



National Bank of Moldova

ANNUAL REPORT

2008



LIST OF ACRONYMS

IDA	International Development Association
PCA	Partnership and Cooperation Agreement
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
ILO	International Labour Office
IBRD	International Bank for Reconstruction and Development
WB	World Bank
BSTDB	Black Sea Trade and Development Bank
NBM	National Bank of Moldova
NBS	National Bureau of Statistics of the Republic of Moldova
TB	Treasury Bills
NBC	National Bank Certificates
CEDB	Council of Europe Development Bank
DNS	Designated-Time Net Settlement System
CHIBID	Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan lei from other banks
CHIBOR	Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan lei to other banks
CHIBID ON	Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan lei from other banks, overnight
CHIBOR ON	Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan lei to other banks, overnight
c.i.f.	Cost, insurance and freight
TRC	Total Regulatory Capital
CIS	Commonwealth of Independent States
IAD	Internal Audit Department
RTGS	Real-Time Gross Settlement System
SDR, XDR	Special Drawing Rights
EUR	Europe's Single Currency
EX	Export of goods
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
f.o.b.	Free on board
IM	Import of goods
SME	Small and Middle-Sized Enterprises
CPI	Consumer Prices Index
MEFP	Memorandum of Economic and Financial Policies
MDL	Moldovan Leu
MOLICO	Project of the European Commission and Council of Europe against corruption, money laundering and terrorism financing in the Republic of Moldova
NEER	Nominal effective exchange rate of the national currency
SB	State Bonds
GDP	Gross Domestic Product
PRGF	Poverty Reduction and Growth Facility extended by IMF
REER	Real effective exchange rate of the national currency
REPO	Agreement of securities trading with repurchase there of on a determined date and price
RM	Republic of Moldova
AIPS	Automated Interbank Payment System
BSCEE	Group of Banking Supervisors from Central and Eastern Europe
BES	Book-Entry System
FISIM	Financial intermediation services indirectly measured
EU	European Union
USD	US dollar
SS	State securities
FC	Foreign currency

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World economy in 2008

In 2008 the growth rate of the world economy was estimated at a real level of 3.4%. The evolution of world economy was determined mainly by the financial crisis from the USA, triggered at the middle of 2007, which extended to the rest of the world, and beginning with September 2008 transformed into an international financial crisis. The turbulence in the financial markets and the liquidity deficit caused the extension of the crisis over the real sector of the world economy. Following the worsening of crediting conditions, the

Table no. 1. Inflation rate and dynamics of the gross domestic product in 2008

	Inflation rate (period-end), %	Gross domestic product, %
USA	0.1	1.1
Japan	0.4	-0.7
UE 27	2.2	0.9
Euro zone	1.6	0.8
Germany	1.1	1.3
France	1.2	0.8
China	1.2	9.0
Russia	13.3	5.6
Ukraine	22.3	2.1

decrease of household incomes and the impairment of the confidence thereof, the consumption, including individual consumption recede, as well. At the beginning of 2008 the inflation rate was relatively high (especially as a result of the increase of world prices on energy resources and on foodstuff products), then the inflation rate reduced considerably towards the year-end, generating the risk of deflation for certain economies. This disinflation process allowed central banks to

assume phased reductions of monetary policy rates in order to temper the liquidity risk, to recover the confidence between banking and financial institutions and to give, therefore, incentives to the economic activity.

The economy of the *United States of America* enlarged in 2008 by 1.1%, as compared to 2.0 and 2.8% in 2007 and, respectively, in 2006. The decrement of the real rate of the economic growth was mainly due to the deterioration of conditions within the financial markets and the domestic consumption reduction. As a result economic activity worsening, the unemployment rate increased versus the level of the previous year and recorded 7.2% in December 2008. The inflation amounted at the end of 2008 to 0.1% (versus 4.1% in 2007), reflecting the impact of the decrease of world prices on energy resources and on foodstuff products, as well as the individual consumption diminution.

In 2008 the economic growth in the *Euro zone* continued, though at a slower pace as compared to 2007. In real terms, the gross domestic product advanced in 2008 by 0.8%, versus 2.6% in the previous year. The reduction of the growth rate was particularly brought about starting with quarter II, 2008 by the decrease of individual consumption, investments, as well as the reduction of exports. Simultaneously, the economic growth was especially maintained by the public consumption positive rates.

