates.

State bonds accounted for 2.0% of total issued securities.

Chart nor. 44. Correlation between average weighted nominal yield on State securities and inflation rate in 2004 (%)



The *average annual maturity of state securities with the term of up to 1 year* increased from 160 days in 2003 to 170 days in 2004.

The larger interest displayed by banks and investors for placements in low-risk financial instruments, on the background of descendant trend of inflation rate and maintenance of excess liquidity in the money market, generated the reduction of interest rates

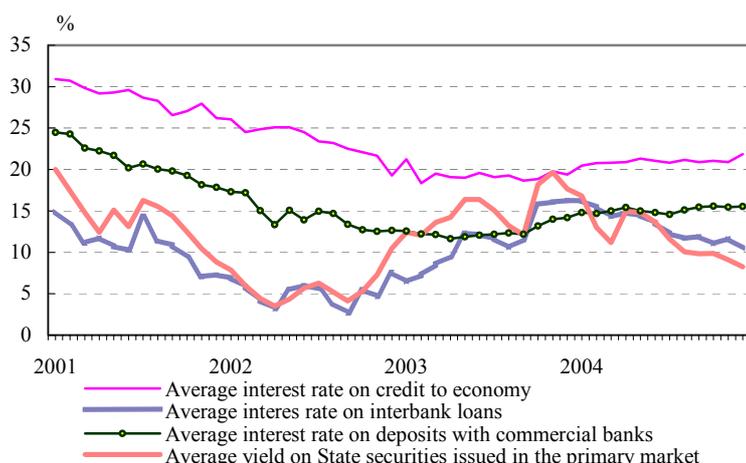
in the state securities market (chart no. 44).

Eased inflationary pressures in the first three months of 2004 conditioned the decrease of the average interest rate on state securities

from 17.64% per year in December 2003 to 11.16% per year in March 2004.

Starting with the second half of March 2004, the level of bank reserves denoted significant diminishment as a result of intensified crediting activity by banks, which led to the reduction of demand for state securities. Thus, the average interest rate on SS rose to 14.94% per year in April and to 14.82% per year in May.

Chart no. 45. Average interest rates (State securities, deposits attracted by commercial banks, interbank credit, commercial bank loans) (%)



Material foreign exchange interventions by the National Bank of Moldova since May 2004 have determined the issue of national currency that ultimately conditioned the larger demand for SS. As a result, the average monthly interest rate denoted a descendant dynamics till the end of 2004, registering the lowest year value of 8.01% per year in December 2004.

The *average annual interest rate on state securities with the term of up to one year* issued in 2004 accounted for 11.62% per year, reducing by 3.44 p.p. from the previous year.

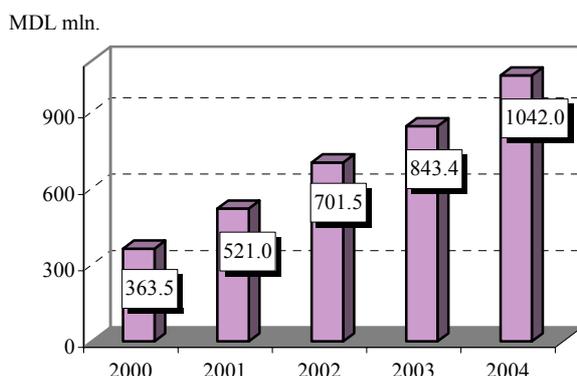
Table no. 25. Annual nominal average weighted yields on traded State securities (2002-2004), %

	T-bills 28 day	CDBM 56 day	T-bills 91 day	T-bills 182 day	T-bills 273 day	T-bills 364 day	SB 365 day*	SB 2 year*	SB 3 year*
2002	9.65	3.62	5.26	6.07	6.78	7.48			
2003	9.02	11.39	14.85	15.84	16.29	16.64	16.57	16.65	15.44
2004		8.39	11.15	11.79	14.98	13.75	14.98	17.45	

* effective interest rate

The structure of money market yields underwent significant modifications in 2004 (chart no. 45). On the background of rigid interest rates offered by commercial banks to non-bank clients,

Chart no. 46. State securities in circulation issued in the primary market in 2000-2004, end of period (MDL mln.)



interest rates on state securities moved to lower plateaus, denoting significantly lower values than interest rates on deposits attracted by commercial banks.

The value of state securities in circulation (placed at primary market auctions) increased by 198.6 million lei in nominal terms (23.5%) from 31.12.2003 and amounted to 1042.0 million lei at year-end (chart no. 46).

The amount attracted through new issues of state securities amounted to 2161.0 million lei;

redemption of SS totalled 1961.2 million lei at purchase price.

Net receipts from trade of state securities over the reported year totalled 199.8 million lei, staying in line with the budget deficit-financing limit from that source, provided in the Law on the State Budget for 2004 (200.0 million lei).

Chart no. 47. Volume and structure of transactions in the State security secondary market (2001-2004)

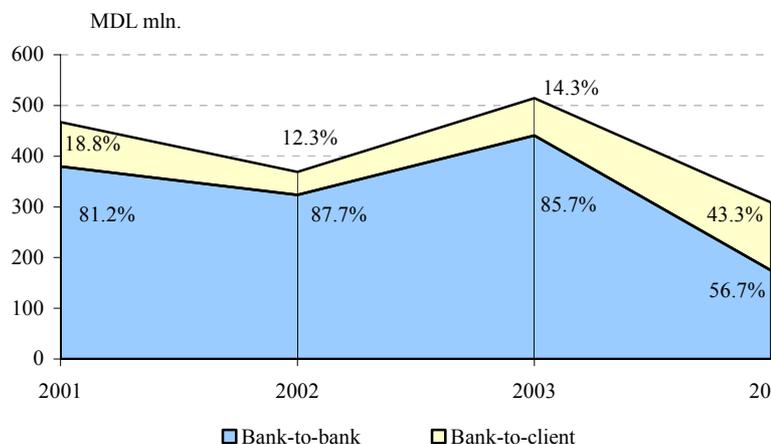


Chart no. 48. State security secondary market operations broken down by maturity

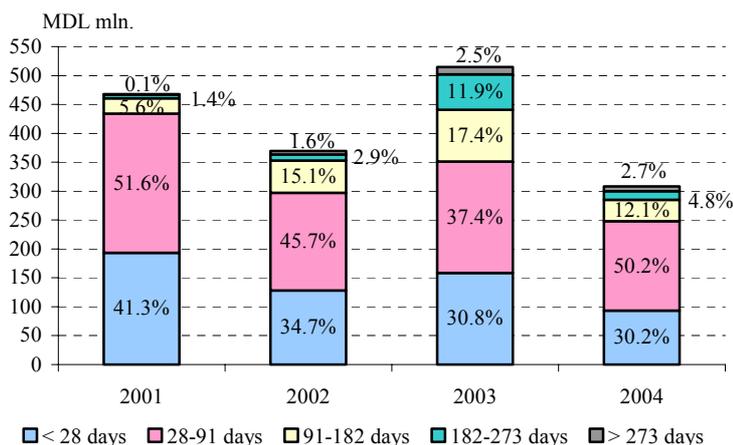
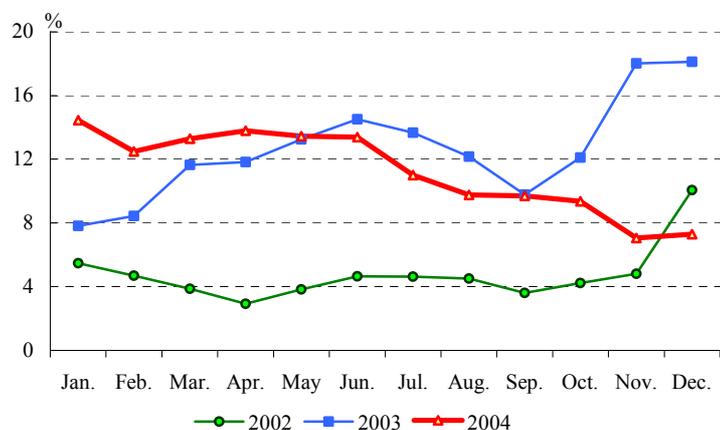


Chart no. 49. Average weighted nominal yield on State securities traded in the secondary market in 2002-2004 (%)



Secondary Market of State Securities

The secondary market of state securities (except NBM open market operations) denoted slower dynamics as compared to the previous year.

Selling/buying transactions with SS over the year amounted to 308.3 million lei, reducing by 1.7 times from the previous year. The bank-client transactions increased in absolute and relative terms from 73.8 million lei (14.3% of total selling/buying transactions) in 2003 to 133.6 million lei (43.3% of total selling/buying transactions) in 2004 (chart no. 47).

Within the structure of SS sold in the secondary market over the year the 28- to 91-day T-Bills prevailed with 50.2% of total value. SS with maturities of up to 28 days denoted stable attractiveness for investors, while the proportion of SS with longer terms reduced as compared to the previous year (chart no. 48).

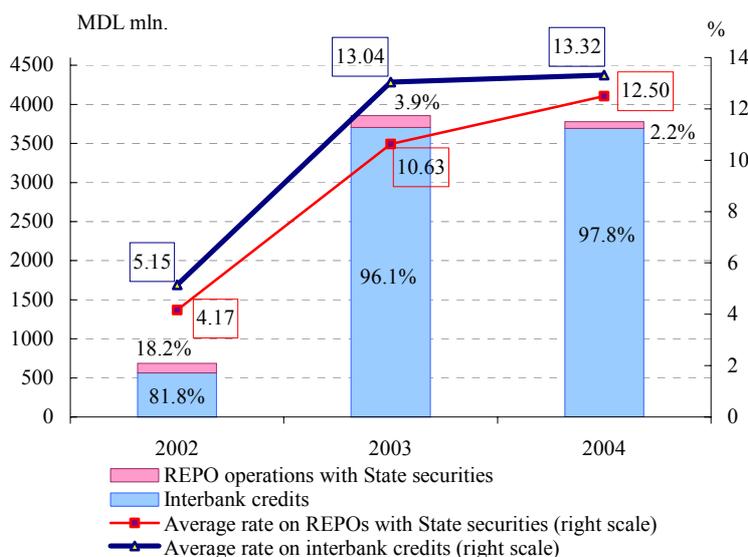
Yields of SS in the secondary market in 2004 registered a downward trend, reducing from 14.44% in January to 7.29% in December 2004. The average weighted nominal yield decreased by 1.4 p.p. from 2003 and accounted for 11.28% in 2004 (chart no. 49).

Interbank Money Market

In 2004, within conditions of amplified excess liquidity in the banking sector, the interbank money market displayed a

positive trend, maintaining its quantitative indicators at the level of

Chart no. 50. Interbank operations volume and average annual interest rates in 2002-2004



the previous year (chart no. 50). Total transactions in the interbank market amounted to 3778.5 million lei, reducing by 78.1 million lei (2.0%) from 2003.

Interbank credits, totalling 3693.4 million lei, accounted for the largest weight in the market turnover (practically maintaining the previous year value). REPOs with SS reduced by 65.0 million lei (43.3%) and amounted to 85.1 million lei.

The average monthly weighted interest rate on interbank transactions decreased by 5.17 p.p. - from 16.19% in January to 11.02% in December

2004. Overall, interbank transactions over the reported year were conducted mainly in the short-term segment: the weight of overnight credits in monthly turnover varied within 71.0% and 97.5% of total credits. The average transaction maturity constituted 6 days in 2004 (as compared to 7 days in 2003).

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

The Book-Entry System held at the National Bank of Moldova embodies all the transactions conducted with state securities and provides the due support of a sustainable execution of the monetary policy of the National Bank of Moldova, rendering full-scope custody services to clients. As of 31.12.2004, the amount of state securities registered in BES totalled 3833.6 million lei in nominal terms (by 774.8 million lei or 25.3% more than as of 31.12.2003), including:

- 1042.0 million lei or 27.2% – SS issued through primary market auctions;
- 2383.6 million lei or 62.2% – SS issued and delivered to guarantee loans to the State;
- 408.0 million lei or 10.6% – SS issued through conversion of loans previously extended to the State.

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

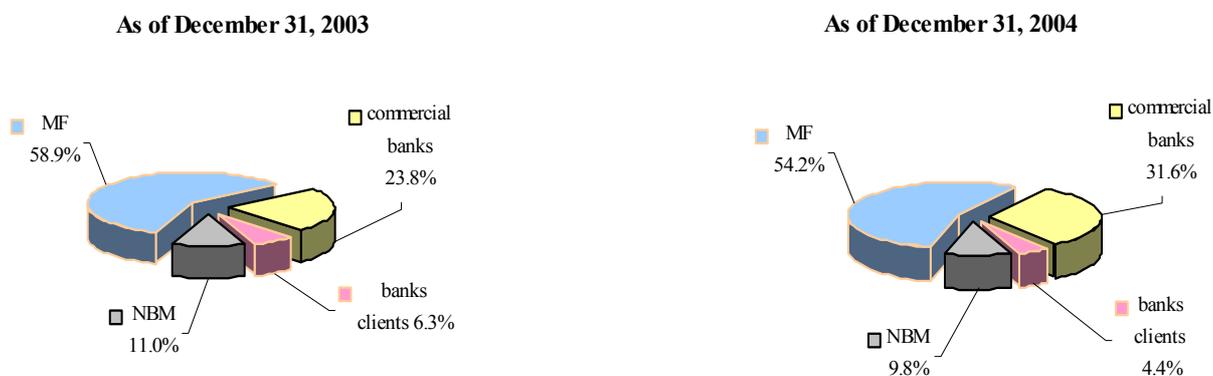
Commercial banks

- as of 31.12.2004 – 1210.3 million lei

• as of 31.12.2003	–	727.9 million lei
Other investors (including Deposit Guarantee Fund)		
• as of 31.12.2004	–	169.3 million lei
• as of 31.12.2003	–	194.5 million lei
Ministry of Finance (SS pledged with NBM as guarantee for extended loans)		
• as of 31.12.2004	–	2079.7 million lei
• as of 31.12.2003	–	1801.2 million lei
National Bank of Moldova		
• as of 31.12.2004	–	374.3 million lei
• as of 31.12.2003	–	335.2 million lei.

The SS weight held by the Ministry of Finance, the National Bank of Moldova and banks' clients reduced over the reported year, while that of commercial banks increased (chart no. 51).

Chart no. 51. Holders of State securities recorded in the Book-Entry System of the National Bank of Moldova (%)



BES of the National Bank of Moldova registered over the year 6487 transactions amounting to 31692.6 million lei (by 3740.2 million lei more than in 2003), including:

1. primary market operations – 14321.1 million lei;
2. repurchase by the Ministry of Finance of state securities upon maturity – 13546.3 million lei;
3. open market operations conducted by the NBM - 2261.5 million lei;
4. selling / buying transactions in the secondary market – 308.3 million lei;
5. REPOs (1st and 2nd stages) – 170.8 million lei;
6. transfers – 3.6 million lei;
7. pledge operations – 1081.0 million lei.

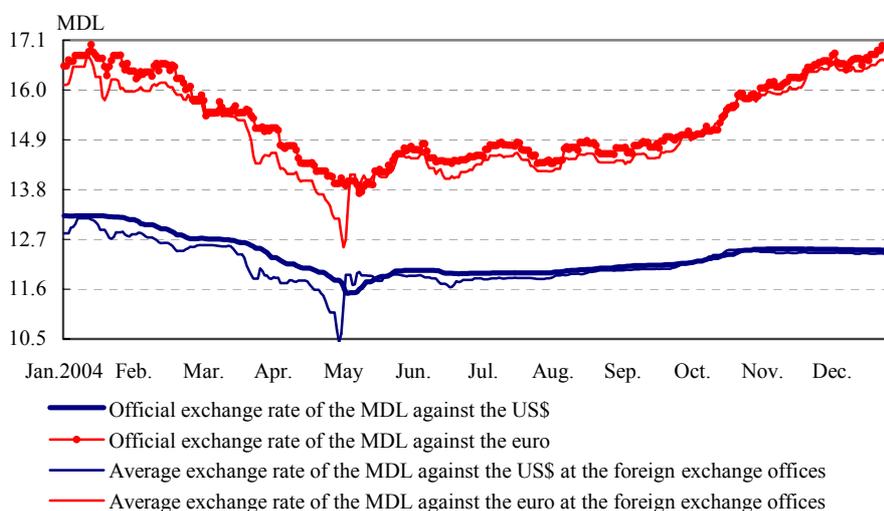
Trends in the Foreign Exchange Market

Exchange Rate Trends in 2004

The official nominal exchange rate of the national currency against US\$ appreciated over the year by 5.75% (from 13.22 MDL per US\$ 1 as of 31.12.2003 to 12.46 MDL per US\$ 1 as of 31.12.2004) and against Euro depreciated by 2.6% (from 16.5256 MDL per Euro 1 as of 31.12.2003 to 16.9542 MDL per Euro 1 as of 31.12.2004).

The analysis of the official exchange rate fluctuations over the year denotes the appreciation of the national currency against US\$ in January to 6 May 2004 (the lowest value of 11.5116 MDL per US\$ 1), followed by a slight depreciation period (chart no. 52).

Chart no. 52. Dynamics of the official nominal exchange rate and the average exchange rate at the foreign exchange offices in 2004



The dynamics of the official exchange rate of MDL against Euro was determined by the fluctuations of the European currency against US\$ in the international foreign exchange market.

The exchange rate of the national currency in the cash forex market denoted over the year similar dynamics to that of the

official rate, except in the 1st and 2nd quarters, when the average cash market exchange rate displayed a higher appreciation as compared to the official exchange rate due to the larger volatility of the cash market against other segments of the forex market.

The main factors that affected the dynamics of the exchange rate in 2004 includes as follows:

- Significant supply of foreign currency in the domestic forex market** as a result of receipts from export of goods and services and transfers from abroad by citizens of the Republic of Moldova;
- Significant depreciation of US\$** in the international markets* and in the domestic market.

* the appreciation of national currencies against US\$ is lately viewed as a global phenomenon faced by the majority of countries within the region, determined by the US\$ depreciation against other currencies in the international market. The nominal appreciation of national currency against US\$ as of 31.12.2004 as compared to 2003-end was: 20% in Poland; 14.0% - in Czech Republic; 13.6% - in Hungary; 13.5% - in Slovakia; 12% - in Georgia; 11.7% - in Romania; 9.6% - in Kazakhstan; 6.9% - in Kyrgyzstan; 5.1% - in Russia.

a) According to banking statistics data, receipts from exports of goods

Chart no. 53. Foreign currency inflow in 2003-2004
(cumulative flow from the beginning of the year)

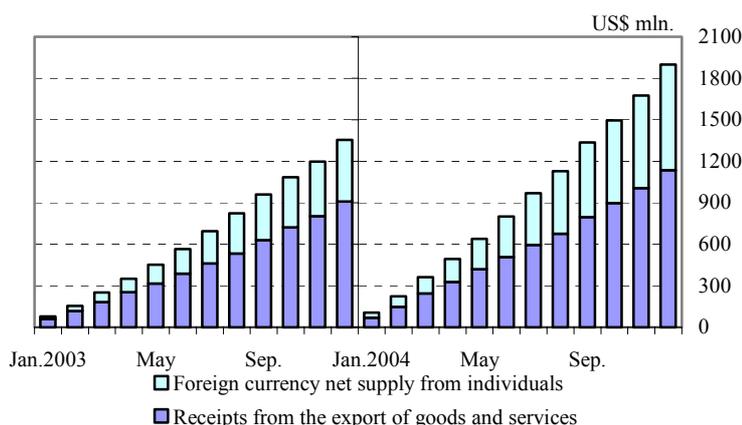


Chart no. 54. Dynamics of the official exchange rate and the foreign currency net supply from individuals in 2002-2004

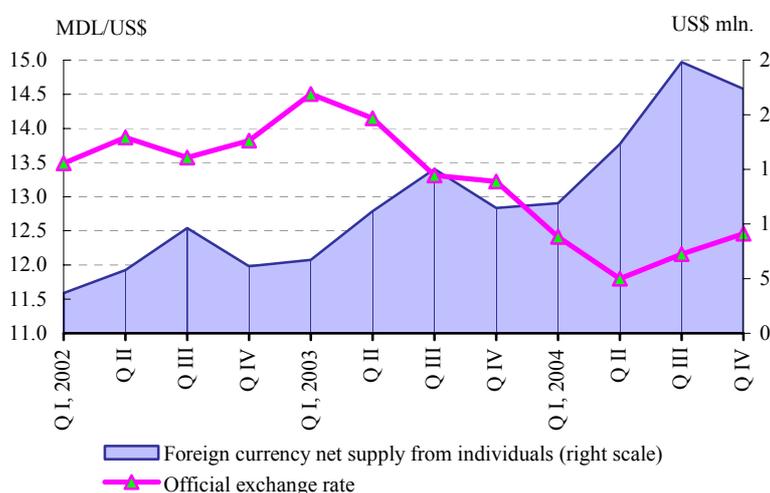
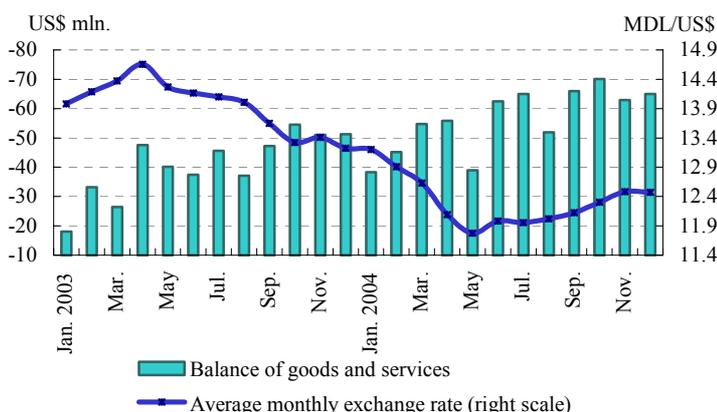


Chart no. 55. Evolution of the exchange rate and the balance of goods and services



(US\$ 42.9 million) and direct and portfolio investments (US\$ 34.9 million).

and services amounted to US\$ 1135.9 million, rising by 24.8% from 2003. The value of net foreign currency supply by individuals* in 2004 totalled US\$ 763.9 million, denoting a 72.2%-increase as compared to 2003-end (US\$ 443.7 million) (chart no. 53).

The significant increase of foreign currency net supply by individuals in January – April 2004 on the background of a deficit balance of goods and services generated an appreciation of the official nominal exchange rate of the national currency against US\$. The lowest level was recorded in May, when the deficit of the balance of goods and services registered the lowest value of US\$ 38.9 million. In June to December 2004, following the increasing trade deficit of the balance of payments, the MDL nominal official exchange rate against US\$ denoted smooth depreciating trends (charts nos. 54 and 55).