The annual inflation rate reduced to 1.6%, versus 3.1% in 2007, as a result of the massive decrease in prices for energy resources and foodstuff products, while unemployment rate advanced up to 8.3%. The economy of Germany and France during this period registered an increment of 1.3 and 0.8%, respectively.

Those *27 countries of the European Union* registered during the reporting period a -0.9%,

growth rate, versus 2.9% in 2007, while the inflation scored 2.2%.

In 2008 the economic growth of **Japan** was negative, mainly due to the diminution of the net export contribution following the external demand shrinking. The annualized growth rate of the Japanese economy reached in 2008 the level of minus 0.7%, as compared to 2.0% in 2007. The consumer prices in 2008 went up by 0.4% versus the previous year.

Besides the world economy crisis impact, the economy of **China** was also affected by natural disasters from 2008, and, thus, the growth rate downsized sharply during the year, from 10.6% in the first quarter to 6.8% in quarter IV. The real economic growth for 2008 constituted 9.0%, by 4.0 percentage points less versus 2007. At the same time, the inflation rate diminished by 3.6 percentage points down to 1.2%.

The Russian Federation achieved, during the analysed period, the increase of the gross domestic product by 5.6%. The inflation in 2008 constituted 13.3%.

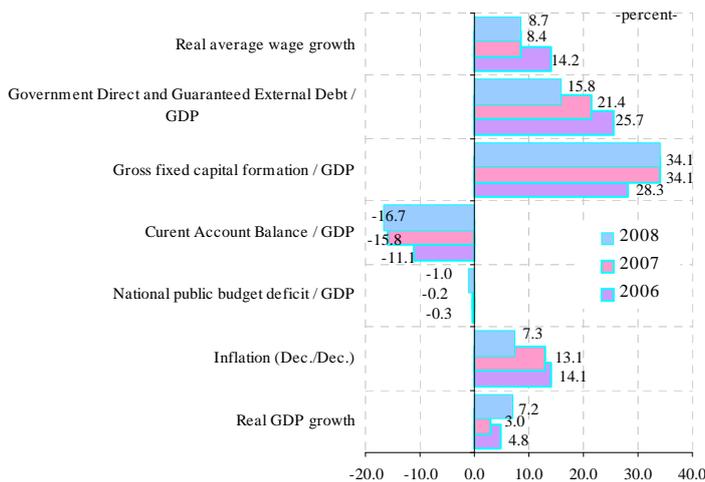
The economy of **Ukraine** reduced considerably its real growth rate, constituting 2.1% in 2008, by 5.8 percentage points less as compared to 2007. The annual inflation went up by 5.7 percentage points versus the level of 2007, constituting 22.3%.

Economic situation of the Republic of Moldova in 2008

Real sector*

The gross domestic product (GDP) of the Republic of Moldova, estimated for 2008, advanced in real terms by 7.2% as compared to the previous year. From the supply point of view, the GDP growth was sustained by positive results displayed by goods sector (mainly that of agricultural sector) and the considerable increase of the net taxes on products and import. The final consumption enlarged also at an advanced growth rate as compared to 2007. The net export recorded a positive contribution as well.

Chart no. 1. Dynamics of macroeconomic indicators

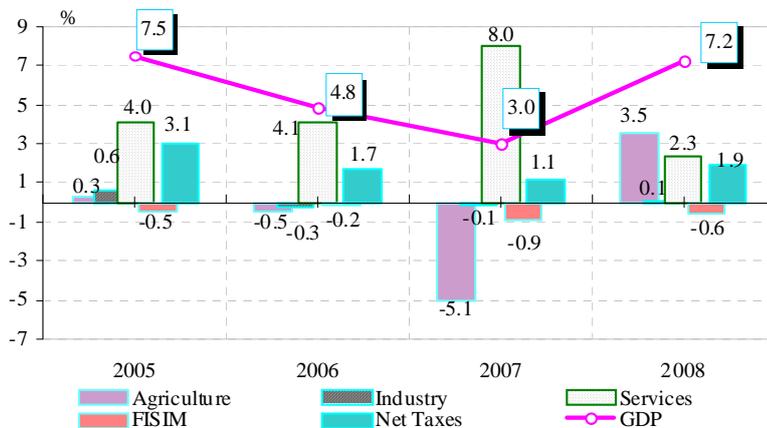


Gross domestic product (GDP), estimated in current prices for 2008,

constituted 62840.3 million lei. Accordingly, the GDP value per capita constituted 17601.8 lei (the equivalent of approx. USD 1694.2), increasing in nominal terms by 17.8% versus 2007. The GDP deflator, featuring the dynamics of the general level of prices per economy amounted to 9.7% (as compared to 15.9% in 2007).

The GDP growth, by categories of resources, was determined by the increase of the gross

Chart no. 2. Contribution to real GDP growth (in % to previous year)



added value within the goods sector, by 14.7% (including agricultural sector – by 35.2%, industrial sector – by 0.3%) and services sector by 3.8% (trade – by 9.5%, transportation and communications – by 4.5%, constructions – by 1.1%) (chart no. 2). Net taxes on products and import recorded an 11.4%-increase.

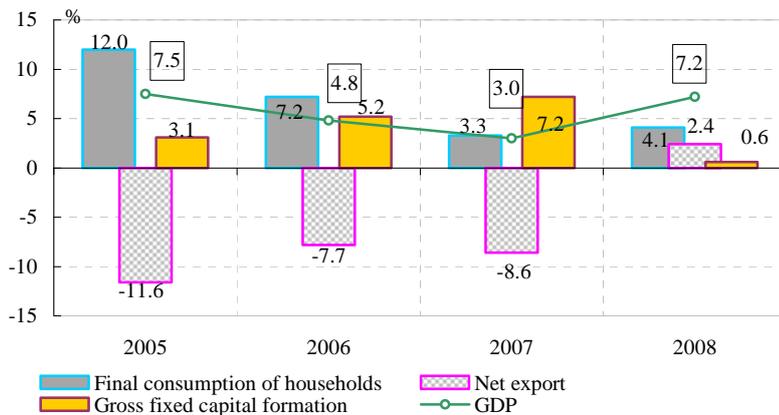
Within the structure of GDP by categories of resources, services continued to hold the highest weight within the GDP formation (61.3%, versus 61.2% in 2007), followed by net taxes on products and import with the weight of 17.6% (versus 16.9%), industry – by 14.5% (versus

* Based on the information of the National Bureau of Statistics of the Republic of Moldova

14.2%), agricultural sector – by 8.9% (versus 10.0%) and financial intermediation services indirectly measured (FISIM) – by minus 2.3%.

The components of the supply contributed to the GDP real growth as follows: agricultural sector – by 3.5 percentage points, services – by 2.3 percentage points (including trade – by 1.2 percentage points, transportation and communications – by 0.6 percentage points, other services – by 0.5 percentage points), net taxes on products and import – by 1.9 percentage points, industry – by 0.1 percentage points and financial intermediation services indirectly measured (FISIM) – by minus 0.6 percentage points.

Chart no. 3. Contribution to GDP by uses (%)



From the point of view of **GDP expenditure approach**, the increment of the domestic aggregated demand by 3.2% resulted in the increase of the final consumption of the public and private administration by 5.0%, households – by 4.5% and by the increase of the gross fixed capital formation by 1.8% (chart no. 3). The negative balance of the net export reduced by 4.6% versus 2007, and recorded a

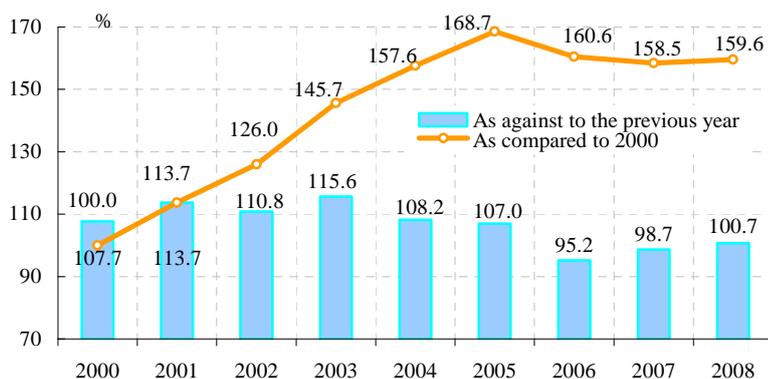
decrease of imports by 6.1% and of exports – by 7.8%.

Within the *GDP structure by categories of uses*, the weight of final consumption in 2008 advanced by 0.3 percentage points as compared to 2007 and constituted 113.8%. At the same time, gross capital formation went down to 37.0% of the GDP value.

The investment rate, determined by the ratio of gross fixed capital formation and gross value added per economy, constituted 41.4%, which is a higher value as compared to previous years (41.0% in 2007 and 34.0% in 2006).