The net foreign currency supply by individuals in 2004 accounted for 29.4% of GDP as compared to 22.4% of GDP in 2003. The weight of net supply within total foreign exchange inflow increased from 29.0% in the previous year to 36.7% in 2004.

Respectively, the coverage of import related payments with net foreign currency supply by individuals rose from 31.7% in 2003 up to 42.2% in 2004.

The significant increase of total foreign currency supply was also determined by the financial flows (in net figures) related to private external commitments

* Source: Report on forex sale / purchase transactions conducted by the bank in the forex market and balances in foreign exchange accounts of bank's clients

Chart no.56. Total foreign currency inflow and the official exchange rate in 2002-2004

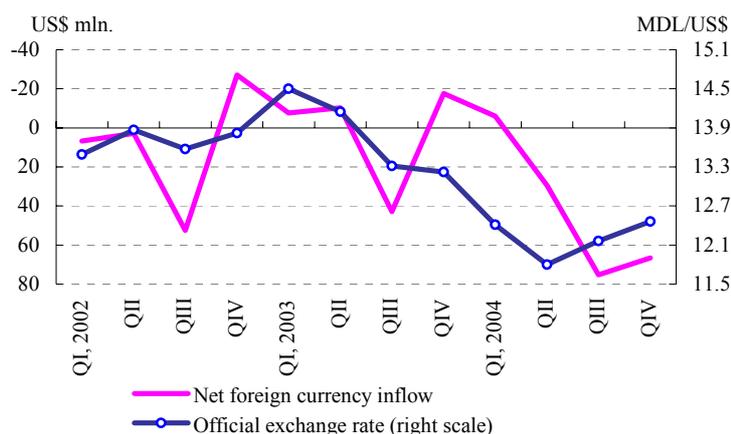
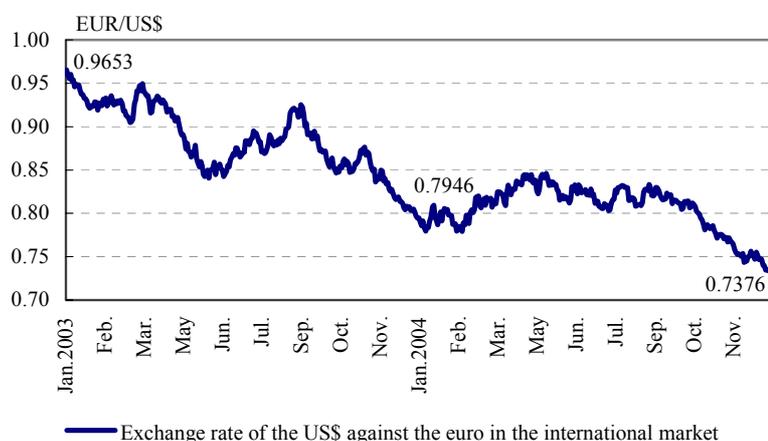


Chart no. 57. Exchange rate of the US\$ against the euro in the international market in 2003- 2004



The dynamics of MDL exchange rate against US\$ has been largely affected by the dynamics of total net foreign currency flow, which denoted over the year an essential surpassing of foreign currency supply over foreign currency demand in the domestic market (chart no. 56).

b) The US\$ exchange rate against Euro in 2004 registered depreciation trends both in the international and domestic markets, determining the reduction of demand for this currency and leading to the conversion of US\$-denominated assets in Euro. Thus, the balance of Euro-deposits (expressed in US\$) increased over 2004 by US\$ 49.6 million (77.9%) up to the equivalent of US\$ 113.3 million. The weight of these deposits in total deposits in foreign currency increased from 27.8% in December 2003 to 38.4% in December 2004. Deposits attracted in US\$ rose insignificantly by 9.7% up to US\$ 177.3 million as of year-end. Transactions in foreign currency conducted over 2004

displayed similar trends: the weight of transactions in US\$ diminished from 80.3% in December 2003 down to 77.1% in December 2004; the weight of Euro-transactions in the forex market increased from 15.9% to 19.7%, respectively.

The increased attractiveness of the national currency means of saving determined the lessening of the dollarisation level of banking deposits from 50.1% as of December 31, 2003 down to 44.7% as of December 31, 2004.

Within conditions of large foreign currency inflow in the domestic forex market, the National Bank of Moldova managed to smooth out the MDL appreciation and to enlarge international foreign exchange reserves by undertaking the *following measures*:

- 1) increase of interventions in the domestic forex market*;
- 2) use of reversible instruments of foreign exchange policy, like swap transactions (in total value of US\$ 44.9 million);

* NBM net purchases of foreign exchange in the forex market in 2004 amounted to US\$ 277.8 million as compared to US\$ 92.5 million in 2003, denoting a 3-time increase

- 3) amplification of excess liquidity sterilisation operations;
- 4) modification of the normative framework within foreign exchange regulation *.

The data with regard to foreign currency inflows and outflows (registered as in accordance with banking statistics methodology on international transactions) for the period of 2003 to 2004 is shown in quarterly dynamics (table no. 26).

Table no. 26. Foreign currency net inflow and outflow (without state sector) (US\$ mln.)

	QI	QII	QIII	QIV	2003		QI	QII	QIII	QIV	2004		2004 against 2003, US\$ million	Growth rate, 2004 against 2003, %
					US\$ mln.	Weight %					US\$ mln.	Weight %		
Foreign currency total inflow	267.4	338.3	450.9	474.9	1531.5	100.0	395.9	490.3	569.5	622.7	2078.4	100.0	546.9	35.7
Exports of goods and services	183.3	203.6	243.7	279.7	910.3	59.4	244.3	264.3	286.9	340.4	1135.9	54.7	225.6	24.8
Foreign currency net supply from individuals	67.3	111.5	150.2	114.7	443.7	29.0	119.1	173.1	248.1	223.6	763.9	36.7	320.2	72.2
Loans ³	14.4	23.5	57.3	70.6	165.8	10.8	27.7	44.6	32.9	38.5	143.7	6.9	-22.1	-13.3
Direct and portfolio investments (net inflow)	2.4	-0.3	-0.3	9.9	11.7	0.8	4.8	8.3	1.6	20.2	34.9	1.7	23.2	198.3
Foreign currency total outflow	275.1	348.6	409.3	492.4	1525.4	100.0	401.9	460.8	494.1	556.1	1912.9	100.0	387.5	25.4
Imports of goods and services	260.9	328.7	373.7	436.5	1399.8	91.8	382.5	421.5	469.7	538.4	1812.1	94.7	412.3	29.5
Debt servicing	14.2	19.9	35.6	55.9	125.6	8.2	19.4	39.3	24.4	17.7	100.8	5.3	-24.8	-19.7
Foreign currency net inflow	-7.7	-10.3	41.6	-17.5	6.1		-6.0	29.5	75.4	66.6	165.5			

Source: Banking statistics on international transactions (without state sector)

Foreign exchange inflow** in 2004 amounted to US\$ 2078.4 million and included as follows: receipts from export of goods and services accounted for 54.7%; net foreign currency supply by individuals – for 36.7%; external credits – for 6.9%; net direct and portfolio investments – for 1.7%.

Foreign exchange inflow increased by US\$ 546.9 million or 35.7% as compared to 2003 due to the larger foreign currency supply by individuals – by US\$ 320.2 million or 72.2% and receipts from exports of goods and services – by US\$ 225.6 million or 24.8%.

Foreign exchange outflow in 2004 amounted to US\$ 1912.9 million, determined by payments on import of goods and services – 94.7% and on external debt servicing – 5.3%.

* NBM increased the ceilings set for foreign currency transfer abroad by resident individuals; suspended the provisions establishing the 7-banking day limit set for maintenance in accounts of foreign currency acquired by resident legal entities against MDL in the domestic forex market by resident legal entities; liberalised a series of operations related to capital transfer in form of direct investments by resident legal entities; increased the minimal limit of funds' contribution in equity of exchange offices, etc.

** Without state sector

Foreign exchange outflow denoted over the year a slower growth as compared to foreign exchange inflow – by US\$ 387.5 million or 25.4%, determined by the increase in import related payments by US\$ 412.3 million (29.5%).

The dynamics of average monthly exchange rate of the national currency against US\$ and the dynamics of foreign exchange inflows and outflows in 2003 to 2004 is shown in charts nos. 58 and 59.

Chart no. 58. Official monthly average exchange rate and the foreign currency inflow in 2003-2004

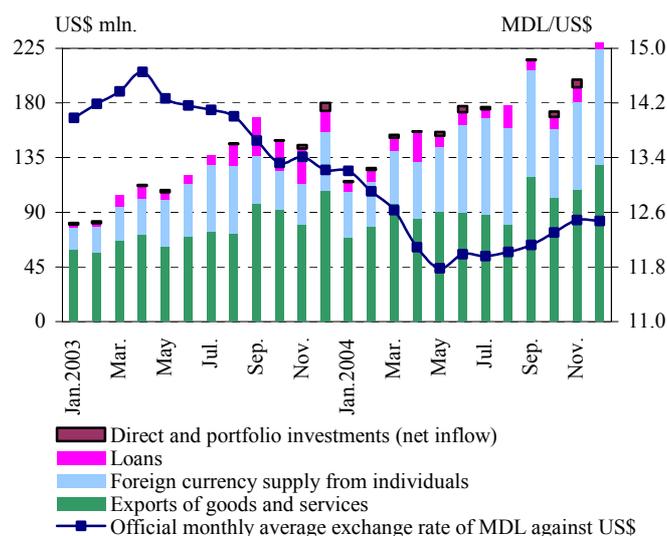
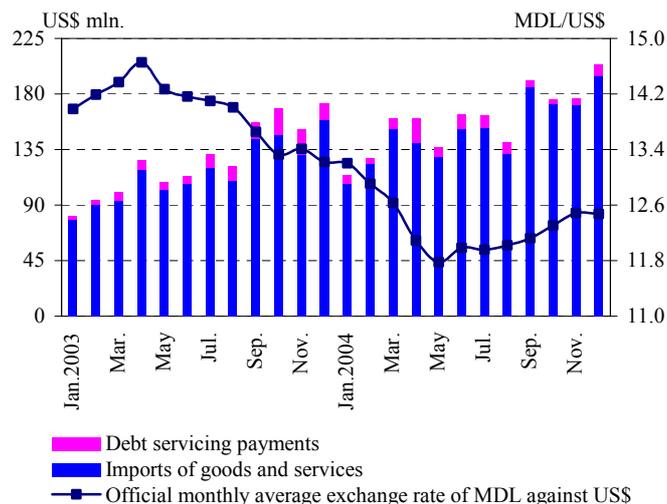


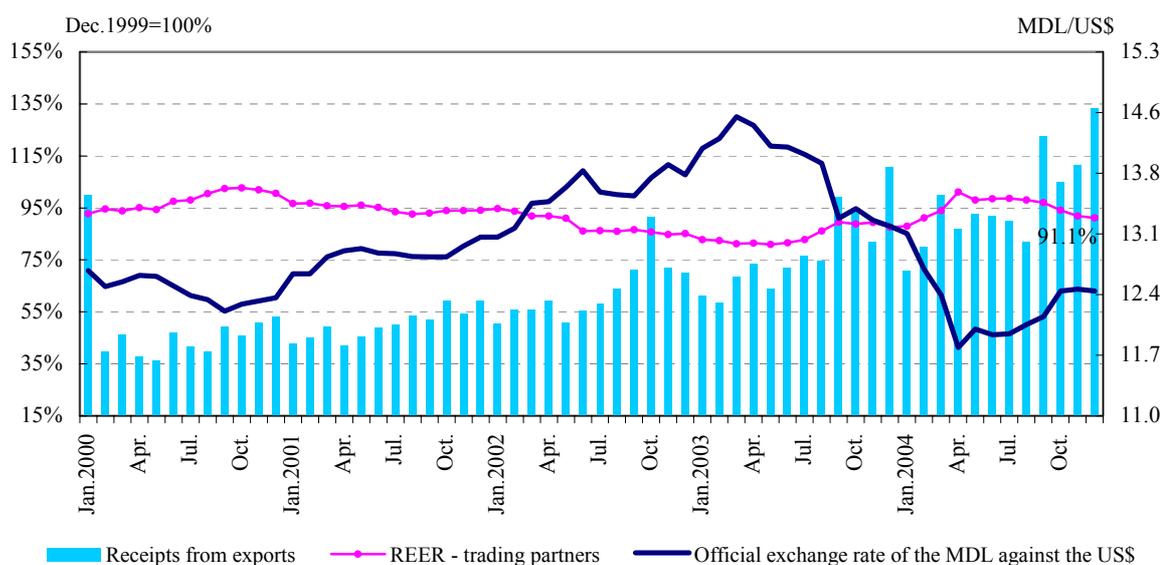
Chart no. 59. Official monthly average exchange rate and the foreign currency outflow in 2003-2004



The *nominal effective exchange rate of the national currency (NEER)* computed against December 1999 and based on the weight of main trade partners within external trade transactions appreciated by 0.6 p.p. from 97.2% as of December 31, 2003 to 97.8% as of December 31, 2004.

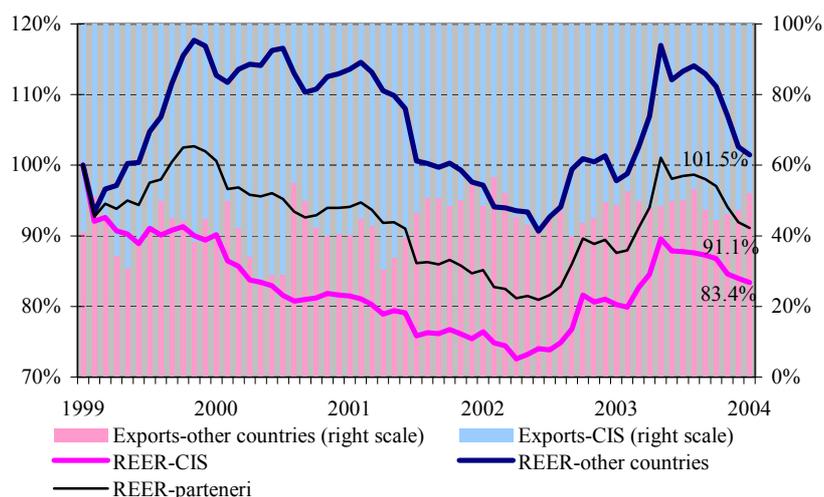
The real effective exchange rate of the national currency (REER) in 2004, which is a more complex indicator reflecting the exchange rate change in real terms against currencies of main trade partners computed against December 1999, considering inflation rates in countries – trade partners appreciated by 3.5 p.p. from 87.6% in December 2003 to 91.1% in December 2004 (chart no. 60). This increase ascertained the competitiveness of the national currency, thus promoting exports of the Republic of Moldova: receipts from exports of goods and services in 2004 increased by 24.8% as compared to the previous year.

Chart no. 60. Nominal and real effective exchange rates, based on trade partners and export receipts weights in 2000–2004



The real effective exchange rate of the national currency computed against currencies of CIS trade partners as of 2004 year-end accounted for 83.4%, supported by a 18.6%-increase of exports of goods and services within the region (chart no. 61). The MDL real effective exchange rate computed against currencies of CIS trade partners increased over the year insignificantly by 3.1 p.p. from 80.3% as of December 31, 2003.

Chart no. 61. Exports and real effective exchange rate computed based on the main trade partners weights in 2000–2004 (breakdown by geographical direction)



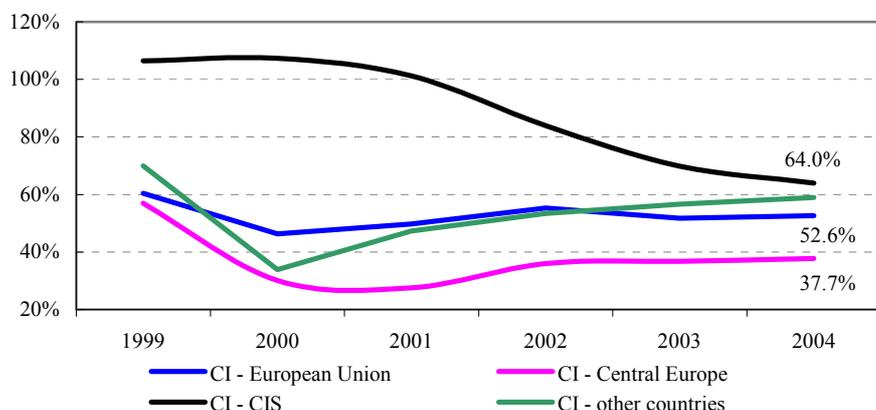
measures undertaken with the view to diversifying external trade and redirecting exports from CIS countries towards markets of EU countries.

The competitiveness indicator computed as ratio between exports of goods and services of the Republic of Moldova to countries within a

The real effective exchange rate of the national currency computed against currencies of trade partners of the rest of the world (compared to December 1999) accounted for 101.5% as of 2004 year-end. On the background of a 3.7 p.p.-appreciation of the real effective exchange rate computed against currencies of these trade partners, exports of goods and services have rose over the year by 32.0%. The higher value of exports to other countries (except CIS) was largely determined by relevant

region and imports of goods and services from countries of the same region displayed over the year the following trends: the competitiveness indicator computed for the CIS region has, after reaching the peak value of 107.3% in 2000, continuously decreased to 64.0% in 2004; the competitiveness indicator for EU countries denoted increasing trends approaching the maximum level of 60.4% registered in 1999 and accounted for 52.6% in 2004. The considerable surpassing of imports from countries of Central and Eastern Europe over exports to this region determined the lowest level (37.7%) of the competitiveness indicator computed for this region (chart no. 62).

Chart no. 62. Competitiveness Index (CI) for the domestic goods in 1999–2004



denoted increasing trends approaching the maximum level of 60.4% registered in 1999 and accounted for 52.6% in 2004. The considerable surpassing of imports from countries of Central and Eastern Europe over exports to this region determined the lowest level (37.7%) of the competitiveness indicator computed for this region (chart no. 62).

Foreign Exchange Market of the Republic of Moldova, NBM Activity in the Foreign Exchange Market

The foreign exchange market dynamics over 2004 exhibited ascendant trends of transactions concluded in the foreign exchange market against MDL due to the activity of both residents and non-residents. The total turnover of foreign exchange traded against MDL over the reported year amounted to US\$ 5070.4 million*, rising by 27.3% from 2003 (table no. 27). Within the structure of total turnover, purchase of foreign exchange in the domestic forex market against MDL totalled US\$ 2526.1 million and sales – US\$ 2544.3 million.

Table no. 27. Total turnover of transactions in the domestic forex market (foreign currency purchase / sale against MDL) (US\$ mln.)

	Non-cash forex market ¹						Cash forex market ²			Domestic forex market
	NBM	Resident banks	Non-resident banks	Legal entities	Others	Total	Foreign exchange bureaus of commercial banks	Foreign exchange offices	Total	
<i>US\$ million</i>										
2003	193.4	386.0	215.8	2035.0	155.9	2986.1	793.7	202.9	996.6	3982.7
2004	367.6	343.7	241.3	2620.8	146.1	3719.5	1083.5	267.4	1350.9	5070.4
<i>Weight, %</i>										
2003	4.9	9.7	5.4	51.1	3.9	75.0	19.9	5.1	25.0	100.0
2004	7.2	6.8	4.8	51.7	2.9	73.4	21.3	5.3	26.6	100.0
<i>Growth rate against the previous year, %</i>										
2004	90.1	-11.0	11.8	28.8	-6.3	24.6	36.5	31.8	35.6	27.3

¹ Source: Reports on foreign currency purchase / sale transactions conducted by banks in the forex market and balances in foreign exchange accounts of banks' clients, as well as NBM data

² Source: Reports of foreign currency purchase / sale values registered by exchange offices and exchange bureaus by hotels, as well as NBM data

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

The volume of transactions in the foreign exchange market displayed ascendant trends over the year, reaching the highest values in the last quarter. The turnover in the non-cash forex market rose in 2004 as compared to 2003 by 24.6% and the turnover in the cash forex market - by 35.6%. The share of non-cash forex market diminished by 1.6 p.p. (from 75.0% in 2003 down to 73.4% in 2004); while that of the cash forex market increased by 1.6 p.p. (from 25.0% in 2003 to 26.6% in 2004). The significant share of the cash forex markets was mainly due to the considerable value of remittances from abroad by citizens of the Republic of Moldova transferred through local banks and converted mainly in cash. Unlike in the previous year, within the structure of total turnover of transactions concluded by the main foreign exchange market participants in 2004, the share of NBM transactions increased by 2.3 p.p.; of exchange bureaus of commercial banks - by 1.4 p.p.; of legal entities - by 0.6 p.p.; of non-bank exchange offices - by 0.2 p.p. The weight of transactions of resident banks diminished by 2.9 p.p. and by non-resident banks - by 0.6 p.p.

The weight of transactions conducted by exchange bureaus of commercial banks accounted in 2004 for 21.3% of total turnover of forex transactions in the domestic forex market, exceeding by 4.0 times the weight of transactions by non-bank exchange offices.

The higher value of foreign exchange transactions in 2004 was determined by the amplification of transactions in foreign currency by the economic agents of the Republic of Moldova conducted through resident commercial banks within import / export of goods and services; the enlarged volume of remittances from abroad; the interventions of the National Bank of Moldova in the foreign exchange market; as well as foreign credit drawings and servicing.