In 2008 the *industrial production* of entities of all types of ownership recorded a real

Chart no. 4. Industrial production real growth index

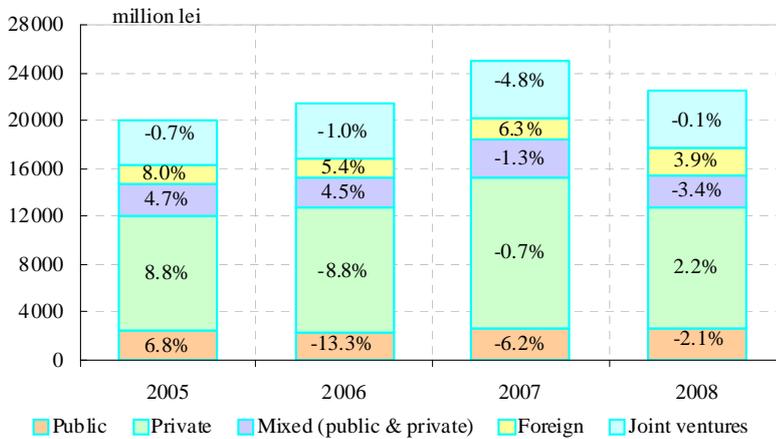


increase by 0.7% versus the previous year and accounted for 29654.6 million lei in current prices. The production volume in 2008 advanced as compared to 2000 by 59.6%.

In 2008 the *industrial production* of large and medium-sized enterprises subject to monthly statistics equalled to 22582.4 million lei in current prices and recorded a 0.7%-increase versus

the previous year (chart no. 4). This fact was mainly determined by the increase of the production volume within the processing industry by 0.9% in real terms, which led to the

Chart no. 5. Volume and growth rate of industrial production by forms of ownership*



* For 2008 data are shown by large enterprises, subject to monthly statistics

Chart no. 6. Real growth of agricultural production

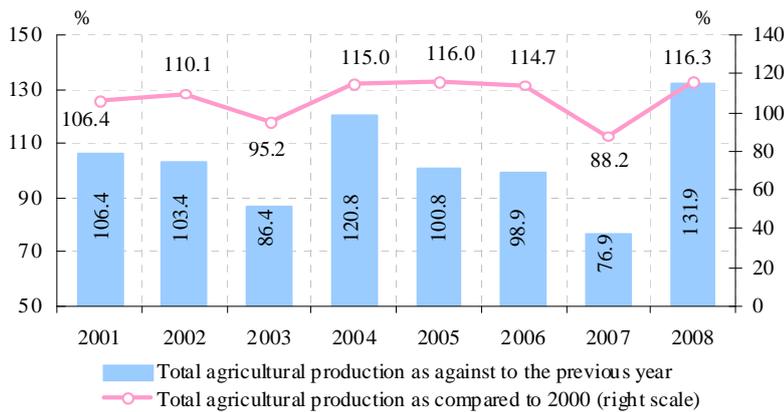
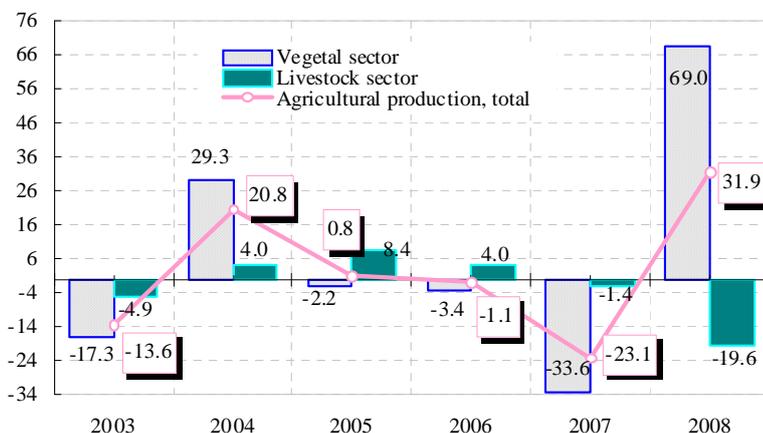


Chart no. 7. Agricultural production dynamics (versus the previous year, %)



increment of the industrial production by 0.8 percentage points. At the same time, the mining and quarrying industry recorded decreases by 1.9% and the activity of energy and heating supply, gas and water supply – by 0.6% as compared to the similar period of the previous year.

The labour productivity within industrial sector in the period of January–December 2008 went up by 10.4% versus the similar period of the previous year. It should be mentioned that, out of total number of enterprises subject to monthly statistics (668 enterprises), 53.3% reduced their industrial production volume versus the previous year.

The analysis of the industrial production volume by forms of ownership revealed positive dynamics for enterprises with foreign capital – by 3.9% and for those with private capital – by 2.2%, which accounted for 53.8% of the total production volume. Simultaneously, enterprises with other forms of ownership recorded decreases of the industrial production volume (chart no. 5).

Agricultural production, according to preliminary estimations, totalled 16410.0 million lei in 2008, increasing in real terms by 31.9% versus the previous year and by 16.3%

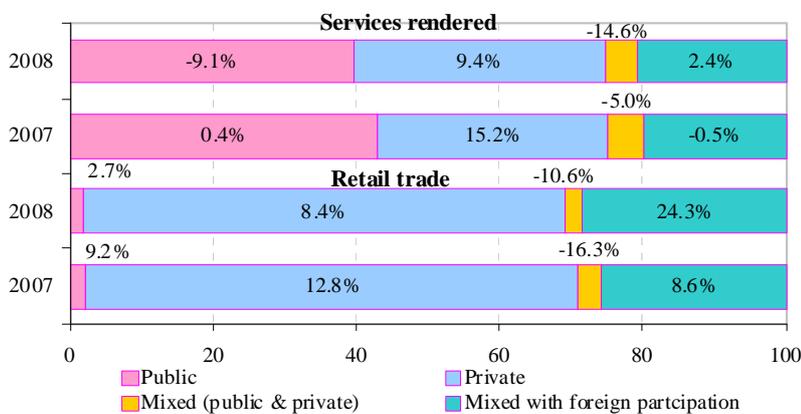
versus 2000 (chart no. 6). The increase of the agricultural production was mainly caused by the emphasized growth of the vegetal production (by 69.0%), while the animal production reduced by 19.6% versus the previous year (chart no. 7). Thus, the vegetal production contributed by 40.1 percentage points to the growth of total production, while the animal production – by minus 8.2 percentage points on the total agricultural production volume.

The total volume of **retail trade** equalled to 34573.6 million lei, by 8.4% higher in real terms as compared to the level recorded during the previous year.

The volume of retail trade carried out in 2008 through commercial units constituted 21295.1 million lei, by 11.7% more in real terms versus the previous year.

At the same time, the analysis of the sales volume within the ownership structure have

Chart no. 8. Structure and dynamics of retail trade and of services by forms of ownership (%)



revealed the reduction of the retail trade volume only within joint (private and public) commercial units, by 10.6% (chart no. 8). The greatest part of trade was carried out through private commercial units (which represent 67.1% of total), and recorded an increase by 8.4%. Rises of sales volumes were also recorded within commercial units with public and joint ownership (with

foreign capital participation), respectively, by 2.7% and 24.3%.

In 2008 goods in an amount of 13278.5 million lei (according to estimations) were traded in the markets of the country, by 3.5% more as compared to the previous year.

In 2008 **services rendered to the population** totalled 13110.4 million lei and recorded a decrease in real terms by 2.4% versus the level of 2007.

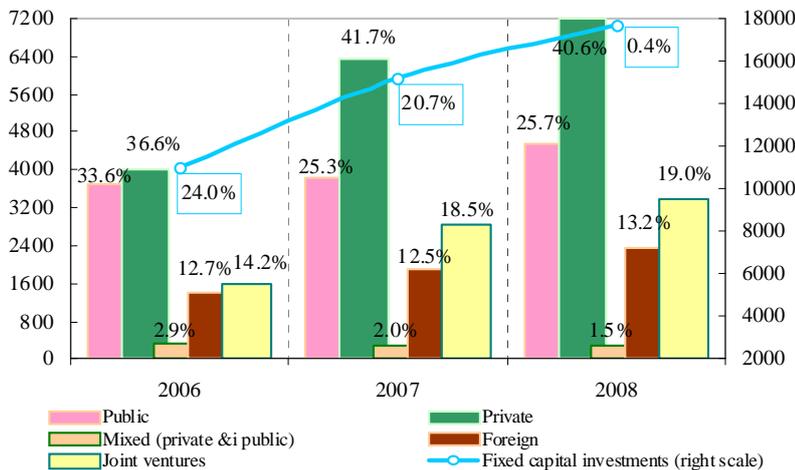
Services rendered to the population by officially registered units equalled to 11026.4 million lei and posted a decrease in real terms by 1.2% versus the level of 2007.