The *foreign exchange market liquidity** in 2004 decreased insignificantly from 0.80% in 2003 down to 0.77% in 2004. The average daily turnover of transactions in foreign currency against MDL rose by 26.6% (US\$ 4.2 million) to US\$ 20.0 million. GDP value, denominated in US\$ enlarged by 31.0% to US\$ 2595.0 million. As compared to neighbouring countries and main trade partners of the

Republic of Moldova, the foreign exchange market liquidity of the Republic of Moldova is lower than in the Russian Federation (2.87%) and higher than in Ukraine (0.6%)

To reduce the excessive supply of foreign exchange and to satisfy the demand for national currency, NBM has over the year acquired foreign exchange in the domestic

Table no. 28. Forex market liquidity by countries (%)

	2003	2004
Russian Federation	2.89	2.87
Moldova	0.80	0.77
Ukraine	0.49	0.60
Belarus	0.38	0.50

* Ratio between average daily turnover of transactions against MDL and GDP (%)

Chart no. 63. Official exchange rate of the MDL against the US\$ and the NBM' interventions in 2004

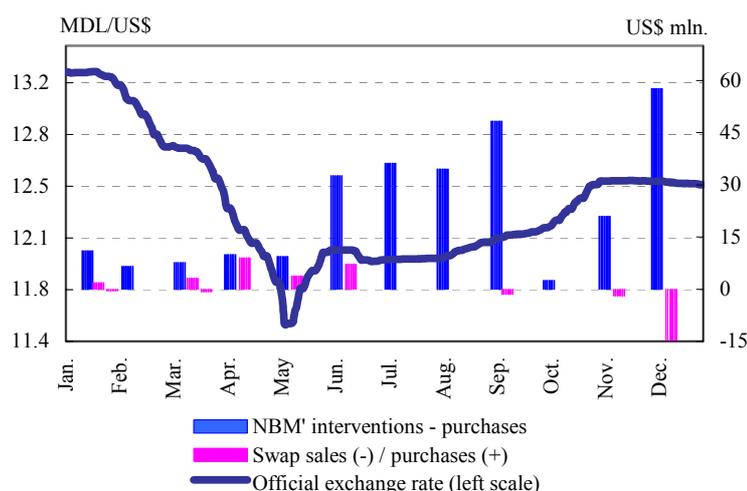
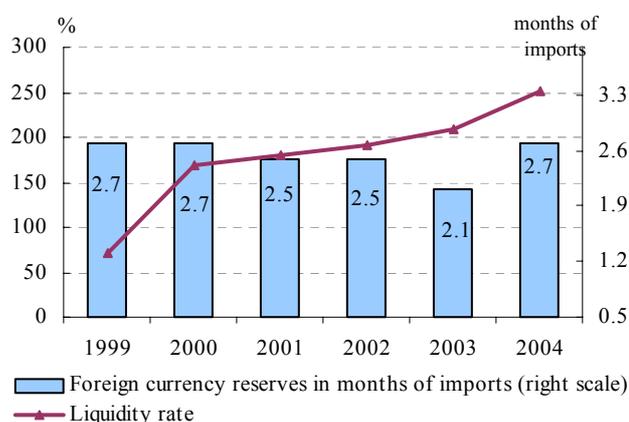


Chart no. 64. Liquidity rate and international foreign currency reserves in months of imports



forex market in an amount of US\$ 277.8 million. At the same time, NBM used swap transactions (selling / buying) in a total value of US\$ 44.9 million (chart no. 63).

Payments under external public debt servicing (including servicing of IMF credits) amounted in 2004 to US\$ 127.6 million and did not affect the volume of foreign exchange reserves. **State international reserves** over the year expanded by 55.6% from US\$ 302.3 million to US\$ 470.3 million. Foreign exchange reserves' liquidity ratio* essentially rose over the year by 43.2 p.p. from the previous year to 251.1% in 2004 (chart no. 64).

Operations in free convertible currencies prevailed in the structure of total turnover of forex transactions in the domestic foreign exchange market over 2003 to 2004. The average annual share of transactions in US\$ within total turnover of forex transactions accounted for 75.7%; in Euro – for 20.6%; in RUB – for 3.1%; and in other currencies – for 0.6% (table no. 29).

Table no. 29. Structure of forex turnover in 2003 to 2004

	Non-cash forex market		Cash forex market		Total forex market		In total turnover
	purchases	sales	purchases	sales	purchases	sales	
2003	Weight, %						
USD	77.6	81.4	71.4	70.6	75.9	80.1	77.8
EUR	15.4	14.5	26.5	25.4	18.4	15.8	17.2
RUR	6.2	3.2	1.2	1.7	4.9	3.0	4.1
Other currencies	0.8	0.9	0.9	2.3	0.8	1.1	0.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2004	Weight, %						
USD	81.9	81.4	58.6	65.6	72.3	79.3	75.7
EUR	11.8	15.9	39.8	30.0	23.3	17.7	20.6
RUS	6.0	2.4	0.9	1.9	3.9	2.4	3.1
Other currencies	0.3	0.3	0.7	2.5	0.5	0.6	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* International foreign exchange reserves of the state as at the beginning of the calendar year reported to total payments related to direct public and guaranteed debt (including debt to IMF) according to payment schedule over the year. For 2001 payments on external debt servicing according to schedule include payments on Eurobonds' repurchase

US\$ continues to prevail in forex market transactions of the Republic of Moldova. However, due to external trade diversification through an increased share of trade with European Union countries, as well as US\$ depreciation in the international foreign exchange market in 2004, the weight of US\$ in the domestic foreign exchange market of the Republic of Moldova decreased by 2.1 p.p., while the Euro weight increased by 3.4 p.p. The weight of Euro purchases in the cash forex market increased by 13.3 p.p. (from 26.5% in 2003 to 39.8% in 2004) and that of Euro sales – by 4.6 p.p. (from 25.4% in 2003 to 30.0% in 2004). The massive volume of workers' remittances from abroad by the citizens of the Republic of Moldova, an important part of which originate from European Union countries and are denominated in Euro, determined the increase of the weight of Euro transactions in the cash forex market.

Against 2003, *foreign exchange purchase* by commercial banks of the Republic of Moldova in the domestic foreign exchange market over 2004 increased by US\$ 493.4 million or 26.0% (table 30). This increase was due to the larger value of foreign currency purchase from individuals (by US\$ 342.4 million or 57.0%) and legal entities (by US\$ 202.0 million or 24.0%).

Table no. 30. Main sources of foreign exchange purchase by commercial banks of the Republic of Moldova in the domestic forex market in 2003 and 2004 (US\$ mln)

	Foreign exchange purchase in the domestic forex market against MDL from:							Total
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	Other	
<i>US\$ million</i>								
2003	50.5	192.1	106.5	842.7	13.6	601.2	91.6	1898.2
2004	44.9	161.8	117.7	1044.7	1.2	943.6	77.7	2391.6
<i>weight, %</i>								
2003	2.7	10.1	5.6	44.4	0.7	31.7	4.8	100.0
2004	1.9	6.8	4.9	43.7	0.0	39.5	3.2	100.0
<i>Growth rate against the previous year, %</i>								
2004	-11.0	-15.8	10.5	24.0	-91.1	57.0	-15.2	26.0

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

Within the structure of foreign exchange purchases by commercial banks in the domestic forex market, purchases from legal entities accounted for 43.7%; from individuals – for 39.5%; from resident banks – for 6.8%; and from non-resident banks – for 4.9%.

As compared to 2003 the weight of foreign currency purchase from individuals increased by 7.8 p.p. Decreases were noted in the weights of foreign currency purchase from resident banks (by 3.3 p.p.); from NBM (by 0.8 p.p.); from exchange offices (by 0.7 p.p.); and from non-resident banks (by 0.7 p.p.). These modifications determined the consolidation of the role of legal entities and individuals as sources of foreign currency purchase: their common weight accounted in 2004 for 83.2%, enlarging by 7.1 p.p. from 2003.

Foreign exchange sales by commercial banks of the Republic of Moldova in the domestic foreign exchange market over 2004 rose by US\$ 529.8 million (28.2%) mainly due to larger sales of foreign currency to legal entities (by US\$ 383.8 million or 32.2%) and to the NBM (by US\$ 179.8 million or 125.8%) (table no. 31). Sales of foreign currency by commercial banks in the Moldovan forex market to legal entities accounted for 65.4%; to NBM – for 13.4%; to resident banks – for 7.6%; and to individuals – for 7.5%.

Table no. 31. Main directions of foreign currency sales by commercial banks in the domestic forex market in 2003 and 2004 (US\$ mln.)

	Foreign currency sales in the domestic foreign market against MDL of:							Total
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	Other	
<i>US\$ million</i>								
2003	142.9	193.9	109.3	1192.3	1.9	170.3	71.1	1881.6
2004	322.7	181.9	123.6	1576.1	0.6	181.9	24.6	2411.4
<i>Weight, %</i>								
2003	7.6	10.3	5.8	63.4	0.1	9.1	3.8	100.0
2004	13.4	7.6	5.1	65.4	0.0	7.5	1.0	100.0
<i>Growth rate against the previous year, %</i>								
2004	125.8	-6.2	13.1	32.2	-68.4	6.8	-65.4	28.2

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

As compared to 2003, the weight of foreign currency sales to the National Bank of Moldova enlarged by 5.8 p.p. and to legal entities – by 2.0 p.p. Sales of foreign currency to resident banks reduced by 2.7 p.p. and to individuals – by 1.6 p.p.

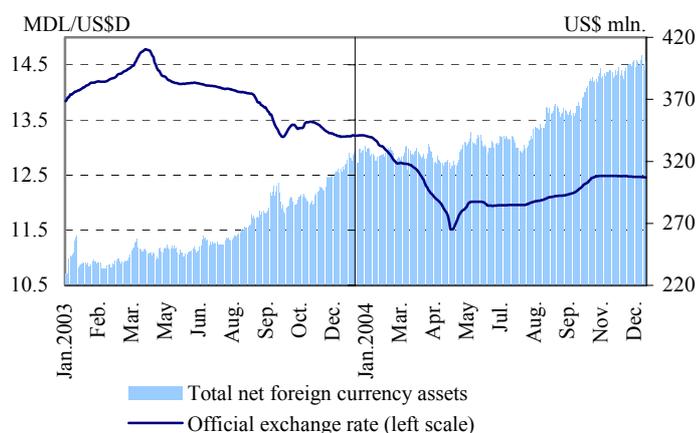
Excess foreign exchange acquired over 2004 by commercial banks mainly from individuals (93.4%) amounted to US\$ 815.4 million and was sold to legal entities (US\$ 531.4 million) and NBM (US\$ 277.8 million). The net negative balance of foreign exchange transactions of commercial banks against MDL totalled US\$ 19.8 million (table no. 32).

Table no. 32. Net balance of forex sale/purchase transactions against MDL (US\$ mln.)

	Net Balance							Total
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	Other	
<i>US\$ million</i>								
2003	-92.5	-1.8	-2.8	-349.6	11.7	430.9	20.6	16.5
2004	-277.8	-20.1	-5.9	-531.4	0.6	761.7	53.1	-19.8

Dynamics of Banks' Assets and Liabilities in Foreign Currency

Chart no. 65. Official exchange rate of the MDL against the US\$ and the foreign currency assets of commercial banks



In 2004 *net assets in foreign currency of commercial banks* (extended credits, available funds, required reserves placed with NBM, other assets in foreign currency) rose by US\$ 73.8 million (22.6%) from US\$ 326.2 million as of December 31, 2003 to US\$ 400.0 million as of 2004-end.

The larger inflow of foreign currency in May to December 2004 determined the sharper increase of net assets in foreign currency (by US\$ 80.3 million) over this period (chart no. 65).

Table no. 33. Commercial banks' assets in foreign exchange in 2004 (US\$ mln.)

	As of 31.12.2003	Weight, %	As of 31.12.2004	Weight, %	Growth rate, %	Daily average	Weight in the daily average, %
Loans	198.1	60.7	257.7	64.4	30.1	215.7	61.2
Foreign currency available funds	120.6	37.0	112.2	28.1	-7.0	116.6	33.1
Required reserves with NBM	0.0	0.0	19.3	4.8	100	10.2	2.9
Other assets	7.5	2.3	10.8	2.7	44.0	10.1	2.8
Total net assets in foreign exchange	326.2	100.0	400.0	100.0	22.6	352.6	100.0

Within the structure of net assets in foreign currency, credits extended in foreign currency accounted for the largest share (64.4%) and varied over the year from 57.8% to 66.8%. The balance of credits in foreign currency rose by US\$ 59.6 million (30.1%) – from US\$ 198.1 million as of 31.12.2003 to US\$ 257.7 million as of 2004-end. Credits in Euro (expressed in US\$) rose by US\$ 36.7 million (108.3%) up to the value of US\$ 70.6 million mainly due to the higher balance of Euro-deposits attracted over 2004 (by US\$ 49.6 million or 77.9%).

The breakdown of credits by currency denotes that US\$ credits prevailed with 72.5%, although their weight diminished by 10.4 p.p. from 2003-end. The weight of credits extended in Euro increased over the year by 10.3 p.p. to 27.4% (table no. 34).

Table no. 34. Credits in foreign currency in the banking sector in 2004 (US\$ mln.)

	As of 31.12.2003	Weight, %	As of 31.12.2004	Weight, %	Growth rate, %	Daily average
US\$	164.2	82.9	186.9	72.5	13.8	166.3
Euro	33.9	17.1	70.6	27.4	108.3	49.4
RUR	0.0	0.0	0.2	0.1	100.0	0.0
Other currencies	0.0	0.0	0.0	0.0	0.0	0.0
Total (all currencies)	198.1	100.0	257.7	100.0	30.1	215.7

The balance of credits extended in US\$ in 2004 rose by US\$ 22.7 million (13.8%) and amounted to US\$ 186.9 million.

The structure of credits and deposits in foreign currency in breakdown by currency denotes a discrepancy of US\$ 9.6 million or 5.4% between the balance of US\$ credits and US\$ deposits as at the 2004 year-end (tables nos. 34 and 37). The deficiency of US\$-deposits was covered over the year by credits disbursed to commercial banks by EBRD and IFC in a total amount of US\$ 19.9 million.

The dynamics of credits and deposits in Euro displayed different trends. The ratio between Euro credits and Euro deposits as of December 31, 2004 accounted for 62.3%, while the balance of non-credit available funds in Euro directed towards other placements amounted to an equivalent of US\$ 42.7 million.

Available funds in foreign currency diminished over the reported year by US\$ 8.4 million (from US\$ 120.6 million down to US\$ 112.2 million as of December 31, 2004). Such decrease was due to the establishment by commercial banks of separate reserving in MDL and foreign currency, starting with 1 July 2004, which determined the partial re-direction of available funds in foreign currency held by commercial banks with NBM under the scope of required reserving in foreign currency.

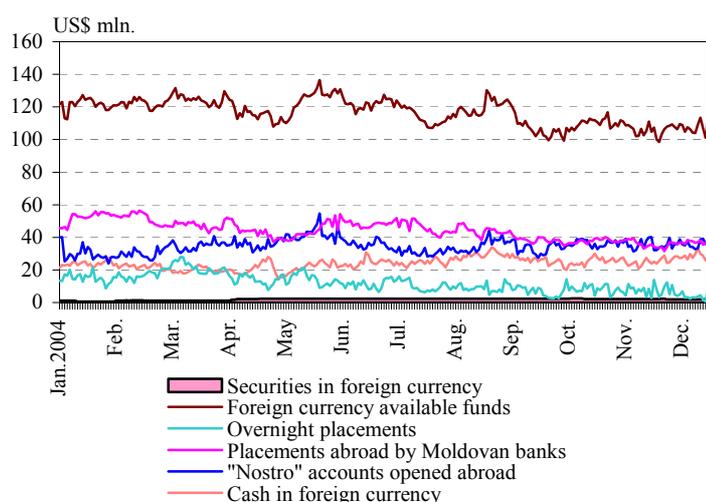
The Council of Administration of the National Bank of Moldova approved following Decision no. 85 of 15.04.2004 the Regulation on Required Reserves Regime with the view to determining the establishment by commercial banks of required reserves separately in MDL and in free convertible currency. The value of required reserves in foreign currency as of December 31, 2004 amounted to US\$ 19.3 million, accounting for 4.8% of total net balance assets in foreign currency.

The weight of *available funds in foreign currency* accounted in 2004 for 28.1% of total net balance assets in foreign currency, decreasing by 8.9 p.p. from 37.0% in 2003. The weight of available funds in foreign currency in total net balance assets over the year varied within 25.5% and 39.9%.

Table no. 35. Foreign currency available funds of commercial banks in 2004 (US\$ mln.)

	As of 31.12.2003	Weight, %	As of 31.12.2004	Weight, %	Growth rate, %	Daily average	Weight in daily average, %
„Nostro” accounts opened abroad	36.6	30.3	37.2	33.2	1.6	34.5	29.6
Placements abroad by commercial banks	44.1	36.6	36.8	32.8	-16.6	44.1	37.8
Cash in foreign currency	23.1	19.2	27.2	24.2	17.7	24.1	20.7
Overnight placements	15.7	13.0	9.1	8.1	-42.0	11.9	10.2
Securities in foreign currency	1.1	0.9	1.9	1.7	72.7	2.0	1.7
Total	120.6	100.0	112.2	100.0	-6.9	116.6	100.0

Chart no. 66. Foreign currency available funds of commercial banks in 2004



Within the structure of *available funds in foreign currency* as of December 31, 2004 Nostro accounts abroad accounted for 33.2%; placements abroad – for 32.8%; cash foreign exchange – for 24.2%; overnight placements – for 8.1%; and securities in foreign currency – for 1.7%. The balance of funds in securities' accounts increased by 72.7%; cash foreign exchange – by 17.7%; and Nostro accounts – by 1.6%. Reductions from the previous year were registered in accounts of overnight placed funds – by 42.0% and placements of Moldovan banks abroad – by 16.6% (table no. 35).

Net balance-sheet liabilities increased over the reported year by 28.1% or by US\$ 83.9 million (from US\$ 298.8 million to US\$ 382.7 million as of December 31, 2004).

Clients' time deposits increased over the year by US\$ 49.1 million (37.9%) – from US\$ 129.4 million to US\$ 178.5 million as of December 31, 2004 and accounted for the largest weight (46.7%) within net balance liabilities (table no. 36).

Table no. 36. Net balance liabilities in 2004 (US\$ mln.)

	As of 31.12.2003	Weight, %	As of 31.12.2004	Weight, %	Growth rate, %
Clients' time deposits	129.4	43.3	178.5	46.7	37.9
Clients' sight deposits	99.6	33.3	116.5	30.4	17.0
Received credits	52.1	17.4	55.8	14.6	7.1
Other liabilities in foreign currency	9.7	3.3	12.4	3.2	27.8
Time deposits of foreign banks	7.7	2.6	12.2	3.2	58.4
Loro accounts "	0.3	0.1	7.3	1.9	2333.3
Total net balance liabilities	298.8	100.0	382.7	100.0	28.1

Clients' sight deposits accounted for 30.4% and increased over the year by US\$ 16.9 million (from US\$ 99.6 million to US\$ 116.5 million, respectively). The weight of credits received by commercial banks in total net balance liabilities in foreign currency accounted for 14.6% as of 31.12.2004, increasing by 7.1% from US\$ 52.1 million to US\$ 55.8 million. Banks' time deposits abroad as at 2004 year-end accounted for 3.2%, denoting a 58.4%-increase (US\$ 4.5 million) – from US\$ 7.7 million to US\$ 12.2 million.

The major balance-sheet liabilities in foreign currency (clients' time and sight deposits), which have a significant impact upon the exchange rate dynamics rose over the year by US\$ 66.0 million (28.8%) – from US\$ 229.0 million to US\$ 295.0 million as of December 31, 2004 (table no. 37).

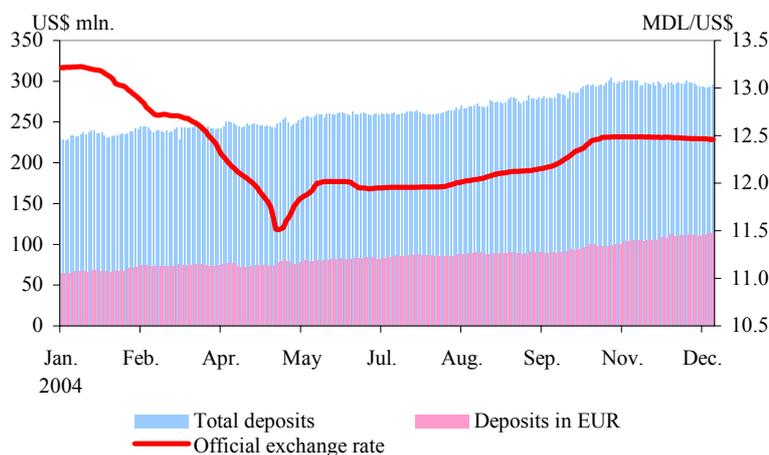
Table no. 37. Total deposits of clients in foreign exchange in the banking sector in 2004 (US\$ mln.)

	As of 31.12.2003	Weight, %	As of 31.12.2004	Weight, %	Growth rate, %	Daily average	Weight in daily average, %
US\$	161.6	70.6	177.3	60.1	9.7	175.3	66.6
Euro	63.7	27.8	113.3	38.4	77.9	84.8	32.2
RUR	3.1	1.3	2.7	0.9	-12.9	2.4	0.9
Other currencies	0.6	0.3	1.7	0.6	183.3	0.9	0.3
Total on all currencies	229.0	100.0	295.0	100.0	28.8	263.4	100.0

The breakdown of deposits by currency denotes the prevalence of US\$ as depositing currency both by legal entities and individuals. The largest weight of US\$ deposits (70.7%) was registered in January 2004 and the lowest weight (60.0%) – in December 2004. US\$ deposits increased over the year in value terms by US\$ 15.7 million and amounted to US\$ 177.3 million as at year-end.

The weight of Euro deposits denoted considerable increase (by 10.6 p.p.) up to the level of 38.4% as of December 31, 2004. This increase

Chart no. 67. Deposits in foreign currency with Moldovan commercial banks and dynamics of the official exchange rate of the MDL against the US\$ in 2004



was partially due to the appreciation of Euro against other currencies over the year, especially against US\$. Euro deposits increased over the year 2004 by 77.9% and amounted to an equivalent of US\$ 113.3 million as at year-end (chart no. 67).

Deposits in RUB and other currencies registered insignificant weights in total deposits. Deposits in RUR amounted to US\$ 2.7 million as at year-end and accounted for 0.9% of total deposits as of December 31, 2004.

Off-balance-sheet assets and liabilities decreased by 71.0% and 77.2%, respectively over the reported year. Within off-balance-sheet assets, as of December 31, 2004, current purchases accounted for 76.3%; and term purchases – for 23.8%. Off-balance-sheet liabilities included current sales (71.0%) and term sales (26.7%)

The difference between off-balance-sheet assets and off-balance-sheet liabilities as share of total regulatory capital decreased considerably (from 10.0% as at 2003-end down to 0.4% as of December 31, 2004).

Table no. 38. Off-balance-sheet assets and liabilities in 2004 (US\$ mln.)

	As of 31.12.2003	Weight, %	As of 31.12.2004	Weight, %	Growth rate, %
Off-balance-sheet assets					
Current purchases	2.6	6.2	9.3	76.3	257.7
Term purchases	39.5	93.8	2.9	23.8	-92.6
Other off-balance-sheet assets	0.0	0.0	0.0	0.0	-68.8
Total off-balance-sheet assets	42.1	100.0	12.2	100.0	-71.0
Off-balance-sheet liabilities					
Current sales	4.7	8.2	9.3	71.0	97.9
Term sales	51.7	89.9	3.5	26.7	-93.2
Other off-balance-sheet liabilities	1.1	1.9	0.3	2.3	-72.7
Total off-balance-sheet liabilities	57.5	100.0	13.1	100.0	-77.2
Total regulatory capital (TRC)	153.6		193.8		
(Off-balance-sheet assets – Off-balance-sheet liabilities) /TRC, (%)	-10.0		-0.4		

Such a reduction was mainly due to the Decision of the Council of Administration of the National Bank of Moldova no. 37 of 19.02.2004 on Modification and Completion of the Regulation of Bank's Open Foreign Exchange Position. To mitigate foreign exchange risk, the Regulation provides current requirements with regard to banks' foreign exchange position and establishes the limit of $\pm 25.0\%$ for the ratio of balance assets in foreign currency and balance liabilities in foreign currency. This provision is aimed at preventing the excessive implication of banks in doubtful off-balance-sheet transactions with the view to balancing the foreign exchange position by means of off-balance-sheet assets and liabilities.

Chart no. 68. Long open foreign exchange position in US\$ and dynamics of the official exchange rate of the MDL against the US\$ in 2004

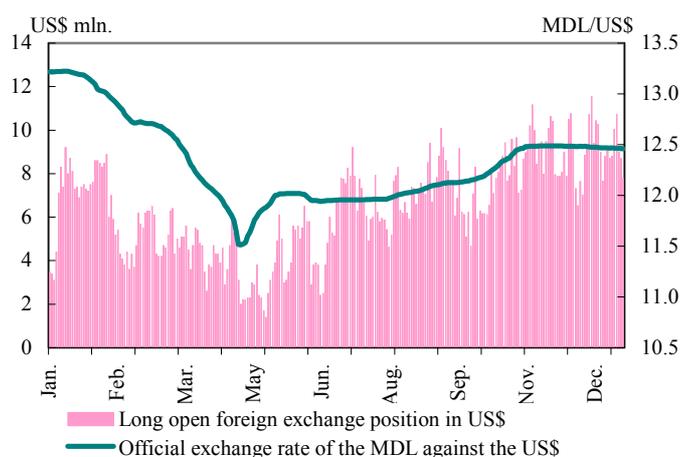
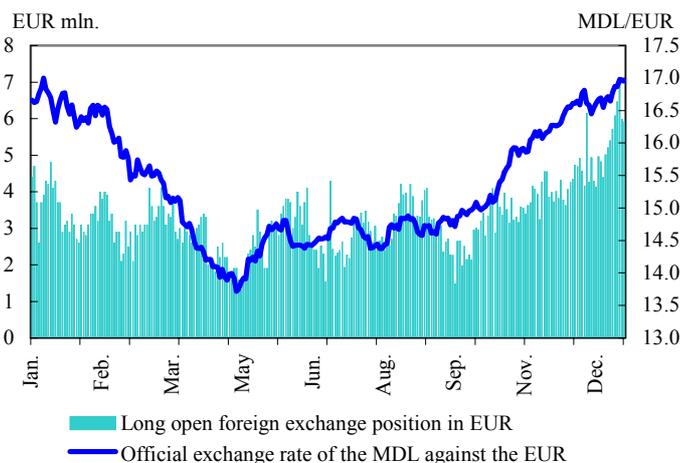


Chart no. 69. Long open foreign exchange position in EUR and dynamics of the official exchange rate of the MDL against the EUR in 2004



The (long) foreign exchange position for all currencies over the year rose by 32.2% - from US\$ 12.7 million to US\$ 16.8 million as of 31.12.2004.

The weight of long foreign exchange position by currencies denoted different evolution trends. The open long foreign exchange position in US\$ rose over the year by 143.8% (from US\$ 3.2 million up to US\$ 7.8 million) and the open long foreign exchange position in Euro – by 22.9% (from the equivalent of US\$ 4.8 million up to the equivalent of US\$ 5.9 million as of 31.12.2004) (chart no. 68). The long foreign exchange position of Euro denoted a significant increase due to Euro appreciation in October to December 2004 (chart no. 69).

International Cooperation of the Republic of Moldova

International Monetary Fund (IMF)

The relationship of the National Bank of Moldova with the International Monetary Fund over 2004 embodies monitoring of country's financial and macroeconomic situation, as well as annual bilateral Article IV consultation missions.

The most recent economic program under IMF financing within the PRGF concession credit expired on 20 December 2003 without further prolongation. Disbursements within the program period amounted to SDR 27.7 million (equivalent to US\$ 42.9 million) out of total PRGF credit of SDR 110.88 million as approved by the IMF Executive Board.

The stock of IMF facilities as at the end of 2004 totalled US\$ 125.94 million (equivalent to SDR 81.36 million). Total payments over the year amounted to US\$ 24.1 million (equivalent to SDR 16.3 million), of which credit reimbursements valued US\$ 21.6 million (equivalent to SDR 14.6 million) and interest payments – US\$ 2.5 million (SDR 1.7 million).

Table no. 39. Financial arrangements with IMF as of 31 December 2004

Facility type	Approval date	Program expiration date	Amount approved (million SDR)	Amount disbursed (million SDR)	Weight of disbursements in total amount approved (%)	Stock as of 31.12.2004 (million SDR)
1) Poverty Reduction and Growth Facility (PRGF)	21 December 2000	20 December 2003	110.88	27.72	25	27.72
2) Extended Financial Facility (EFF)	20 May 1996	19 May 2000	135.00	87.50	65	53.64

The IMF experts' visit in March 2004 was aimed at assessing the economic situation of the country, the policies promoted by state authorities, as well as the elaboration of the Poverty Reduction and Growth Facility Program.

The joint World Bank / IMF Financial Sector Assessment Program (FSAP) team, which undertook missions to Moldova in May-June 2004, conducted detailed assessment of the observance of standards and codes within the monetary, banking and financial sectors, as

follows: assessment of macroeconomic vulnerabilities and risks (monetary policy framework and transparency), of the banking sector (including system risks, banking supervision and regulation framework and compliance with Basel Core Principles, etc.), of the legal framework, payments system, insurance sector, capital market and access to micro-financing, etc.

FSAP results denoted a reasonably multilateral degree of banking supervision and its compliance, in general terms, with Basel Core Principles for Effective Banking Supervision. According to FSAP Report, the dynamics of reforms' implementing in the banking sector is much superior as compared to other financial sectors of the country. The mission appreciated the general impressive level of the main quantitative indicators, including the profitability of the banking sector; the low share of doubtful and compromised credits; and the capitalisation of commercial banks. Overall, the National Bank of Moldova managed to reach a high transparency of the monetary policy in line with the IMF's Code of Good Practices on Transparency in Monetary Policy for formulating and reporting monetary policy decisions.

From 20 October to 3 November 2004, the IMF experts assessed the economic situation of the country under Consultation of Article IV of the IMF Articles of Agreement. The IMF Executive Board mentioned the necessity of structural reforms' implementation; reduction of state interference in private economic activity; promotion of tight fiscal policy; support of investments and re-direction of funds from remittances of individuals of the Republic of Moldova working abroad from final consumption towards investment in real economy. At the same time, it has been appraised the approval by the authorities of the Republic of Moldova of the Poverty Reduction and Growth Facility Program in May 2004; of the national anti-corruption strategy; the partial bilateral restructuring of external debt; the improvement of fiscal administration; and the consolidation of budgetary planning.

The IMF / World Bank Executive Board examined the Poverty Reduction and Growth Facility Program at the Board meeting on 8 December 2004 and assessed it as an important document worked out by the Republic of Moldova within the context of sustainable economic development and poverty reduction. PRGF embodies three major objectives: sustainable economic growth; human factor development; and social protection. PRGF explicitly stipulates the importance of maintaining macroeconomic stability; improvement of business environment; governance consolidation and acceleration of structural reforms aimed at reaching sustainable economic growth. Negative aspects include the slow-down of structural reforms (including privatisation) and the higher state interference in economy. The Board proposed to avoid measures that are not consequent with the strategy.

For medium-term perspective PRGF would serve as a relevant platform for re-launching of donors' concession crediting, providing the real commitment assumed by the state authorities with regard to promotion of consequent market-conducive reforms and evidence of credible performance within reforms' implementation.

The IMF published the Country Report on Observance of Standards and Codes – Fiscal Transparency on 20 December 2004. The Report appraises the positive results within budgetary planning following the implementation of Medium-Term Expenditures Framework, etc.

Over 2004 the National Bank of Moldova cooperated with the IMF and the public authorities at updating the methodology used within the second phase of GDDS – General Data Dissemination System with regard to provision of data on economic, financial and socio-demographic indicators.

From 6 to 16 December 2004 the National Bank of Moldova benefited from IMF technical assistance in the field of foreign exchange regulation.

World Bank Group (WB)

The World Bank published over 2004 a series of field reports with regard to the assessment of economic situation of the Republic of Moldova, including as follows:

- Report on Moldova Investment Climate Assessment (May 2004);
- Report on Observance of Standards and Codes – Accounting and Auditing Module (June 2004);
- Moldova: Country Assistance Evaluation Report for 1993 – 2003 (October 2004);
- Report on Poverty Assessment in Moldova (November 2004).

The World Bank approved on 12 November 2004 a new Country Assistance Strategy (CAS) for the Republic of Moldova, which includes the crediting and non-crediting activity of the World Bank for the period of 2005 – 2008. Under CAS, as in accordance with the CAS Basic Scenario, Moldova is provided to receive from International Development Agency new financing in a total value of US\$ 90 million. These financial funds shall be directed towards achievement of sustainable economic growth and establishment of new working places, improved access to social services, improved governance of public sector and corruption combating. According to the Optimistic Scenario, financing shall amount to US\$ 137 million to be allocated within the policy of economic development crediting, including the establishment of modern market institutions, improvement of business environment and corporative governance, development of small- and medium-sized

enterprises and of the agricultural sector, attraction of foreign investments, etc.

In 2004 the World Bank approved two new projects: 1) Social Investment Project II under IDA financing in a total value of SDR 13.8 million (initial equivalent to US\$ 20 million); and 2) Investments and Rural Services Project under IDA financing in a total value of SDR 3.4 million (initial equivalent to US\$ 5.0 million).

The stock of credits extended by the *International Bank for Reconstruction and Development* (IBRD) amounted to US\$ 184.7 million as of December 31, 2004. Total drawings over 2004 within investment projects under IBRD financing totalled US\$ 2.3 million.

The stock of credits contracted with the *International Development Association* (IDA) amounted to US\$ 201.1 million; drawings over the reporting year totalled US\$ 16.0 million.

The *International Financial Corporation* (IFC) approved 2 financial credits in a total value of US\$ 9 million directed towards re-crediting of small- and medium-sized enterprises by the CB Victoriabank S.A. and the CB Moldindconbank S.A.

IFC disbursed in 2004 a total value of US\$ 19.0 million, of which US\$ 9 million was allocated in the banking sector and US\$ 10 million – in the non-banking sector for projects operated within the energy sector. The stock of IFC credits as of December 31, 2004 amounted to US\$ 54.9 million, including US\$ 15.9 million - the stock of credits contracted by the banking sector and US\$ 39.0 million – that of the non-banking sector.

European Bank for Reconstruction and Development (EBRD)

Credits extended to the Republic of Moldova by the European Bank for Reconstruction and Development (EBRD) include private sector financing under state guarantee and with no state guarantee and credits extended to the Ministry of Finance.

On 1 July 2003 the EBRD Board of Directors approved a new Country Strategy for the Republic of Moldova (in force till 1 July 2005). According to this Strategy, EBRD shall have the following targets:

- 1) banking sector – financing through direct credits and investments; external trade facilitating Programs; use of new financial instruments, like leasing and mortgage financing;
- 2) private sector – financing of direct external investments and privatisation projects;
- 3) infrastructure – financing of energy and communication sectors within the post-privatisation period;

- 4) cooperation with state authorities within the Poverty Reduction and Growth Facility Program of the Republic of Moldova.

The portfolio of EBRD credits in breakdown by economic sectors as of 31.12.2004 is as follows: transportation – 32.0%; infrastructure – 21.3%; energy sector – 19.7%; financial institutions – 17.2%; agrobusiness – 8.6%; small business financing – 0.9%; communications – 0.3%.

The EBRD financing in the banking sector includes financial credits; investments in equity; micro-financing crediting; credit lines for small- and medium-sized enterprises; external trade facilitating Programs; and technical assistance. The advantages of EBRD investing in the banking sector of the Republic of Moldova embodies the capitalisation of financial institutions; the enlargement of credit portfolios of local authorised banks; the improvement of financial institutions' management and organisational structures; the contribution to external investments' attraction; the consolidation of confidence in banking stability.

In June 2004 the Republic of Moldova has been visited by a monitoring delegation of the Council of EBRD Executive Directors that assessed the implementation of EBRD-financed investment projects, analysed Moldova's reform agenda and current problems; and discussed with the state authorities the investment climate of the Republic of Moldova.

Total EBRD financing of private non-guaranteed debt through 16 credit lines amounted, as of 31.12.2004, to US\$ 79.2 million. According to the value of provided credits, EBRD acts as an important creditor of the banking sector – US\$ 52.3 million (66.0%). Funds allocated to the non-banking sector totalled US\$ 26.9 million (34.0%).

Till the end of 2004, EBRD extended a direct credit to the Government of the Republic of Moldova for the financing of road rehabilitation project (US\$ 12 million) and financed 8 investment projects under the state guarantee in a contractual value of US\$ 126.1 million. In 2004 EBRD did not provide loans under state guarantee.

Over the reported year EBRD approved three new credit lines in a total amount of US\$ 13.0 million for the banking sector: CB Victoriabank S.A; CB Moldindconbank S.A.; and CB Mobiasbanca for purposes of medium-term re-crediting of small- and medium-sized enterprises with insufficient working capital acting within different economic sectors.

The total stock of EBRD direct and private credits (under state guarantee and with no state guarantee) as of 31.12.2004 amounted to US\$ 97.96 million, of which direct debt and private state guaranteed loans accounted for 61.9% and private non-guaranteed debt – for 38.1%.

Total disbursements under EBRD projects in the private sector (credits with no state guarantee) amounted to US\$ 20.89 million and were directed to commercial banks (US\$ 10.89 million) and to economic agents (US\$ 10 million). Total payments valued US\$ 26.97 million, including: private non-guaranteed loans – US\$ 17.27 million; external commitments under state guarantee – US\$ 8.57 million; direct debt servicing – US\$ 1.13 million.

International Fund for Agricultural Development (IFAD)

Total drawings within the Rural Financing and Small Enterprises Development Project over the year amounted to US\$ 1.8 million. The total stock under IFAD-financed projects totalled US\$ 7.6 million.

European Union (EU)

The active cooperation between the National Bank of Moldova and the Government of the Republic of Moldova over 2004 falls under the general cooperation between the Republic of Moldova and the European Union and provided the filling in of sections under the competence of the National Bank of Moldova within relevant documents related to RM-EU relationship.

Under the scope of the pro-European perspective of the Republic of Moldova, the National Bank has further adjusted the field legislation to the legislation of the European Union; enhanced the monetary policy and harmonised the NBM operational framework with the one of the Central European Bank; promoted policies aimed at consolidation of the banking sector and market discipline; applied Basel Core Principles for effective banking supervision and prudent development of the banking system in line with best practices of banking supervision and improvement of normative framework for foreign exchange regulation.

According to the Decision of the Government of the Republic of Moldova no.197 of 02.03.2004, the National Bank of Moldova participated within the inter-ministerial Commission for Social and Economic Issues in the elaboration of Republic of Moldova – European Union Actions Plan.

Over 2004 the National Bank filled in the relevant compartments under NBM competence of the RM-EU Actions Plan (approved on 09.12.2004 by the Council of Ministers of the European Union) and of the National Program for RM-EU Actions Plan Implementation, which is a document providing detailed measures with regard to achievement of objectives traced in the RM-EU Actions Plan. The NBM efforts within the elaboration of measures under *Social and Economic Reform and Development* compartment includes as follows: promotion of an

anti-inflationary monetary policy in common with budgetary and fiscal policies and anti-inflationary structural policies promoted by other state authorities; performance of foreign exchange interventions in the forex market in order to smooth out excessive fluctuations of the exchange rate through direct purchases of foreign currency, forex swap operations and forward transactions; setting up of the official exchange rate of the national currency against Euro based on quotations of commercial banks in the intra- and interbank markets in event of considerable increase of Euro weight in the total turnover of the foreign exchange market; performance of liquidity absorbing operations (issue of NBM certificates, deposit auctions, overnight deposits, open market operations) and liquidity management operations (through open market operations, Lombard facility, overnight credits); review of current legal framework of money market instruments with the view to harmonise it with community legislation provisions, etc. Within the compartment of *Functional Market Economy*, under the scope of measures aimed at bringing the key issues of the national legislation in line with the EU legislation, NBM shall work out the Law on Foreign Exchange Regulation. Within *Establishment Right and Right of Societies*, to assure due implementation of IMF recommendations as provided in FSAP, the National Bank shall undertake efforts targeted to bank liquidity optimal maintenance and efficient management; further enhancement by commercial banks of internal control systems; promotion of due diligence rules with regard to owners with significant impact upon bank's management and activity; further development of prudential regulation and bank supervision in line with best practices within the field; elaboration and implementation of measures aimed at gradual increase of bank's capital in accordance with provisions of EU standards.

Cooperation with Central Banks of Other States

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

Foreign Exchange Regulation in 2004

The National Bank of Moldova modifies and completes the legal framework for foreign exchange regulation paying due consideration to the economic situation of the Republic of Moldova, including the current condition of the foreign exchange market, as well as the legislative provisions in effect in the Republic of Moldova and the international relevant practice.

The improvement of the legal framework for foreign exchange regulation over 2004 was aimed at tempering national currency appreciation; gradual liberalisation of foreign exchange rules; as well as enhancement of foreign exchange control.

The condition of the forex market of the Republic of Moldova in the first semester of 2004 determined the National Bank of Moldova to undertake a series of measures targeted to smooth out the impact of massive foreign currency inflows and excessive foreign exchange offer upon the domestic forex market and, respectively, upon the exchange rate.

Given these circumstances, the National Bank modified and completed its normative acts with regard to foreign exchange regulation as follows:

- abrogated the provision stipulating the limit of 7 bank days for maintenance in accounts of resident legal entities of foreign exchange acquired against MDL in the domestic forex market;
- increased the ceilings set for international transfers to be conducted by resident individuals without submission of confirming documents. For example, the relevant ceilings accounting for US\$ 200 were increased to US\$ 500.
- increased the ceiling set for international transfers for purpose of family expenses to be conducted by resident individuals based on the NBM authorisation on account of funds acquired in the domestic forex market (from US\$ 1000 to US\$ 3000 per quarter for every relative).
- increased the ceilings set for cash withdrawing from abroad through cards issued based on resident individual's account and legal person's account (from US\$ 200 / day and US\$ 5000 / month to US\$ 500 / day and US\$ 10000 / month respectively).

At the same time, NBM excluded the ceiling of US\$ 20000 / month set for payment at trade points abroad by cards issued based on resident individual's accounts*

* based on MDL account of foreign currency account replenished, as a rule, with foreign exchange acquired in the forex market of the Republic of Moldova

- increased the ceilings set for provision by banks of foreign exchange in cash and / or traveller's checks based on resident legal entity's account / non-resident legal entity representation for purposes of trips abroad (from US\$ 5000 to US\$ 10000 / month / individual).
- considering the significant offer of foreign currency in the forex market of the Republic of Moldova that determined the appreciation of the national currency and the important role of exchange offices in the domestic forex market (solely the performance of exchange operations with individuals), the money contribution of exchange offices – independent legal entities to the statutory capital of thereof to be used only for purposes of forex transactions, increased the ceiling from MDL 200000 to MDL 500000.

To assure due continuity of foreign exchange transactions with individuals, funds to be maintained (in MDL and foreign currency) by exchange offices – independent legal entities at their exchange points at the beginning and during the operational day should not be lower than the equivalent of 400000 MDL in aggregate value.

- considering the activity peculiarities of exchange bureaus of authorised banks, the amount of funds (in MDL and foreign currency) to be maintained by banks in every exchange bureau at the beginning of the operational day should not be lower than the equivalent of 100000 MDL. Furtheron, exchange bureaus of banks are not allowed to transfer funds over the operational day.

The National Bank conducted the above-mentioned measures within the context of NBM actions of immediate effect upon the forex market. Moreover, NBM examined the possibility of perspective-effect measures. Under this scope, the National Bank approved over the reported year the Instruction on Capital Transfer in Form of Investments, which substituted the Instruction on Issue by the National Bank of Moldova of Authorisations To Conduct Certain Capital Transfers from 1999. According to the new Instruction, NBM liberalised payments / transfers within certain capital export transactions for a number of residents' categories: the main emphasis was put on liberalisation of payments / transfers within direct investments abroad. Within this context, NBM liberalised payments / transfers to be conducted by resident legal entities, including commercial banks within direct investments abroad. The relevant decision was due to the qualification of such transaction types as long-term investments. As compared to short-term investments, which are aimed at immediate profits, thus denoting more evident migration, direct investments, from this viewpoint, are considered less volatile. However, direct investments eventually contribute to

the consolidation of country's economic potential (through establishment of new enterprises abroad or holding significant share in foreign entities), enlargement of production basis and penetration into new markets.

As the activity of commercial banks of the Republic of Moldova is subject to regulation and supervision by the National Bank of Moldova, as well as relevant prudential requirements, NBM diversified the types of transactions related to capital outflow, within which payments / transfers may be conducted without due NBM authorisation. Moreover, along with direct investments, the National Bank liberalised banks' payments / transfers within a series of portfolio investments (for example, purchase of securities under guarantee of governments of G-7 countries; holding / acquisition of interest in equity of economic agents (engaged in activities other than financial) not provided in Articles 13 and 15 of the Law on Financial Institutions, etc.).

The liberalisation of mentioned transactions provides the performance of thereof without the NBM authorisation; i.e. residents are allowed to conduct these transactions based on confirmative documents through authorised commercial banks.

The mentioned Instruction regulates also the issuance by NBM of relevant authorisations to conduct payments / transfers within investments abroad subject to authorisation and the reporting of transactions performed based on NBM authorisations; establishes the procedure of capital export operations in form of investments, as well as the commitments of residents, including banks, through which money transfers related to capital export are conducted, etc.

Furtheron, the National Bank modified and completed the legal framework regulating the activity of cash exchange with individuals, including as follows:

- to reduce to the minimum cases of clients' misleading by exchange offices, relevant rules have been established with regard to posting out data on set up exchange rates and commissions applied by exchange offices and banks.

At the same time, NBM tightened the requirements on posting out the information with regard to applied commission within exchange offices. The same requirements are applied on exchange bureaus of commercial banks, as well as exchange bureaus by hotels.

- to optimise the sanction measures applied by the NBM and the discipline of commercial banks within cash exchange with individuals, provisions have been modified with regard to the structure of exchange bureaus of banks. Thus, NBM stipulated that authorised banks are allowed to open at the same address only one

exchange bureau with one or more desks, i.e. in the event a bank used to have in the same room (same address) two or more exchange bureaus, following new provisions all these bureaus started to be considered as desks within one exchange bureau of the bank and not as separate exchange bureaus.

- Special emphasis was put over the reporting year on provisions regulating the application by NBM, within limits of vested functions, of sanctions in cases of violation of normative acts with regard to the activity of exchange offices / bureaus of authorised banks / bureaus by hotels.

To increase the degree of compliance of cash exchange activity with individuals with NBM normative provisions, the National Bank specified cases (grouped as depending on violation seriousness) subject to sanctioning by NBM.

The National Bank modified also the procedure of sanction decision. According to the new procedure, sanctions, except warnings, are applied based on relevant decisions of the Council of Administration of the National Bank of Moldova.

Considering the need to inform the public about licence / authorisation withdrawal, the National Bank provided the requirement for exchange offices / exchange bureaus of commercial banks / exchange bureaus by hotels to post at visible sight the notes with regard to license / authorisation withdrawal based on NBM decision. At the same time, it has been stipulated to publish the information on withdrawn licenses in the Official Monitor of the Republic of Moldova.

- the ceiling of US\$ 500 set as the maximum amount over which individuals intending to conduct cash exchange have to submit to exchange offices / bureaus of banks relevant ID cards was increased to US\$ 5000.

NBM continued to cooperate over the year with the relevant state authorities with the view to modify the legal framework regulating the repatriation of funds, goods and services obtained from external trade transactions. Such modifications were aimed at transmitting the repatriation control function from the banking sector to a state body authorised according to the legislation in force to exercise control over the activity of economic agents. Modifications provided also the extension of repatriation terms, as well as the application of an eased procedure of repatriation control.

The objectives mentioned above have been executed following the approval of Law no. 432-XV on Modification and Completion of Certain Legislative Acts, which adopted the relevant amendments to the Law on Regulation of Repatriation of Money Means, Goods and

Services Obtained from External Trade Transactions (no. 1466-XIII of 29.01.1998) on 24.12.2004. Following these amendments, commercial banks and the National Bank of Moldova have been exonerated from performance of repatriation control, these functions being assigned to the State Fiscal Service that is to conduct control over repatriation within relevant controls at economic agents as in accordance with the legislation in force.

The Instruction on Foreign Exchange Settlements Following Transactions at Moldova Universal Commodity Exchange with the Participation on Non-Residents approved in 2004 is aimed at facilitating the establishment of relevant conditions for the promotion of external trade transactions through auctions at the Commodity Exchange.

The conclusion of commodity exchange transactions through brokers representing clients' interests based on intermediation contracts determines the complexity of interrelations and settlements following exchange transactions.

The Instruction regulates the mechanism of transfers related to transactions performed through the Commodity Exchange with participation of non-residents paying due consideration to brokers' functions within settlements. Thus, the Instruction provides the ways of representation of residents and non-residents by brokers (based on intermediation, mandate and commission contracts) within which foreign currency transfers are allowed. The Instruction stipulates, for every type of presentation contract concluded between broker and client, the relevant schemes applied within money transfers (including through brokers' accounts) and the documents to be submitted by parties to banks for performance of export and import transfers, including advance forward transactions.

The National Bank elaborated over the year a number of foreign exchange regulations, including as follows:

- considering that the Instruction on International Money Orders was elaborated based on norms related to transfers abroad through the banking sector as in accordance with the Regulation on Foreign Exchange Regulation in the Territory of the Republic of Moldova, the Instruction provisions have been harmonised with the new stipulations of the Regulation;
- considering the increased number of applicants for studies abroad and the requirement of funds transfer for purposes of consumption expenditures' coverage in order to obtain the studying visa, NBM introduced new provisions that allow resident individuals to transfer abroad foreign currency on their own name to receive the studying visa by submitting to banks relevant documents confirming the admission of applicants at educational institutions,

as well as documents / information confirming the need of funds placement in personal accounts abroad for visa purposes;

- a series of provisions regulating the regime of foreign exchange accounts of resident individuals have been improved;
- new rules have been introduced with regard to issuance by banks of foreign currency export permissions to individuals in cases of withdrawal of MDL from foreign currency accounts or from account of transfers from abroad;
- considering that the majority of interbank agreements concluded between the National Bank of Moldova and the central banks of CIS countries have been terminated because of obsolescence, relevant provisions have been updated within NBM normative acts with regard to opening of MDL accounts with Moldovan banks by the citizens of such countries;
- to enhance the system of statistics data collection, a series of reports to be submitted to the NBM have been modified.

Banking Supervision and Regulation

General Information

As of December 31, 2004 there were 16 joint stock commercial banks, including two subsidiaries of foreign banks operating in the territory of the Republic of Moldova. The total number of banking institutions accounted for 850, inclusive 195 branches, 210 representative offices and 445 agencies. 30 branches and 118 representative offices were opened over the reported year in the Republic of Moldova.

As of December 31, 2004 there were 7898 employees activating within commercial banks of Moldova; their number increased by 547 persons as compared to December 31, 2003.

New Prudential Regulations

The consolidation of the banking system has a major importance for the due assurance of a sustained and stable functioning of this sector. Under this scope, the measures conducted by the National Bank of Moldova are aimed at enhancing the banks' stability by increasing requirements towards minimum capital. The necessity to rise the minimum required capital is determined by a series of factors, resulting from the role played by the capital in the banks' activity.

The banks' financial stability directly depends on their capital investment, since the amount of capital directly determines the bank's capacity to mitigate the negative impact of risks to which the bank is constantly subject to and, at the same time, to maintain the paying capacity towards deponents and creditors. This factor is of special importance within the context of economies in transition, which are mainly influenced by external economic fluctuations, the risk of insolvency being much higher for banks with reduced capitalization level. Concomitantly, with a view to making local banks be competitive at international level, the increase of the minimum required capital to values in line with the requirements applied in most European countries would be an adequate effort.

Taking into account the above-mentioned facts and the standards of the European Union as well, efforts have been taken to increase the minimum capital requirements to 50.0 million lei. The banks shall gradually raise their capital by the end of 2005, depending on the license held.

With a view to maintaining the required capital value, the National Bank of Moldova supervised over 2004 the efficiency of measures undertaken by banks within the context of compliance with new capital requirements. Thus, licenses of banks that failed to conform

their capital to established requirements were substituted with licenses of lower level.

In order to ensure an efficient operation of banks, the National Bank of Moldova continued promoting the implementation and maintenance by banks of internal control systems of adequate level. The compliance of banks' activity with requirements on internal control systems aimed at increasing bank competitiveness and minimising relevant risks pertaining to banking activity, was examined during on-site controls of the National Bank of Moldova. In case of detecting violations or drawbacks within banks' activity in the given field, the National Bank of Moldova undertook remedy measures in the banks implied and applied, as well, sanctions towards their administrators.

To maintain the banking system stability, the National Bank of Moldova kept on promoting the upgrading of banking supervision methods, taking into account the generally accepted standards in the field of banking supervision.

An important factor for the increase of the banking system's credibility is the ensurance of banking activity transparency, which allows the banks' shareholders, creditors and/or deponents to evaluate the risks assumed within their relationship with the bank and, thus, to protect themselves against these risks. This also creates premises for a fair competition between banks and contributes to priority investing of temporary available funds in banks with a relatively higher security degree of activity.

Under the scope of updating the procedure of disclosing by banks of data related to conducted activity, the National Bank of Moldova has established, in addition to existing requirements, that commercial banks publish a series of financial indicators, based on which the public has the possibility to determine assets' quality, return on assets, as well as return on share capital. The banks shall also publish data with regard to bank's capacity to adequately perform the management of assets and liabilities, as well as general risk-related information. All information to be disclosed shall be subject to compulsory publishing on the banks' Internet sites, thus enabling relevant users to compare the development trends of each particular bank with the development trends of the country's overall banking system based on data available on the web site of the National Bank of Moldova. Within the context of supervision process, NBM verifies the degree of public disclosure by commercial banks of the information related to their activities and establishes the compliance of commercial banks with given requirements.

In order to support the security degree of the banking system by promoting adequate requirements related to risks diversification

pertaining to bank's active operations and, as well, to reduce the foreign exchange risk related to balance sheet assets and liabilities in foreign currency, NBM has, along with existing requirements on banks' foreign exchange position, introduce new requirements stipulating that the value of balance sheet assets in foreign currency should not exceed the amount of balance sheet liabilities in foreign currency or be by 25% lower than this indicator. The mentioned restriction shall not be applied for banks performing insignificant transactions in the foreign exchange market and, namely, in banks where both the amount of balance sheet assets in foreign currency and the amount of balance sheet liabilities in foreign currency shall not exceed, for each separately, 10.0% of the total regulatory capital.

With the purpose of adequately reflecting the open foreign exchange position of the bank and taking into account that the required reserves are held by commercial banks with NBM in both Moldovan lei and in free convertible currency from means attracted accordingly, required reserves maintained in foreign currency with the National Bank shall be taken into consideration while calculating the bank's position.

In order to distinctly determine the role of the bank's independent audit, the bookkeeping assistance extended by the audit company performing the bank's audit, shall be done by submission to bank management of written notes indicating existing essential drawbacks in the structure or operation of bank's bookkeeping and internal control systems and of the written recommendations providing remedy and solving of such drawbacks. The assistance shall not include the direct audit company involvement in the bank's bookkeeping procedure.

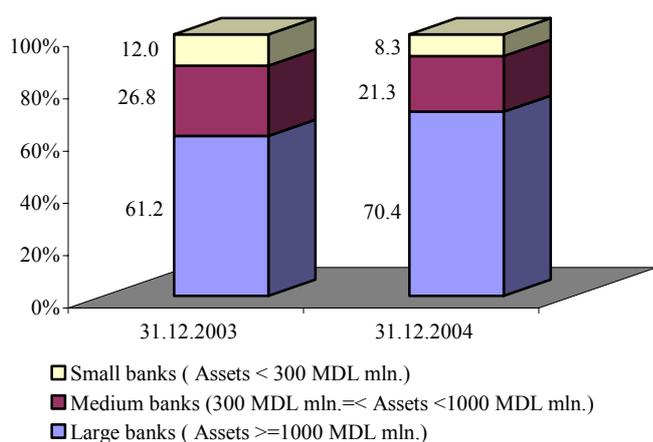
The National Bank has also established, for supervising purposes, including monitoring of banks' activities related to extension of relatively "small" credits, the delivery to NBM by commercial banks of financial reports providing data on the number, value and the balance of credits under 700.0 thousand lei; the first reporting was carried out as of December 31, 2004.

Assets of Commercial Banks

The development of the banking system of the Republic of Moldova over 2004 displayed perspective dynamic trends. Total assets of the banking system increased by 3030.2 million lei (29.5%) and amounted to 13313.2 million lei as of December 31, 2004. Such situation was mainly due to the increase of the balance of banks' liabilities by 2612.4 million lei (32.2%) and of equity capital by 417.8 million lei (19.4%).

As of December 31, 2004 there were 5 large banks (B.C. "MOLDOVA-AGROINDBANK" S.A., BANCA DE ECONOMII S.A., B.C. "VICTORIABANK" S.A., B.C. "Moldindconbank" S.A., B.C. "BANCA SOCIALĂ" S.A.), 5 medium banks (B.C. „MOBIASBANCA” S.A., B.C. "EXIMBANK" S.A., "FinComBank" S.A., B.C. "UNIBANK" S.A., B.C. "ENERGBANK" S.A.), and 6 small banks (B.C. „INVESTPRIVATBANK” S.A., B.C. "COMERȚBANK" S.A., B.C.R. S.A. Sucursala Chișinău, B.C. "Universalbank" S.A., B.C. "BUSINESSBANK" S.A., B.C. "EuroCreditBank" S.A.) operating in the republic.

Graficul nr.70. Dynamics of the banking sector assets by groups of banks from 31.12.2003 to 31.12.2004 (%)

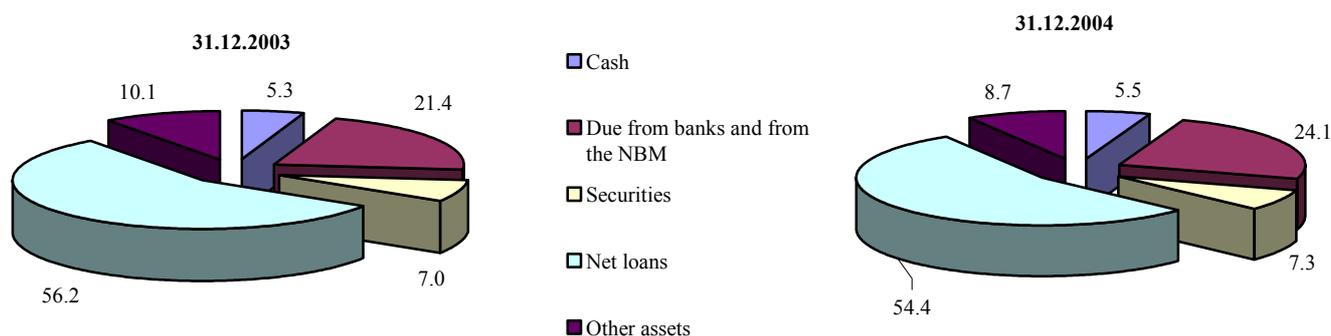


Data as on December 31, 2003 were adjusted according to audit statements

The assets' value of large and medium banks went up by 3082.8 million lei (49.0%) and 80.9 million lei (2.9%), accordingly, while assets of small banks diminished by 133.5 million lei (10.8%). Concomitantly, the weight of large banks' assets increased in total assets by 9.2 p. p. (chart no. 70).

Within the structure of assets, increases were recorded in all asset components. Cash volume raised by 186.3 million lei (34.0%), means due from banks and from the NBM – by 1003.5 million lei (45.6%), securities – by 248.6 million lei (34.5%), other assets – by 130.4 million lei (12.6%). Credit portfolio (net*) recorded the highest increase – by 1461.4 million lei (25.3%) (chart no. 71).

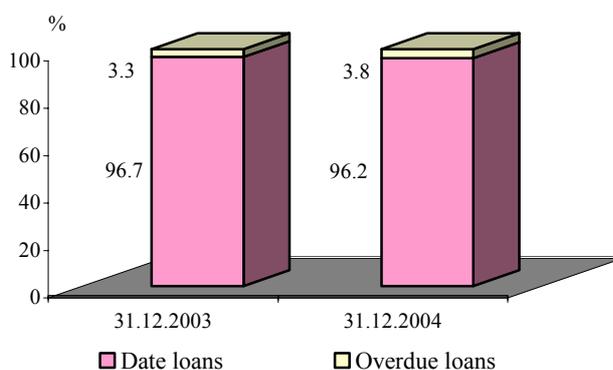
Chart no. 71. Dynamics of the banking sector assets composition from 31.12.2003 to 31.12.2004 (%)



* According to credit account balances in the balance sheet, worked out following the Instruction on Elaboration and Submission by commercial banks of Financial Statements approved by the Council of Administration of the National Bank of Moldova no. 36 of August 8, 1997 (Official Monitor of the Republic of Moldova no. 64-65 of October 2, 1997)

Within the structure of banking assets, net loans held the maximum weight – 54.4%, decreasing from December 31, 2003 by 1.8 p.p. The weight of means due from banks and from the NBM accounted for 24.1%, securities – for 7.3%, cash – for 5.5% and other assets – for 8.7% in total assets.

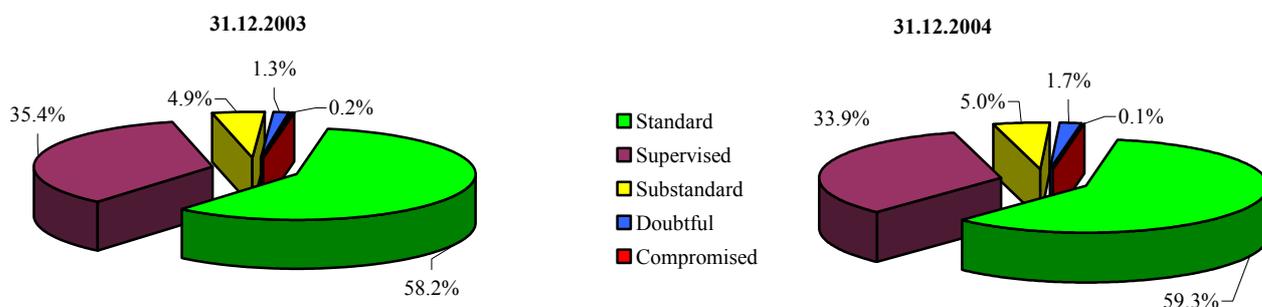
Chart n. 72. Dynamics of the credit portfolio composition of the banking sector, according to credit reimbursement solvency, from 31.12.2003 to 31.12.2004 (%)



The total credit portfolio amounted to 7686.4 million lei at the end of 2004, by 1563.5 million lei (25.5%) more as compared to December 31, 2003. The weight of overdue credits, including non-interest bearing loans, registered in total credits an insignificant growth by 0.5 p. p. to 3.8% and accounted for 294.7 million lei as of December 31, 2004 (chart no. 72).

With regard to qualitative parameters of the loan portfolio, the weight of unfavourable loans (sub-standard, doubtful and compromised) recorded a rather reduced level – 6.8% in total credits as of December 31, 2004, denoting a relatively low level of risk distribution within the credit portfolio (chart no. 73). Compared to the end of 2003, this indicator displayed an insignificant increase of 0.4 p. p.

Chart no. 73. Credit portfolio and financial leasing structure (in terms of investment risk level) from 31.12.2003 to 31.12.2004 (%)



The ratio of credit loss provisions (risk fund) to total loans increased by 0.2 p. p. against the end of 2003 and constituted 5.8% in 2004.

The total value of compromised loans, written off during 2004 from credit loss provisions amounted to 45.5 million lei, write-backs of loans – to 27.8 million lei. Out of total written off loans, write-backs of loans represent 61.1%, by 7.3 p. p. more as compared to the previous year, which reveals the improvement of banks' credit reimbursement of previously written off unfavourable loans.

The total amount of credits extended to banks' affiliated persons amounted within the banking system to 487.3 million lei as of December 31, 2004 and exhibited an insignificant share of 6.3% in total credits and of 19.9% in Tier I Capital (*the maximal limit is set as 100.0% of Tier I Capital*).

Credits extended to banks' employees equal to 19.3 million lei, or 0.3% of total loan portfolio and 0.8% of total regulatory capital of commercial banks (*the maximal limit is set as 10.0% of total regulatory capital*).

Total value of large credits constituted 1945.4 million lei, which makes up 25.3% of total loan portfolio and 79.7% of total regulatory capital of commercial banks (*maximal limit is set as 500% of total regulatory capital*). The sum of the largest ten debts on credits represents 35.7% of total net credits in the system (*maximal limit is set as 50.0% of total value of net credits*).

The ratio of banking investments in fixed assets and other long-term material assets to total regulatory capital accounted for 31.0% at the end of 2004 (*maximal limit – 50.0%*). Investments in long-term material assets and equity interest in capital of economic entities reported to total regulatory capital represent 34.3% (*maximal limit – 100.0%*).

The weight of net assets in foreign currency constituted 37.4% of total assets, surpassing by 1.6 percentage point the weight of net liabilities in foreign currency (35.8%). The weights of both assets and liabilities in foreign currency reduced by 4.5 p. p. and 2.6 p. p., accordingly, as compared to December 31, 2003. Within the structure of assets in foreign currency, loans in foreign currency held the highest share of 64.4% and means in foreign currency due from banks – 21.9%.

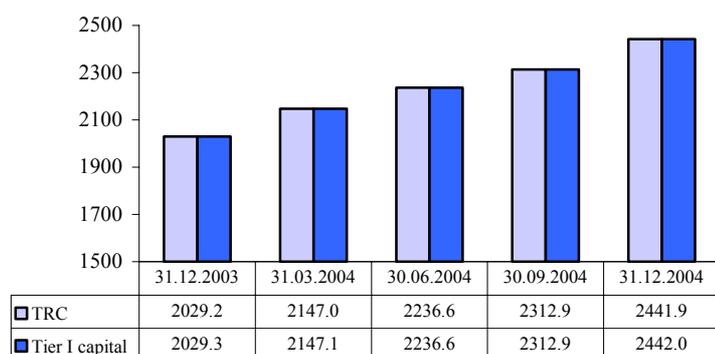
Credit conditional accounts (off-balance sheet commitments) amounted to 1021.1 million lei, or 7.7% of total assets, decreasing by 6.8 p. p. from the end of 2003. Within off-balance sheet commitments, credit commitments held the highest share of 45.5% (464.9 million lei). The letters of credit and issued guarantees totalled 230.3 million lei, or 22.6% of total off-balance commitments, while security-selling commitments – 161.9 million lei (15.9%).

Capital of Commercial 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 as of December 31, 2004 the value of 2442.0 million lei and registered an increase of 412.7 million lei (20.3%). The respective dynamics denotes a continuous trend of banking system consolidation. It should be noted that, by the end of 2004, according to financial statements submitted by banks, in all commercial banks the size of Tier I Capital complied with the category of license held by the bank.

Chart no. 74. Dynamics of banking capital in 2004 (MDL mln.)



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

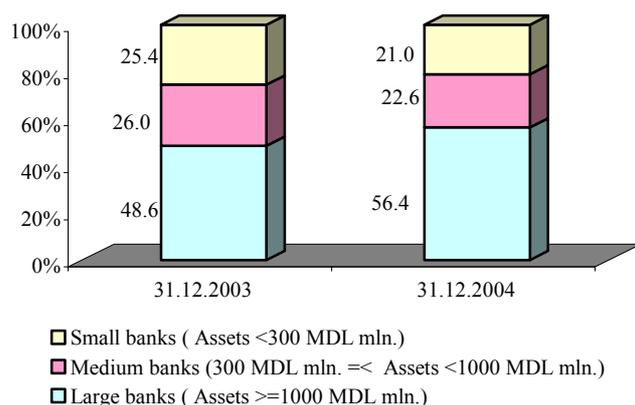
The total regulatory capital extended in 2004 by 412.7 million lei (20.3%) (chart no. 74).

The main sources of increasing Tier I Capital and TRC served the net income earned by commercial banks in an

amount of 430.7 million lei and the closure of share issuance in seven commercial banks on the account of additional contributions of shareholders in an amount of 112.8 million lei. This fact added up to sustained growth of the banking system's stability degree.

The average risk weighted capital adequacy (*ratio of total regulatory*

Chart no. 75. Dynamics of total regulatory capital distribution by groups of banks from 31.12.2003 to 31.12.2004



capital to risk-weighted assets) within the banking system reached a high level and registered 31.4% by December 31, 2004 (the minimal level in the Republic of Moldova constitutes 12.0%, while the level as set up for banking supervision by the Basel Committee indicates even a more reduced adequacy – 8.0%). At the same time, this indicator displayed a descendant trend over 2004, as a result of improved banks' capacity to administrate, as well as to redistribute available funds flows.

Modification of capital structure of the banking sector from the viewpoint of its concentration by groups of banks is shown in chart no. 75.

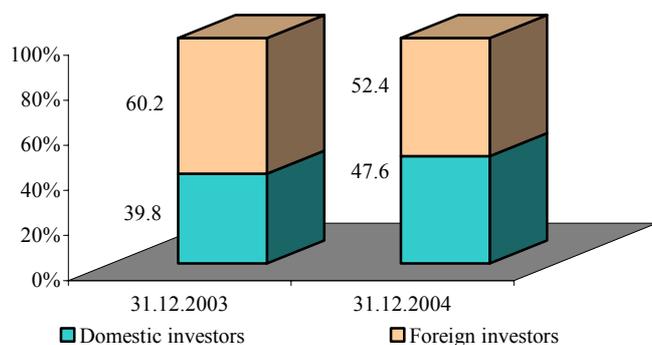
Thus, during the reported year, total regulatory capital of large banks increased by 388.9 million lei (39.4%) and of medium banks - by 25.0

million lei (4.8%). At the same time, total regulatory capital of small banks recorded reductions by 1.2 million lei (0.2%).

The share of total regulatory capital of large banks in total regulatory capital of the banking system accounted for 56.4%, increasing by 7.8 percentage points as against December 31, 2003, on the account of reduction of total regulatory capital share of medium banks and small banks by 3.4 p. p. and 4.4 p. p., accordingly.

The share of foreign investments in banks' capital constituted 52.4%, decreasing by 7.8 p. p. prior to the end of 2003, as a result of more emphasized growth trends of investments by residents compared to investments by non-residents (chart no. 76). During the reported year investments by local shareholders rose by 200.0 million lei (63.0%) and amounted to 517.5 million lei, while foreign investments extended by 90.2 million lei (18.8%) to the level of 570.3 million lei.

Chart no. 76. Banking capital composition by type of investments from 31.12.2003 to 31.12.2004



Foreign investors participation in capital formation in the banks of the Republic of Moldova include as follows: European Bank for Reconstruction and Development, two banks from Romania, one bank from Russia, and corporate investors from United Kingdom, USA, Canada, Russia, Cyprus, Greece, Belgium, Liechtenstein, Luxemburg, as well and from other countries.

Out of total number of banks, 3 banks have a 100% foreign capital, 11 banks have a capital formed of foreign and local investments, and

2 banks – a 100% local capital.

Liabilities of Commercial Banks

Liabilities of commercial banks constituted 10737.6 million lei as of December 31, 2004 and increased by 2612.5 million lei (32.2%) as compared to the end of 2003. This growth occurred mainly on the account of deposits' increase by 2636.2 million lei (38.4%)*, thus denoting credibility in the banking system.

According to the data, in 2004 all liability components registered rising trends, except other loans, which reduced by 50.9 million lei or by 5.1% (chart no. 77). Deposits by individuals rose by 1493.5 million lei (44.4%), deposits by businesses – by 1009.1 million lei (30.1%),

* according to balances of the balance sheet on deposit accounts worked out based on the Instruction on modality of working out and submission by banks of financial statements, approved by Decision no.36 of the Council of Administration of the National Bank of Moldova dated 08.08.1997 (Official Monitor of the Republic of Moldova no.64-65 dated 02.10.1997)

means due to banks – by 133.6 million lei (89.7%), other liabilities – by 27.2 million lei (10.1%).

Chart no. 77. Banking liabilities composition from 31.12.2003 to 31.12.2004 (%)



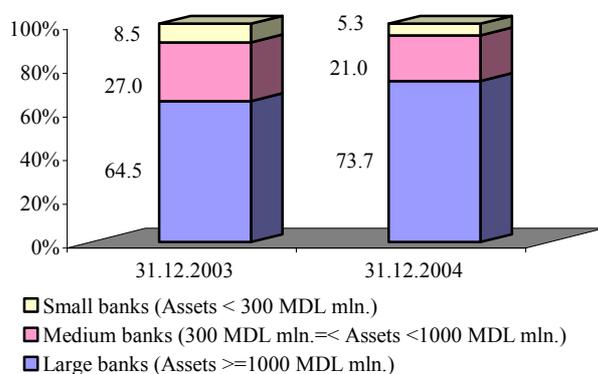
Within banks' liabilities, deposits held as of December 31, 2004 the highest weight of 88.4%, which stepped up by 4.0 p. p. Deposits by individuals accounted for 45.2% of total liabilities, deposits by businesses – for 40.6% and deposits by banks – for 2.6%, other loans and other liabilities representing 8.8% and 2.8%, respectively.

Deposits in MDL enlarged by 1846.7 million lei (49.8%) and reached the value of 5558.4 million lei, while deposits in foreign currency rose by 789.5 million lei (25.0%) to the level of 3943.9 million lei as of December 31, 2004.

During the reported period the weight of deposits in MDL in total deposits went up from 54.1% as of the end of 2003 to 58.5% as of December 31, 2004. The weight of deposits in foreign currency reduced by 4.4 p. p. to 41.5%.

During the reported period the following distribution of liabilities within the banking sector was in place (chart no.78).

Chart no. 78. Distribution of banking liabilities by group of banks from 31.12.2003 to 31.12.2004



Large banks' liabilities rose by 2678.5 million lei (51.2%), medium banks' liabilities – by 61.2 million lei (2.8%). At the same time, small banks' liabilities decreased by 127.2 million lei (18.4%).

The share of large banks' liabilities in total banking system liabilities constituted 73.7% as of December 31, 2004 and recorded an increase of 9.2 percentage points on the account of reduced weight of medium and small banks' liabilities by 6.0 p. p. and 3.2 p.

p., accordingly, to 21.0% and 5.3% in total liabilities.

Liquidity of Commercial banks

Liquidity indicators of the banking system in 2004 displayed the banks' capacity to honour both current commitments and long-term commitments.

Thus, in accordance with liquidity principle I (*assets with reimbursement term over 2 years / financial resources with potential withdrawing term exceeding 2 years* ≤ 1), long-term liquidity accounted for 0.5 as of December 31, 2004. The level of this indicator

denotes the availability of funds for long-term investment.

Current liquidity, represented through liquidity principle II (*liquid assets / total assets* ≥ 20%) totalled 36.3% at the end of 2004 (chart no. 79).

Liquid assets rose by 1532.9 million lei (46.4%) in 2004 and amounted to 4836.7 million lei. This dynamics was due to the increase of cash by 186.3 million lei

(34.0%), of deposits with the National Bank of Moldova – by 1294.1 million lei (154.8%), of liquid securities – by 405.7 million lei (58.1%). Concomitantly, net interbank credits and loans with the reimbursement term of up to 1 month reduced by 353.2 million lei or by 28.9% (chart no. 79).

The structure of liquid assets as of December 31, 2004 included as follows: deposits with NBM accounted for 44.0%; liquid securities – for 22.8%; net interbank credits and loans with the reimbursement term of up to 1 month – for 18.0%; and cash – for 15.2%.

Income and Expense of Commercial Banks

Net income of commercial banks of the Republic of Moldova amounted in 2004 to 430.7 million lei, increasing by 31.0 million lei (7.8%) from the previous year.

Chart no. 79. Dynamics of liquid assets (MDL mln.) and liquid assets weight in total assets in 2004 (%)

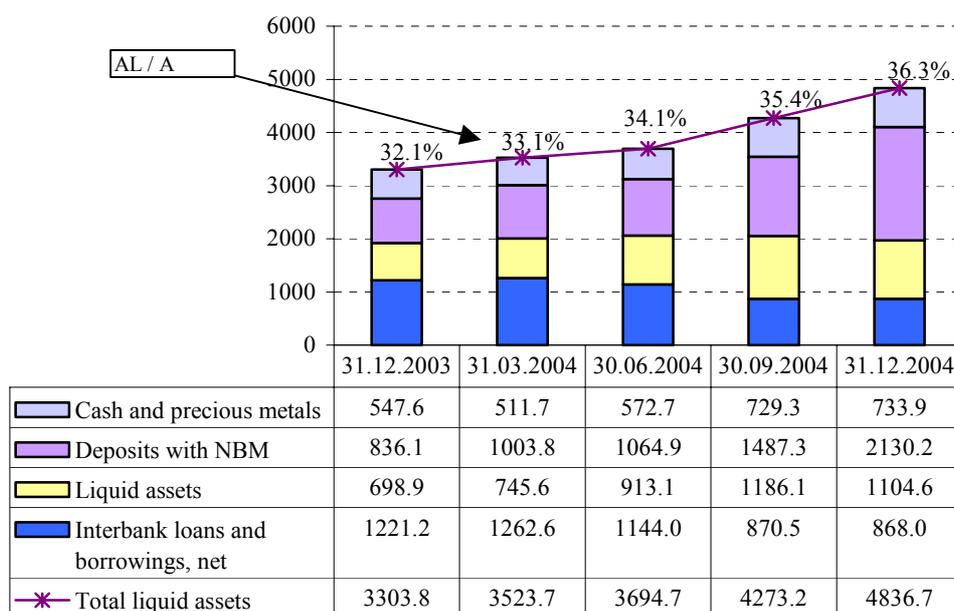
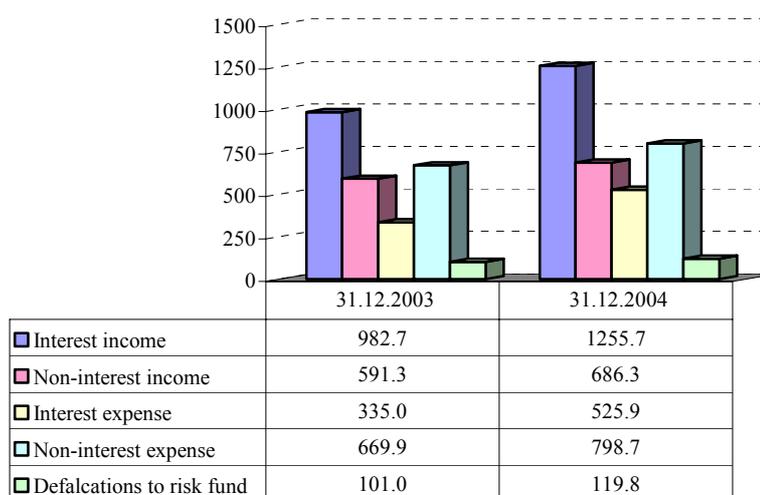


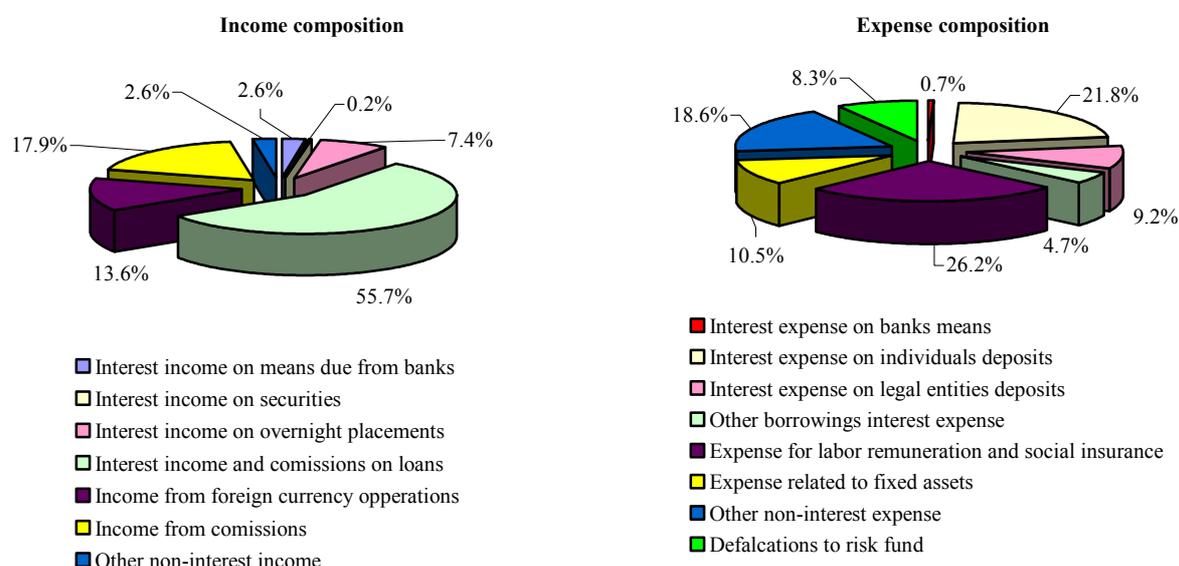
Chart no. 80. Dynamics of banking income and expense in 2003-2004 (MDL mln.)



Thus, an increase of interest-related income by 273.0 million lei (27.8%) and of non-interest income by 95.0 million lei (16.1%) was recorded in 2004 as compared to the previous year (chart no. 80). Interest-related expenses and non-interest expenses advanced by 190.9 million lei (57.0%) and 128.8 million lei (19.2%), respectively. At the same time, payments for credit loss provisions (risk fund) went up by 18.8 million lei, or by 18.6%.

Banks' revenues in 2004 were stable and mainly originated from basic banks' activity (investments in interest-bearing assets). Accordingly, interest-related incomes constituted 1255.7 million lei, or 64.7% out of total banks' revenues. Within the structure of interest-related incomes, the highest share of 55.7% is held by interest-related incomes and credit commissions in an amount of 1082.2 million lei (chart no. 81).

Chart no. 81. Composition of banking income and expense in 2004



Non-interest incomes accounted for 686.3 million lei, or 35.3% in total revenues. In total of non-interest incomes, commission-related incomes held the highest share in an amount of 347.4 million lei (17.9% of total revenues), as well as the incomes related to foreign currency transactions in an amount of 263.7 million lei (13.6% of total revenues).

Total expenditures amounted to 1444.4 million lei, out of which 525.9 million lei or 36.4% represent interest expense, 798.7 million lei or 55.3% – non-interest expense and 119.8 million lei or 8.3% – credit loss provisions (risk fund).

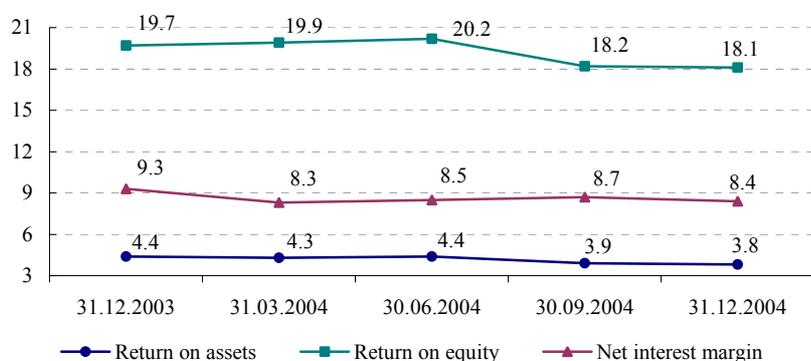
Profitability indicators kept on recording high rates. *Banking assets' profitability*, characterized by the ratio of net income to average assets accounted for 3.8% in 2004. *The profitability of equity capital* of the banking system, representing the ratio of net income to average equity capital, accounted for 18.1%.

Compared to the end of 2003, these indicators decreased by 0.6 p. p. and by 1.6 p. p., accordingly, mainly due to the reduction of interest-bearing assets weight in total assets, which, in its turn, was determined by sharp growth of banks' assets.

Net interest margin representing the ratio of net interest income to average interest-bearing assets accounted for 8.4%, decreasing, as compared to 2003, by 0.9 p. p. (chart no. 82). The decrease was due to the rise by 1.4 p. p. from 6.5% in 2003 to 7.9% in 2004 of the indicator interest expense/average liabilities for which interest is paid.

The increase of income base was due to the rise in 2004 of interest-

Chart no. 82. Dynamics of net interest margin, return on assets and equity (ROA and ROE) in 2004 (%)



bearing assets (by 2281.8 million lei or 28.4%), which amounted to 10321.9 million lei. The continuous increase of interest-bearing assets, as well as their significant weight in total banking assets (77.5%), points to the commercial banks' capacity to generate further income.

Payments System

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

The participants of the interbank payments system in 2004 were the National Bank of Moldova, 16 commercial banks authorised by the National Bank and the settlement centre of Tiraspol.

Within the payments system, the National Bank acted as settlement bank and centre for processing payment documents.

The value of payments conducted in 2004 via interbank payments system equalled to 94927.7 million lei and increased by 21.2% as compared to 2003. The volume of processed payment documents accounted for 8291.7 thousand units, by 25.9% more as against as in 2003.

The activity of issuing and using banking cards extended over 2004.

The number of cards in circulation as of December 31, 2004, issued by commercial banks authorised by the National Bank amounted to 340.3 thousand units, which is by 34.4% more as compared to the situation as of December 31, 2003.

The number of transactions with banking cards issued by commercial banks authorised by the National Bank of Moldova added up to 5147.2 thousand and grew by 56.8% versus 2003, while their value totalled 2874.6 million lei exceeding by 67.5% the level registered in 2003.

The number of transactions completed in 2004 in the Republic of Moldova with cards issued abroad constituted 324.0 thousand, increasing by 17.1% versus 2003, and their value amounted to 497.8 million lei, by 28.8% more as compared to 2003.

Commemorative and Jubilee Coins

In order to fulfil the Decision of the Government of the Republic of Moldova and of the National Bank of Moldova no. 21 dated January 16, 2004 on Commemorative and Jubilee Coins' Issuance and based on Articles no. 57 and 60 of the Law on the National Bank of Moldova no. 548-XIII dated 21.07.1995, the NBM issued three commemorative coins to dedicate local cultural and historic personalities and events, as well as to complementing the series "Red Book", as follows:

Stefan cel Mare si Sfint – 500 years from Moldova's King death, made of gold, with the face value of 100 lei, in 300 samples.

Wood Marten, made of silver, with the face value of 10 lei, in 500 samples.

Metropolitan Dosoftei – 380 years of birth, made of silver, with the face value of 50 lei, in 500 samples.

The issued commemorative coins have numismatic features and represent, at the same time, legal tender accepted in the national economy at their nominal value.

NBM Personnel and Professional Training

As of December 31, 2004 the NBM staff was completed at the level of 96.5% (459 employees of 484). There are 9 persons with doctorates in economics and technical sciences employed at the National Bank of Moldova.

In 2004, 48 employees of the Bank were promoted; more than 54.0% of them are under 30. Young employees constitute the NBM staff base: 248 employees are under 40, which accounts for 54.0%.

During the reported period, 103 employees of NBM participated at training courses. The participation of over 33.0% of Bank personnel in different training events contributed to the improvement and the modernisation of the activity of the National Bank of Moldova.

3. Financial Statement of the National Bank of Moldova

COMMENT

On the Financial Statements of the National Bank of Moldova as of 31 December 2004

The Internal Audit Department has, based on the Law on the National Bank of Moldova, Article 33 (4) d) and the Regulation on Activity of Internal Audit Department, verified the financial statements of the National Bank of Moldova as of 31 December 2004 that include: the balance sheet; the income statement; the cash flow statement; the Bank's capital, as well as explanatory notes.

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

- The balance sheet amounted as of 31 December 2004 to 11.317.964 thousand lei.
- The Bank's capital amounted to 200.000 thousand lei. Reserve Fund increased over the year as in accordance with provisions of Article 20 (1) c) of the Law on the National Bank of Moldova by 45.952 thousand lei and totalled 277.024 thousand lei.
- Special Reserve, established as in accordance with the Regulation on Establishment and Use of Special Reserve, amounted, as of December 31, 2004 to 72.200 thousand lei.
- Income and expense amounted, as in accordance with the calculation method, to 441.220 thousand lei and 139.901 thousand lei, respectively.
- The NBM net profit, as in accordance with the calculation method, amounted, as of 31 December 2004, to 301.319 thousand lei and was adjusted with payments to Special Reserve of revaluation of foreign currency assets and liabilities totalling 72.200 thousand lei and the transfer from the reserve of fixed assets revaluation totalling 647 thousand lei. Net profit available for distribution totalled 229.766 thousand lei.

Based on above-stated, the Internal Audit Department confirms the authenticity of the underlying records of the National Bank of Moldova in all material aspects, the balance sheet; the income statement; the cash flow statement; the Bank's capital; and the reserve fund as of 31 December 2004.

Comptroller General

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

We have audited the accompanying balance sheet of the National Bank of Moldova (“the NBM”) as at 31 December 2004, and the related statements of income, cashflows and changes in paid up capital and reserves for the year then ended. These financial statements are the responsibility of the National Bank of Moldova’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Bank of Moldova as at 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

PricewaterhouseCoopers Entreprises

Chişinău, Republic of Moldova
17 March 2005

1 MAIN ACTIVITY

The National Bank of Moldova (“the NBM”) was established in 1991 as the successor to the former State Bank of Moldova. The National Bank of Moldova’s activities and operations are governed by the State Law 548-XIII regarding the National Bank of Moldova dated 21 July 1995 (and as amended at subsequent dates). The statutory capital of the National Bank of Moldova is MDL 200,000 thousand and remains wholly in State ownership. According to the State Law, the principal objectives of the National Bank of Moldova are as follows:

- To protect and ensure the stability of the national currency - the Moldovan Leu (MDL);
- To maintain and manage the foreign currency reserves of the Moldovan State;
- To create and maintain an environment conducive to the development and the strengthening of the banking system of the Republic of Moldova;
- To ensure the efficient and uninterrupted functioning of the settlement payments system.

The main responsibilities of the Bank stipulated by Art 5 of the NBM Law are the following:

- To formulate and promote the Moldovan monetary and foreign exchange policy of the State;
- To act as banker and fiscal agent of the Republic of Moldova;
- To perform economic and monetary analysis and submit proposals to the Government on the basis of such analysis, and to publish the results of such analysis;
- To authorise, supervise and regulate the activity of financial institutions;
- To grant credit facilities to banks and to the State;
- To supervise the system of payments of the Republic and facilitate the efficient functioning of the interbank system of payments;
- To act as the sole issuer of domestic currency in the Republic;
- To hold and manage the foreign exchange reserves of the State;

1 MAIN ACTIVITY (CONTINUED)

- To undertake responsibilities on behalf of the Republic and perform transactions resulting from the participation of the Republic of Moldova in the activity of international public institutions in the banking, credit and monetary spheres pursuant to conditions of international agreements;
- To settle the balance of payments of the State.

The National Bank of Moldova's registered office is located at the following address:
7 Renaşterii Blvd, Chişinău 2006, Republic of Moldova.

2 OPERATING ENVIRONMENT OF THE NATIONAL BANK OF MOLDOVA

The economy of Moldova continues to display characteristics of an emerging market. These characteristics include, but are not limited to a low level of liquidity in the public and private debt and equity markets. The results and financial position of the National Bank of Moldova have been impacted by this, due to its role as the authority responsible for the implementation of monetary and foreign exchange policy.

The prospects for future economic stability in Moldova are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal and regulatory developments.

NATIONAL BANK OF MOLDOVA

BALANCE SHEET

AS AT 31 DECEMBER 2004

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

	<u>Note</u>	<u>31 December 2004</u>	<u>31 December 2003</u>
Assets			
Cash and short term funds	4	4,726,954	3,108,309
Assets with international organisations	5	2,384,910	2,420,727
Due from the Government	0	2,360,656	2,175,413
Credits granted to banks and			
Individuals	7	34,775	40,771
Investment securities available for sale	8	1,763,381	901,378
Other assets	9	4,103	606
Tangible and intangible assets	10	<u>43,185</u>	<u>39,535</u>
Total assets		<u>11,317,964</u>	<u>8,686,739</u>
Liabilities			
National currency issued			
into circulation		4,094,327	2,982,193
Due to Government and banks	11	2,515,292	947,720
Liabilities towards international			
organisations	5	3,965,432	4,309,042
Other liabilities	12	<u>190,546</u>	<u>12,922</u>
Total liabilities		<u>10,765,597</u>	<u>8,251,877</u>
Capital and reserves			
Statutory fund	13	200,000	200,000
Reserve fund	13	277,024	231,072
Other reserves	13	<u>75,343</u>	<u>3,790</u>
Total capital and reserves		<u>552,367</u>	<u>434,862</u>
Total liabilities, capital and reserves		<u>11,317,964</u>	<u>8,686,739</u>

Approved on 17 March 2005, Chişinău, Republic of Moldova.

The accompanying notes from 1 to 19 form an integral part of these financial statements.

NATIONAL BANK OF MOLDOVA

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

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

	<u>Note</u>	<u>31 December 2004</u>	<u>31 December 2003</u>
Interest income	14	354,151	347,777
Interest expense	15	<u>(77,018)</u>	<u>(81,805)</u>
Net interest income		277,133	265,972
Other income		6,297	7,202
Gains/(losses) arising from dealing and other operations in foreign currency	16	72,874	(6,733)
Gains/(losses) arising from investment Securities		(517)	-
Release of provision for impairment of loans	17	4,347	13,211
Operating expenses	18	<u>(58,815)</u>	<u>(54,885)</u>
Net profit for the year	13	<u>301,319</u>	<u>224,767</u>

Approved on 17 March 2005, Chişinău, Republic of Moldova.

NATIONAL BANK OF MOLDOVA

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

	<u>31 December 2004</u>	<u>31 December 2003</u>
Interest receipts	352,280	333,588
Interest payments	(67,773)	(79,913)
Gain from dealing and other operations in foreign currency	674	63,131
Losses arising from available for sale securities	(517)	-
Other receipts	6,297	7,202
Cash payments to employees and suppliers	<u>(50,961)</u>	<u>(44,872)</u>
Profit before changes in assets and liabilities	240,000	279,136
Decrease/(increase) in assets with international organisations	35,817	(100,933)
Increase in securities issued by non-residents	(442,677)	(43,561)
Increase in amounts due from Government	(585,398)	(7,868)
Decrease in credits granted to banks and individuals	10,348	9,349
(Increase)/decrease in other assets	<u>(1,300)</u>	<u>2,085</u>
Increase in assets	<u>(983,210)</u>	<u>(140,928)</u>
Increase in the national currency issued into circulation	1,112,133	504,553
Increase in amounts due to Government and banks	1,564,699	21,833
Decrease in liabilities towards international organisations	(323,215)	(194,772)
Decrease in other liabilities	<u>(5,909)</u>	<u>(2,203)</u>
Increase in liabilities	<u>2,347,708</u>	<u>329,411</u>
Net cash from operating activities	<u>1,604,498</u>	<u>467,619</u>
Fixed assets acquisitions	<u>(12,304)</u>	<u>(17,359)</u>
Net cash flow from investing activities	<u>(12,304)</u>	<u>(17,359)</u>
Profit payments to the State	(5,833)	(221,045)
Effect of exchange rate differences on cash and cash equivalents	<u>32,284</u>	<u>8,777</u>
Increase in cash and cash equivalents	1,618,645	237,992
Cash and cash equivalents at the beginning of year	<u>3,108,309</u>	<u>2,870,317</u>
Cash and cash equivalents at the end of year	<u>4,726,954</u>	<u>3,108,309</u>
Analysis of cash and cash equivalents		
	<u>31 December 2004</u>	<u>31 December 2003</u>
Cash in foreign currency	1,533	2,767
Nostro accounts in foreign currency	306,219	86,896
Term deposits in foreign currency	4,288,463	2,879,772
Restricted deposits in foreign currency	5,529	6,299
Other placements in foreign currency	<u>125,210</u>	<u>132,575</u>
Cash and cash equivalents, gross	<u>4,726,954</u>	<u>3,108,309</u>

NATIONAL BANK OF MOLDOVA

STATEMENT OF CHANGES IN PAID-UP CAPITAL AND RESERVES

FOR THE YEAR ENDED 31 DECEMBER 2004

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

	<u>Statutory fund</u>	<u>Reserve fund</u>	<u>Other reserves</u>	<u>Retained profit</u>	<u>Total capital and reserves</u>
Balance as at 1 January 2003	100,000	200,000	34,380	-	334,380
Net profit for the year 2003	-	-	-	224,767	224,767
Transfer from revaluation reserve					
– fixed assets	-	-	(3,251)	3,251	-
Transfer from unrealised gains					
reserve account	-	-	(27,339)	27,339	-
Increase of share capital	100,000	-	-	(100,000)	-
Increase of reserve fund	-	31,072	-	(31,072)	-
Profit allocated to the State budget	<u>-</u>	<u>-</u>	<u>-</u>	<u>(124,285)</u>	<u>(124,285)</u>
Balance as at 31 December 2003	<u>200,000</u>	<u>231,072</u>	<u>3,790</u>	<u>-</u>	<u>434,862</u>
Net profit for the year 2004	-	-	-	301,319	301,319
Transfer from revaluation reserve -					
fixed assets	-	-	(647)	647	-
Set-up reserve from unrealised gains					
reserve account	-	-	72,200	(72,200)	-
Increase of reserve fund	-	45,952	-	(45,952)	-
Profit allocated to the State budget	<u>-</u>	<u>-</u>	<u>-</u>	<u>(183,814)</u>	<u>(183,814)</u>
Balance as at 31 December 2004	<u>200,000</u>	<u>277,024</u>	<u>75,343</u>	<u>-</u>	<u>552,367</u>

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

1 BASIS OF PREPARATION AND FORMAT OF PRESENTATION

These financial statements of National Bank of Moldova (“NBM” or the “Bank”) are prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial statements are prepared under the historical cost convention and modified by the revaluation of financial assets available for sale, as described in Note 2 below.

1.1 Currency of presentation

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

1.2 Basis of accounting

The National Bank of Moldova maintains its accounting records and prepares its financial statements in accordance with the Law on the National Bank of Moldova (“NBM Law”) and International Financial Reporting Standards (“IFRS”). These financial statements are based on records to conform with International Financial Reporting Standards.

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

For the year 2004, the official inflation rate was 12.5% whereas for the year 2003 the inflation rate was 15.7%.

1.3 Use of estimates

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

1.4 Reclassification of comparative amounts

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

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Cash and cash equivalents

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

2.2 Assets with international organisations

The amounts recorded in the balance sheet of NBM as assets with international organisations represent mainly the participation of the Republic of Moldova in the International Monetary Fund (“IMF”). This amount is disbursed in Special Drawing Rights (“SDR”) but is administered in MDL. In the balance sheet as at 31 December 2004, the participation of the Republic of Moldova in the IMF is disclosed as the Moldovan Leu equivalent of the agreed SDR amount.

2.3 Financial assets

The Bank classifies its financial assets into the following categories: financial assets held-for-trading; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(a) Financial assets held-for-trading (“HFT”)

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as HFT.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

(c) Held-to-maturity (“HTM”)

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

(d) Available-for-sale (“AFS”)

AFS investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Purchases and sales of financial assets HFT, HTM and AFS are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

AFS financial assets and financial assets HFT are subsequently carried at fair value. Loans and receivables and HTM investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the HFT and AFS category are included in the income statement in the period in which they arise. Interest calculated using the effective interest method is recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The Bank classifies as AFS securities issued by non-residents and purchased from the foreign markets. Also, starting with the year 2004, treasury bills issued by the State during the year 2004 are classified in this category, whereas in the prior year they were classified as financial assets HTM.

2.4 Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower are categorised as loans originated by the Bank and are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The amount of provision is the difference between the carrying amount and the estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the instrument's interest rate at inception.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are treated as income.

In this category are included loans granted to Government and loans granted to commercial banks and Bank's employees.

2.5 Sale and repurchase agreements

Securities sold subject to a linked repurchase agreements ("repos") are retained in the financial statements as AFS securities (treasury securities) .

In the liabilities section of the balance sheet, these operations are included in "Due to Government and banks" at the amortised cost.

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

2.6 Tangible assets

Premises and equipment are stated at historical cost or re-valued amount less depreciation.

Subsequent costs are included in the assets carrying amount or are recognised as a separate asset, as appropriate, only if it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	<u>Percentage per annum</u>
Premises	5 %
Equipment	30 %
Computer hardware	30 %
Other fixed assets	20 %
Motor vehicles – cars	20 %
Motor vehicles – heavy vehicles	10 %

Management reviews the carrying value of premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Expenses for repairs and maintenance are charged to operating expenses as incurred. Interest expenses are not included in the cost of premises and equipment.

2.7 Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives which is typically between 20% and 50%

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives which is typically between 20% and 50%.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 National currency issued into circulation

This is represented by the national currency in circulation. In the balance sheet this is disclosed at nominal value. The cost of production of the money issued in circulation is recorded as expense as the money is produced.

2.9 Due to Government and banks

Due to banks represent mainly mandatory reserves required to satisfy the obligatory reserve requirements of the NBM, in compliance with its prudential requirements and other liquid funds.

The mandatory reserves are determined based on the average daily balances of deposit accounts and other similar liabilities of the commercial banks, specified for that reason.

2.10 Capital and reserves

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

2.11 Income taxes

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

2.12 Interest income and expense

Interest income and expense are recognised in the statement of income for all instruments measured at cost including securities issued by non-residents using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.13 Revaluation of foreign currency assets and liabilities

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

Management of NBM consider that, in line with international guidance, distribution of unrealised gains would be an inflationary emission of currency, therefore the unrealized portion of foreign revaluation exchange gains being reflected in the income statement, is transferred at year-end to a special reserve account against which future unrealized losses shall be charged.

2.14 Fiduciary activities

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

2.15 Pension obligations

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

2.16 Fair value of financial instruments

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

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The National Bank of Moldova's short term assets are carried on the financial statements at cost which approximates their fair value because these instruments have short maturity terms and are convertible into cash and are settled without significant transaction costs. The National Bank of Moldova's loans and advances are reported at nominal value less an estimate for impairment. The National Bank of Moldova's foreign securities and State Treasury bills are classified as "available for sale" and reported at fair value. These items have predominantly short repricing terms and carry interest rates which reflect current market conditions.

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

2.17 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation to transfer economic benefits as a result of past events and a reliable estimate of the amount of the obligation can be made.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

3 FINANCIAL RISK MANAGEMENT

Through its normal operations, the National Bank of Moldova is exposed to a number of risks, the most significant of which are currency, operating, credit, interest rate, and liquidity risks. The structure of the NBM's assets and liabilities is primarily determined by the nature of the National Bank of Moldova's statutory functions, rather than commercial considerations. At the same time the NBM continually manages its exposure to risk, through a variety of risk management techniques. Risk management of the National Bank of Moldova is regulated by its internal instructions, and is closely monitored by the Board of Directors of the National Bank of Moldova, as well as Committees and Commissions of the National Bank of Moldova. The Board of Directors, Committees, Commissions and related workgroups consider matters related to the monetary, investment and foreign exchange policy of the National Bank of Moldova, and set limits for volumes of operations, as well as the requirements for assessing counterparties of the National Bank of Moldova.

Operating risk is the risk of loss arising from the breakdown of internal controls. The National Bank of Moldova manages this risk through the Internal Audit Department of the National Bank of Moldova, which exercises control over accounting policies and procedures and the effective functioning of the system of internal controls of the NBM. Operating risk relating to operations with currency reserves is controlled by a number of internal instructions of the National Bank of Moldova. Segregation of duties between the different departments of the National Bank of Moldova (front-office, middle-office and back-office) is also considered as one of the mechanisms of managing operating risk.

3.1 Credit risk

The National Bank of Moldova takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The NBM's maximum exposure to credit risk, excluding the value of collateral, is generally reflected in the carrying value of financial assets. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Management of credit risk. Credit risk on transactions with currency reserves is managed through the approval of transactions and placements of funds, the establishment of limits restricting risk and constant monitoring of positions. Counterparty limits are set based on credit ratings and are subject to regular review. Credit risk in the local currency portfolio is also monitored and managed.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Currency Reserves Management

In accordance with the NBM's law, the tasks of maintaining the safety and liquidity of reserve assets, as well as the profitability of reserve assets management transactions, are achieved through active diversification of investment by entering into transactions in international capital and money markets. Analysis of risks, applied by the National Bank of Moldova in the process of managing its currency reserves is maintained by comparing factual risks level with set limits. Credit risks are additionally limited by the minimum acceptable credit ratings and operational limits.

The main objective of currency reserves management activity is to ensure the optimal combination of safety, liquidity and profitability for reserve assets. In this regard, the maximization of the reserves' profitability is a secondary priority in relation to ensuring their safety and liquidity.

3.3 Market risk

The Republic of Moldova is in process of transition to a market-oriented economy and currently managed to achieve good macroeconomic results. Nevertheless, the NBM management are unable to predict what changes in condition will take place in Moldova and what effect there might have on the financial position and the results of operations and cash flows of the National Bank of Moldova.

3.4 Interest rate risk

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

Furthermore as the National Bank of Moldova's main objective is to reach monetary stability, it may happen that the return on interest represents no priority of the monetary policies.

The table below summarises the Bank's exposure to interest rate risks at 31 December 2004. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>0-3</u> <u>months</u>	<u>3-6</u> <u>months</u>	<u>6-12</u> <u>months</u>	<u>More</u> <u>than</u> <u>1 year</u>	<u>Non</u> <u>interest</u> <u>bearing</u>	<u>Total</u>
31 December 2004						
Assets						
Cash and short term funds	4,718,890	-	-	-	8,064	4,726,954
Assets with international organisations	930	-	-	-	2,383,980	2,384,910
Due from the Government	2,338,042	-	-	-	22,614	2,360,656
Credits granted to banks and individuals	22,110	539	1,044	11,082	-	34,775
Investment securities available for sale	536,036	319,100	566,215	333,843	8,187	1,763,381
Other assets	-	-	-	-	4,103	4,103
Tangible and intangible assets	-	-	-	-	<u>43,185</u>	<u>43,185</u>
Total assets	<u>7,616,008</u>	<u>319,639</u>	<u>567,259</u>	<u>344,925</u>	<u>2,470,133</u>	<u>11,317,964</u>
Liabilities						
National currency issued into circulation	-	-	-	-	4,094,327	4,094,327
Due to Government and banks	1,255,326	-	-	-	1,259,966	2,515,292
Liabilities towards international organisations	1,034,614	-	-	534,608	2,396,210	3,965,432
Other liabilities	-	-	-	-	<u>190,546</u>	<u>190,546</u>
Total liabilities	<u>2,289,940</u>	<u>-</u>	<u>-</u>	<u>534,608</u>	<u>7,941,049</u>	<u>10,765,597</u>
Interest sensitivity gap	<u>5,326,068</u>	<u>319,639</u>	<u>567,259</u>	<u>(189,683)</u>	<u>(5,470,916)</u>	<u>552,367</u>

3.5 Liquidity risk

Liquidity risk is defined as the risk of loss arising due to the mismatch of the maturities of assets and liabilities. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the National Bank of Moldova and its exposure to changes in interest and exchange rates.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Securities issued by Government of the Republic of Moldova and held in the National Bank of Moldova's portfolio have a contractual maturity not longer than 91 days. However, at maturity, those securities are rolled over, being repurchased by the Government at current market rates and new securities are issued and purchased by the National Bank of Moldova.

Loans granted to Government which also have a contractual maturity not longer than 91 days are also rolled over and accordingly have a longer term duration. At maturity, interest accrued is however paid to the National Bank of Moldova.

	<u>0-3</u> <u>months</u>	<u>3-6</u> <u>months</u>	<u>6-12</u> <u>months</u>	<u>More</u> <u>than</u> <u>1 year</u>	<u>Undefined</u> <u>maturity</u>	<u>Total</u>
31 December 2004						
Assets						
Cash and short term funds	4,726,954	-	-	-	-	4,726,954
Assets with international organisations	930	-	-	-	2,383,980	2,384,910
Due from the Government	2,360,656	-	-	-	-	2,360,656
Credits granted to banks and individuals	1,696	1,700	3,366	28,013	-	34,775
Investment securities available for sale	544,223	319,100	566,215	333,843	-	1,763,381
Other assets	-	-	-	-	4,103	4,103
Tangible and intangible assets	-	-	-	22,975	20,210	43,185
Total assets	<u>7,634,459</u>	<u>320,800</u>	<u>569,581</u>	<u>384,831</u>	<u>2,408,293</u>	<u>11,317,964</u>
Liabilities						
National currency issued into circulation	4,094,327	-	-	-	-	4,094,327
Due to Government and banks	2,515,292	-	-	-	-	2,515,292
Liabilities towards international organisations	128,757	18,141	141,098	1,290,486	2,386,950	3,965,432
Other liabilities	<u>190,546</u>	-	-	-	-	<u>190,546</u>
Total liabilities	<u>6,928,922</u>	<u>18,141</u>	<u>141,098</u>	<u>1,290,486</u>	<u>2,386,950</u>	<u>10,765,597</u>
Net liquidity gap	705,537	302,659	428,483	(905,655)	21,343	552,367
31 December 2003						
Total assets	6,186,968	742	1,491	50,398	2,447,140	8,686,739
Total liabilities	<u>4,054,225</u>	<u>18,417</u>	<u>161,658</u>	<u>1,596,432</u>	<u>2,421,145</u>	<u>8,251,877</u>
Net liquidity gap	<u>2,132,743</u>	<u>(17,675)</u>	<u>(160,167)</u>	<u>(1,546,034)</u>	<u>25,995</u>	<u>434,862</u>

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.6 Currency risk

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

As at 31 December 2004, NBM held the following foreign exchange positions:

	<u>MDL</u>	<u>USD</u>	<u>EUR</u>	<u>GBP</u>	<u>SDR</u>	<u>Other currencies</u>	<u>Total</u>
Assets							
Cash and short term funds	-	2,205,665	1,524,786	996,230		273	4,726,954
Assets with international Organisations	2,383,980	-	-	-	930	-	2,384,910
Investment securities available for sale	380,337	562,153	625,924	194,967		-	1,763,381
Due from the Government	2,360,656	-	-	-		-	2,360,656
Credits granted to banks and individuals	34,775	-	-	-		-	34,775
Other assets	1,363	1,106	1,634	-		-	4,103
Tangible and intangible assets	<u>43,185</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,185</u>
Total assets	<u>5,204,296</u>	<u>2,768,924</u>	<u>2,152,344</u>	<u>1,191,197</u>	<u>930</u>	<u>273</u>	<u>11,317,964</u>
Liabilities							
National currency in circulation	4,094,327	-	-	-		-	4,094,327
Due to Government and banks Due to international financial organisations	2,264,089	160,910	90,293	-	1,578,482	-	2,515,292
Other liabilities	<u>190,156</u>	<u>374</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190,546</u>
Total liabilities	<u>8,935,522</u>	<u>161,284</u>	<u>90,309</u>	<u>-</u>	<u>1,578,482</u>	<u>-</u>	<u>10,765,597</u>
Net position	<u>(3,731,226)</u>	<u>2,607,640</u>	<u>2,062,035</u>	<u>1,191,197</u>	<u>(1,577,552)</u>	<u>273</u>	<u>552,367</u>
31 December 2003							
Total assets	4,671,887	2,350,815	1,093,451	569,816	523	247	8,686,739
Total liabilities	<u>6,351,126</u>	<u>15,683</u>	<u>1,995</u>	<u>-</u>	<u>1,883,073</u>	<u>-</u>	<u>8,251,877</u>
Net position	<u>(1,679,239)</u>	<u>2,335,132</u>	<u>1,091,456</u>	<u>569,816</u>	<u>(1,882,550)</u>	<u>247</u>	<u>434,862</u>

Other currencies include mainly JPY, ROL and rubles.

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

4 CASH AND SHORT TERM FUNDS

	<u>31 December 2004</u>	<u>31 December 2003</u>
Cash in foreign currency	1,533	2,767
Nostro accounts	306,219	86,895
Term deposits in foreign currency	4,288,463	2,879,772
Restricted deposits in foreign currency	5,529	6,299
Other placements in foreign currency	<u>125,210</u>	<u>132,576</u>
	<u>4,726,954</u>	<u>3,108,309</u>

5 ASSETS WITH/LIABILITIES TOWARDS INTERNATIONAL ORGANISATIONS

	<u>31 December 2004</u>	<u>31 December 2003</u>
Assets		
Quota of the Republic of Moldova with IMF	2,383,980	2,420,204
Current account with IMF	<u>930</u>	<u>523</u>
	<u>2,384,910</u>	<u>2,420,727</u>
Liabilities		
Cash deposit of the IMF	2,383,981	2,420,205
Due to other international organisations	2,970	940
Credits granted by IMF to NBM	<u>1,578,481</u>	<u>1,887,897</u>
	<u>3,965,432</u>	<u>4,309,042</u>

The cash deposit of the IMF represents the Account 1 and 2. These amounts represent the quota of the Republic of Moldova with the IMF.

The amounts included in the balance sheet of the NBM under the heading "Liabilities towards International financial organisations" mainly include the credits received by the NBM from the IMF. Due to the fact that these credits are denominated in Special Drawing Rights ("SDR"), they are disclosed in the balance sheet at the Moldovan Leu equivalent at year-end.

The loans received by NBM from IMF from the General Resources Account are secured by a bill of exchange issued by the National Bank of Moldova.

For loans which do not represent uses of the IMF General Resources Account funds, no securities are issued.

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

6 DUE FROM THE GOVERNMENT

	<u>31 December 2004</u>	<u>31 December 2003</u>
Loans granted to the Government	2,360,656	1,769,310
Securities issued by the Government	-	<u>406,103</u>
	<u>2,360,656</u>	<u>2,175,413</u>

The loans granted to the Government are guaranteed by marketable securities issued by the Government of the Republic of Moldova with the same due date which can be traded on the market.

The matured loans are extended by at most 91 days, bearing the interest rate currently available on the primary market for the securities with the same due date.

In 2004, the average interest rate for loans varied between 8.09% in November and 14.67% in January for the loans granted to the Government of Moldova in local currency. The same rate varied in 2003 between 4.87% and 16.97%.

7 CREDITS GRANTED TO BANKS AND OTHER INDIVIDUALS

	<u>31 December 2004</u>	<u>31 December 2003</u>
Credits granted to banks	62,279	72,291
Credits granted to individuals	5,780	6,111
Less provisions for impairment	<u>(33,284)</u>	<u>(37,631)</u>
	<u>34,775</u>	<u>40,771</u>

	<u>31 December 2004</u>	<u>31 December 2003</u>
Provisions at the beginning of the year	37,631	50,842
Release of provisions during the year	(4,422)	(13,764)
Provision charge	<u>75</u>	<u>553</u>
Provisions at the year-end	<u>33,284</u>	<u>37,631</u>

The interest rates on the credits granted to banks varied between 10% and 11.5 % in 2004 (2003: 10% and 11.5%) and have as final settlement date period between 2010 and 2020.

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8 INVESTMENT SECURITIES AVAILABLE FOR SALE

	<u>31 December 2004</u>	<u>31 December 2003</u>
Securities issued by non-residents	1,383,044	901,378
Securities issued by the Government	<u>380,337</u>	<u>-</u>
	<u>1,763,381</u>	<u>901,378</u>

The securities issued by non-residents represent mainly securities issued by entities from the United States of America, European Union and United Kingdom. Those securities are active, liquid, have a low risk rating and are classified as available for sale.

The securities issued by the Government of Moldova and included in the portfolio of the NBM are stated at fair value.

Those securities held by the NBM either through purchase or following the guarantee submitted by the Government in support of all the loans granted by NBM represent a significant part of the value of the issued State securities.

As at 31 December 2004, about 72.2% of these securities issued by the Government (including those underlying the loans granted to the Government) were held in the portfolio of the NBM (2003: 72.4%).

As at 31 December 2004, the balance of the securities issued by the Government from NBM portfolio comprises securities issued through the conversion of the loans previously granted to the Moldovan Government. Upon maturity of the securities, the securities were re-issued at current market rates whereas the relate maturity was between 91 and 98 days.

In 2004, the weighted average nominal rate of the interest on state securities from the portfolio of NBM was of 10.43% (2003: 13.31%), the highest rate 15.71% (2003: 18.62%) being reached in April 2004 (November 2003), whereas the lowest rate of 6.56% (2003: 9.36%) was reached in December 2004 (February 2003).

NATIONAL BANK OF MOLDOVA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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

9 OTHER ASSETS

	<u>31 December 2004</u>	<u>31 December 2003</u>
Prepayments	124	103
Other receivables	3,117	381
Inventories	1,558	1,623
Provisions for inventories and other assets	<u>(696)</u>	<u>(1,501)</u>
	<u>4,103</u>	<u>606</u>
	<u>31 December 2004</u>	<u>31 December 2003</u>
Provisions at the beginning of the year	(1,501)	(3,226)
Provisions charge	(83)	(21)
Release of provisions during the year	884	1,733
Revaluation differences	<u>4</u>	<u>13</u>
Provisions at the end of the year	<u>(696)</u>	<u>(1,501)</u>

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

10 TANGIBLE AND INTANGIBLE ASSETS

	<u>Buildings</u>	<u>Equipment</u>	<u>Assets progress</u>	<u>inIntangible assets</u>	<u>Total tangible and intangible assets</u>
At 1 January 2003					
Cost	30,885	62,610	306	8,877	102,678
Accumulated depreciation	<u>14,460</u>	<u>52,650</u>	-	<u>5,807</u>	<u>72,917</u>
Net book amount	<u>16,425</u>	<u>9,960</u>	<u>306</u>	<u>3,070</u>	<u>29,761</u>
Year ended December 2003					
Opening net book amount	16,425	9,960	306	3,070	29,761
Additions	4,997	4,215	12,424	1,906	23,542
Disposals	(5)	-	-	-	(5)
Depreciation charge	<u>(899)</u>	<u>(5,307)</u>	-	<u>(1,378)</u>	<u>(7,584)</u>
Closing net book amount	<u>20,518</u>	<u>8,868</u>	<u>12,730</u>	<u>3,598</u>	<u>45,714</u>
At 1 January 2004					
Cost	35,841	61,630	6,551	10,356	114,378
Accumulated depreciation	<u>(15,323)</u>	<u>(52,762)</u>	-	<u>(6,758)</u>	<u>(74,843)</u>
Net book amount	<u>20,518</u>	<u>8,868</u>	<u>6,551</u>	<u>3,598</u>	<u>39,535</u>
Year ended December 2004					
Opening net book amount	20,518	8,868	6,551	3,598	39,535
Additions	803	15,376	9,685	345	26,209
Disposals	-	-	-	-	-
Depreciation charge	<u>(1,111)</u>	<u>(6,367)</u>	-	<u>(1,176)</u>	<u>(8,654)</u>
Closing net book amount	<u>20,210</u>	<u>17,877</u>	<u>16,236</u>	<u>2,767</u>	<u>57,090</u>
At 31 December 2004					
Cost	36,644	67,977	2,331	8,181	115,133
Accumulated depreciation	<u>(16,434)</u>	<u>(50,100)</u>	-	<u>(5,414)</u>	<u>(71,948)</u>
Closing net book amount	<u>20,210</u>	<u>17,877</u>	<u>2,331</u>	<u>2,767</u>	<u>43,185</u>

NATIONAL BANK OF MOLDOVA

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

11 DUE TO GOVERNMENT AND BANKS

	<u>31 December 2004</u>	<u>31 December 2003</u>
Due to Government	58,726	18,101
Current accounts of commercial banks including mandatory reserve	1,470,150	836,755
Deposits from local banks in local currency	672,500	15,000
Repo transactions with banks	312,138	77,856
Other	<u>1,778</u>	<u>8</u>
	<u>2,515,292</u>	<u>947,720</u>

Mandatory reserve mainly represents the minimum reserves requirements to be held by Moldovan incorporated commercial banks in the accounts of the National Bank of Moldova, in order to comply with the prudential requirements of the National Bank of Moldova as well as the excess of liquidity funds.

During the year 2004, as part of its liquidity management role, the NBM allowed commercial banks to place term deposits in local currency.

12 OTHER LIABILITIES

	<u>31 December 2004</u>	<u>31 December 2003</u>
Due to the State budget	183,814	5,833
Other liabilities	<u>6,732</u>	<u>7,089</u>
	<u>190,546</u>	<u>12,922</u>

The amounts due to the State budget represent the gross profit determined in accordance with the NBM Law, from which the allocations stipulated by this Law have been deducted.

Reconciliation between profit allocation and liability towards the State budget at year end.

	<u>31 December 2004</u>	<u>31 December 2003</u>
Due to the State budget at beginning of the year	5,833	102,593
Profit allocation	183,814	124,285
Payments during the year	<u>(5,833)</u>	<u>(221,045)</u>
Due to the State budget at the end of the year	<u>183,814</u>	<u>5,833</u>

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13 CAPITAL AND RESERVES

	<u>31 December 2004</u>	<u>31 December 2003</u>
Statutory fund	200,000	200,000
Reserve fund	277,024	231,072
Other reserves	<u>75,343</u>	<u>3,790</u>
	<u>552,367</u>	<u>434,862</u>

In compliance with Art.20 of the Law regarding BNM, BNM has the obligation to distribute 20% of the profit to the statutory reserve on an annual basis, up to twice the amount of the statutory capital. As at 31 December 2004 the amount of MDL 45,952 (2003: MDL 31,072) thousand was transferred to the statutory reserve.

Other reserves include reserves from the revaluation of fixed assets and foreign currency revaluation surplus in 2004.

	<u>31 December 2004</u>	<u>31 December 2003</u>
Net profit	301,319	224,767
Transfer (to)/from unrealised gains reserve	(72,200)	27,339
Transfer from fixed assets revaluation reserve	<u>647</u>	<u>3,251</u>
Retained earnings for the year available for distribution	<u>229,766</u>	<u>255,357</u>
Allocation:		
Statutory fund	-	100,000
Reserve fund	45,952	31,072
State budget	<u>183,814</u>	<u>124,285</u>
Profit allocated	<u>229,766</u>	<u>255,357</u>

NATIONAL BANK OF MOLDOVA

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

14 INTEREST INCOME

	<u>31 December 2004</u>	<u>31 December 2003</u>
Interest from loans granted to the Government	219,153	218,612
Interest from securities of the Government	35,582	50,127
Interest from securities issued by non-residents	22,417	20,515
Interest from credits granted to banks	7,608	8,805
Interest from deposits in foreign banks	<u>69,391</u>	<u>49,718</u>
	<u>354,151</u>	<u>347,777</u>

15 INTEREST EXPENSE

	<u>31 December 2004</u>	<u>31 December 2003</u>
Credits received from the international organisations	32,189	36,239
Loro accounts and deposits from banks	34,213	42,935
REPO operations with banks	<u>10,616</u>	<u>2,631</u>
	<u>77,018</u>	<u>81,805</u>

16 GAINS/(LOSSES) FROM DEALING AND OTHER OPERATIONS IN FOREIGN CURRENCY

	<u>31 December 2004</u>	<u>31 December 2003</u>
Gains/(losses) from dealing securities of non-residents	(2,269)	767
Realised gains from foreign currency transactions	2,943	62,363
Unrealised gains/(losses) from foreign exchange transactions	<u>72,200</u>	<u>(69,863)</u>
	<u>72,874</u>	<u>(6,733)</u>

Unrealised gains/losses from foreign exchange transactions represent the daily revaluation of the foreign currency denominated assets and liabilities held by the NBM.

In order to prevent inflationary distribution of unrealised gains this unrealised portion of foreign exchange gains is transferred at year-end to a special reserve account against which future unrealised losses shall be charged. Unrealised losses which exceed the accumulated balance of unrealised gains within the special reserve account will be charged to the income statement. Unrealised gains are not available for distribution as part of net profit.

NATIONAL BANK OF MOLDOVA

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17 RELEASE OF PROVISION FROM IMPAIRMENT OF LOANS

	<u>31 December 2004</u>	<u>31 December 2003</u>
Release of provision for impairment of loans	4,422	13,764
Loans impairment provision expense	<u>(75)</u>	<u>(553)</u>
	<u>4,347</u>	<u>13,211</u>

18 OPERATING EXPENSES

	<u>31 December 2004</u>	<u>31 December 2003</u>
Release of provision for low value items A and other provisions	(884)	(1,733)
Charge of provision for low value items	83	21
Cost of production of notes and coins	5,462	5,775
Staff costs	27,804	27,258
Depreciation of tangible and intangible assets	8,654	7,584
Other operating expenses	<u>17,696</u>	<u>15,980</u>
	<u>58,815</u>	<u>54,885</u>

Staff costs also include social security contributions, which represent 28 % of salaries.

19 COMMITMENTS AND CONTINGENCIES

General claims

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

Legal proceedings

As at 31 December 2004, the National Bank of Moldova was not engaged in any material litigation proceedings.

Credit related commitments

As at 31 December 2004, there were no outstanding credit related commitments.

4. Annexes

Table no. 1. DYNAMICS OF MACROECONOMIC INDICATORS

	2001	2002	2003	2004
Nominal Gross Domestic Product (million lei)	19051.5	22555.9	27618.9	31991.7
– % change over the previous year in real terms	106.1	107.8	106.6	107.3
GDP deflator, %	112.1	109.8	114.8	108.0
Industrial Output (million lei)	10427.6	12624.1	15963.1	17533.0
– % change over the previous year in real terms	113.7	110.8	115.6	106.9
Industrial Wholesale Price Index (average)	112.3	104.7	107.8	105.6
Agricultural Output (million lei)	8646.0	9474.2	10354.0	12600.8
– % change over the previous year in real terms	106.4	103.4	86.4	120.4
Investments in fixed capital (million lei)	2315.1	2804.2	3621.7	5002.7
– % change over the previous year in real terms	111.0	111.0	107.0	108.0
Deficit (-), surplus (+) consolidated budget (million lei)	-1.0	-109.7	437.1	131.4
- as % of GDP	-0.01	-0.5	1.6	0.4
Prices				
Consumer Price Index (average)	109.6	105.2	111.6	112.4
Consumer Price Index per period	106.3	104.4	115.7	112.5
Labour Market				
Average number of employed persons at year-end (thousand persons)	692.1	685.3	668.3	666.1
Number of officially registered unemployed persons at year-end (thousand persons)	27.6	24.0	19.7	21.0
Unemployment rate (ILO definitions)	7.3	6.8	7.9	8.1
Average wage (lei)	543.7	691.5	890.8	1103.8
– % change over the previous year in real terms	121.6	120.9	115.4	110.2
Arrears of wages (million lei)	222.7	137.8	158.0	134.9
External Public Direct and Guaranteed Debt (million US\$)	957.27	988.40	1010.51	884.09
Total External Debt (million US\$)	1675.07	1814.88	1924.54	1924.49
Domestic Debt (million lei)	2400.5	2821.4	2920.4	3714.1
– loans extended by NBM under SS collateral	1507.1	1744.0	1744.0	2338.0
– State securities in circulation	893.4	1077.4	1176.4	1376.1
including SS in the NBM portfolio	400.0	400.0	400.0	400.0

Source: National Statistics Office, Ministry of Finance and National Bank of Moldova

Table no. 2. INFLATION DYNAMICS

	% change over previous month			% change over December of previous month			% change over same month of previous year		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
January	1.3	1.9	1.5	1.3	1.9	1.5	6.4	5.0	15.2
February	-0.4	1.8	0.9	0.9	3.7	2.4	5.7	7.3	14.2
March	0.5	0.9	0.6	1.4	4.6	3.0	5.9	7.7	13.9
April	1.9	1.5	0.9	3.3	6.2	3.9	6.3	7.3	13.2
May	1.6	0.5	0.5	5.0	6.7	4.4	7.5	6.1	13.2
June	-3.4	1.0	0.1	1.4	7.8	4.5	4.3	11.0	12.2
July	-1.5	1.3	0.3	-0.1	9.2	4.8	4.6	14.1	11.0
August	-0.6	0.4	0.5	-0.7	9.6	5.3	4.5	15.2	11.2
September	0.8	1.6	1.0	0.1	11.4	6.4	4.4	16.2	10.5
October	1.2	2.1	2.2	1.3	13.7	8.7	4.3	17.2	10.6
November	1.2	1.1	1.8	2.5	14.9	10.7	4.5	17.0	11.5
December	1.9	0.7	1.6	4.4	15.7	12.5	4.4	15.7	12.5

Source: National Statistics Office

Table no. 3. GROSS DOMESTIC PRODUCT

	Million lei, current prices			% change in real terms			weight, %		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
<i>Breakdown by resource category</i>									
Gross Domestic Product	22555.9	27618.9	31991.7	7.8	6.6	7.3	100.0	100.0	100.0
Gross Added Value, total	19689.3	23523.0	27352.8	6.5	4.2	7.8	87.3	85.2	85.5
Goods	8642.3	9922.2	11064.2	2.7	1.2	11.8	38.3	35.9	34.6
Agriculture	4741.6	5062.1	5833.5	5.1	-10.9	18.3	21.0	18.3	18.2
Industry	3900.7	4860.1	5230.7	-0.2	16.0	5.0	17.3	17.6	16.4
Services	11509.7	14247.9	17007.0	9.4	7.2	5.1	51.1	51.6	53.1
Constructions	665.3	811.6	1313.6	5.7	16.7	34.0	2.9	2.9	4.1
Wholesale trade	2488.1	2866.8	3391.9	3.4	6.4	2.1	11.0	10.7	10.6
Transportation and communications	2254.5	2977.0	3692.0	9.4	9.0	1.2	10.0	10.8	11.5
Financial intermediation services indirectly measured	-462.7	-647.1	-718.4	1.2	22.7	10.7	-2.1	-2.3	-2.2
Net taxes on goods and imports	2866.6	4095.9	4638.9	17.7	23.4	4.4	12.7	14.8	14.5
<i>Breakdown by use category</i>									
Final consumption	23289.3	30450.6	33831.8	9.7	15.4	2.3	103.2	110.3	105.8
households	18492.9	24711.3	28575.6	5.9	18.5	6.9	82.0	89.5	89.3
Public and private administration	4796.4	5739.3	5256.2	31.4	3.2	-17.5	21.2	20.8	16.5
Gross capital formation	4885.6	6401.4	8096.6	1.1	13.5	3.4	21.7	23.2	25.3
Gross fixed capital formation	3681.8	5127.3	6955.1	5.7	18.6	7.6	16.3	18.6	21.7
Change in inventories	1203.8	1274.1	1141.5	-10.9	-1.8	-13.7	5.4	4.6	3.6
Net exports	-5619.0	-9233.1	-9936.7	9.1	48.8	-11.8	-24.9	-33.5	-31.1
Exports	11833.7	14724.6	15651.8	19.0	19.2	4.7	52.5	53.3	48.9
Imports	17452.7	23957.7	25588.5	15.7	28.7	-1.7	77.4	86.8	80.0

Source: National Statistics Office, National Bank of Moldova

Table no. 4. MONETARY INDICATORS (million lei, year-end)

	2001	2002	2003	2004
Monetary Aggregates				
Reserve Money	2488.9	3262.7	3804.0	5313.1
M0 (currency in circulation)	1834.2	2288.5	2740.5	3699.9
Sight deposits	739.4	1057.0	1411.0	1864.3
M1	2573.6	3345.5	4151.5	5564.2
Time deposits	890.9	1172.1	1469.6	2572.3
Money market instruments	0.3	0.3	0.8	0.5
M2	3464.8	4517.9	5621.9	8137.0
Deposits in foreign currency	1322.5	1993.6	2887.2	3582.7
M3	4787.3	6511.5	8509.1	11719.7
Velocity (M2)	5.50	4.99	4.91	3.93
Multiplier (M2)	1.39	1.38	1.48	1.53
Deposits (total)	2952.8	4222.7	5767.8	8019.3
Deposits by legal entities	1299.1	1835.7	2438.4	3207.4
Including in foreign currency	552.9	716.6	975.2	1068.4
Deposits by individuals	1653.7	2387.0	3329.4	4811.9
Including in foreign currency	769.6	1277.0	1912.0	2514.3
Credits				
Credits to commercial banks	91.1	81.4	72.3	62.3
Credits to economy, total	3103.7	4192.1	6055.2	7399.3
In national currency:	1840.6	2448.6	3468.8	4272.0
– state enterprises	247.4	279.2	408.7	422.3
– private sector	1407.4	1844.7	2571.6	3110.2
– households	180.2	315.3	487.5	688.3
– other financial institutions	5.6	9.4	1.0	51.2
In foreign currency	1263.1	1743.5	2586.4	3127.3

Source: National Bank of Moldova

Table nr. 5. AVERAGE WEIGHTED INTEREST RATE ON DEPOSITS

	Time deposits				
	total	in MDL		in foreign currency	
		value, million lei	interest, %	value, million lei	interest, %
Total 2003	4795.0	1887.5	12.68	2907.5	3.13
Total 2004	6832.5	3493.8	15.16	3338.7	5.01
January 2004	555.4	289.7	14.82	265.7	4.27
February	448.7	217.7	14.70	231.0	4.52
March	465.2	210.4	15.01	254.8	4.83
April	452.2	185.5	15.40	266.7	4.65
May	423.6	203.1	14.99	220.5	4.74
June	512.2	266.2	14.80	246.0	5.18
July	574.9	319.4	14.58	255.5	4.86
August	496.8	259.4	15.10	237.4	5.11
September	641.3	324.5	15.47	316.8	5.28
October	649.2	340.1	15.56	309.1	5.31
November	723.1	362.1	15.47	361.0	5.61
December 2004	889.9	515.7	15.48	374.2	5.26

Source: National Bank of Moldova

Table no. 6. AVERAGE WEIGHTED INTEREST RATE ON CREDITS

Period	Credits extended				
	total	in MDL		in foreign currency	
		value, million lei	interest, %	value, million lei	interest, %
Total 2003	8150.7	4821.1	19.18	3329.6	10.85
Total 2004	9194.1	5716.0	20.96	3478.1	11.39
January 2004	412.3	248.3	20.45	164.0	11.4
February	575.9	355.9	20.78	220.0	11.48
March	893.0	593.8	20.83	299.2	11.61
April	701.3	424.9	20.90	276.4	11.43
May	621.2	338.7	21.32	282.5	11.50
June	784.5	469.2	21.05	315.3	11.12
July	749.9	422.2	20.81	327.7	11.37
August	722.4	415.2	21.16	307.2	11.16
September	1096.3	657.8	20.90	438.5	11.33
October	946.5	633.4	21.04	313.1	11.45
November	736.1	497.6	20.91	238.5	11.58
December 2004	954.7	659.0	21.11	295.7	11.35

Source: National Bank of Moldova

Table no. 7. YIELDS ON SS ISSUED IN THE PRIMARY MARKET (%)

	Average weighted monthly yield by types of SS					Average weighted nominal yield
	56 days	91 days	182 days	273 days	364 days	
January 2004	9.04	16.37	17.27	18.54	19.22	16.81
February	8.28	12.77	13.32	13.82	15.38	12.98
March	7.89	10.62	11.77	11.78	14.17	11.16
April	8.26	15.08	16.02	16.25	16.45	14.94
May	8.66	14.81	15.15	15.67	16.02	14.82
June	8.61	13.31	13.87	14.92	15.35	13.65
July		10.98	11.68	13.74	13.57	11.61
August		8.99	9.85		13.33	10.05
September		8.71	9.63		13.20	9.82
October		8.90	9.53		13.05	9.85
November		7.98	8.80		12.20	8.98
December 2004		6.99	7.89		10.99	8.01
Annual nominal average weighted yield	8.39	11.15	11.79	14.98	13.75	11.62

Source: National Bank of Moldova

Table no. 8. OFFICIAL EXCHANGE RATE (lei)

	2002		2003		2004	
	year-end	annual average	year-end	annual average	year-end	annual average
USD (1\$)	13.8220	13.5730	13.2200	13.9426	12.4600	12.3283
RUR (1)	0.4329	0.4324	0.4520	0.4543	0.4487	0.4280
EURO (1€)	14.3963	12.8337	16.5256	15.7403	16.9542	15.3286
ROL (1000)	0.4130	0.4110	0.4030	0.4200	0.4300	0.3790

Source: National Bank of Moldova