This decrement was due to the reduction of the volume of the services within units with joint (private and public) ownership – by 14.6% and public ownership- by 9.1%, which held a weight in the total value of services of 4.4 and 39.6%, respectively. Simultaneously, the volume of services within units with private ownership and joint ownership (with foreign capital participation) and foreign ownership advanced by 9.4 and 2.4%, respectively as compared to 2007.

During the analysed period, individuals rendered services to the population in an amount of 2084.0 million lei, or by 8.0% less versus the previous year.

In 2008 *fixed capital investments* in economy were assigned in an amount of 17710.3 million lei, which represented 100.4% versus the level of 2007 (chart no. 9). The volume of construction and assembly works (57.3% of total investments) went up by 0.4% in comparable prices versus the level recorded during the previous year. The analysis of fixed

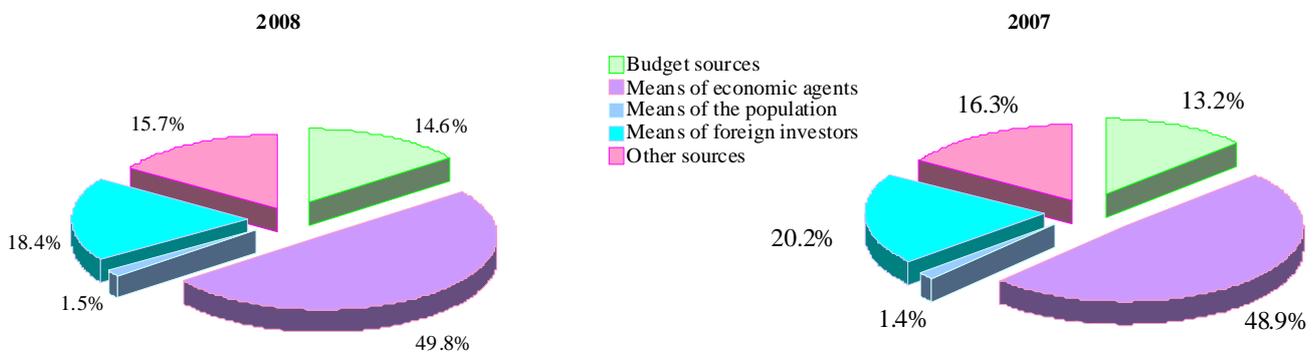
Chart no. 9. Volume and structure of fixed capital investments by forms of ownership (million lei)



capital investments assigned in economy according to the forms of ownership revealed real increases of investments in foreign enterprises (by 6.4%) and in joint enterprises (by 2.5%). At the same time, investments in the private sector and in the enterprises with joint (private and public) ownership without foreign participation decreased by 2.2 and 24.5% versus the previous year.

The highest share of investments was further carried out on the account of own funds of economic agents and population – 51.3% and of foreign investments – 18.4%. State and local budgets contributed by 14.6% (chart no. 10).

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



The analysis of the specific structure of investments in fixed capital revealed the channelling of the most part of investments (31.7% of total volume) to buildings' construction (except for dwellings), followed by investments in equipment and machines acquisition (29.7%). An amount of 19.1% of fixed capital investments was targeted to dwellings, while for the transport means – 7.2%.

In 2008 *the economically active population* according to data of quarterly questionnaires carried out in 12000 households) constituted 1302.8 thou persons, decreasing by 0.8% as compared to 2007. The *activity rate** of the population aged 15 and over accounted for 44.3%. The number of unemployed, according to the standards of the International Labour

* Ratio between the active population aged 15 and over and total number of population aged 15 and over

Office (ILO) totalled approx. 51.7 thou persons (decreasing by 15 thou persons versus the previous year) matching to an *unemployment rate* of 4.0% (5.1% in 2007).

The number of employees per economy* (618.1 thou employees) reduced as compared to 2007 by 3.1 thou persons (by 0.5%). The agricultural sector scored the highest staff reduction (by 11.8%). Staff reductions were also observed in the processing industry (by 3.0%), in public administration (by 1.5%), energy, heating, gas and water supply (by 1.3%), education (by 0.3%), in the field of healthcare and social assistance (by 0.1%). At the same time, staff increases were recorded in trade (by 13.8%), financial activity (by

10.4%), real estate transactions (by 4.8%), transportation and communications (by 1.4%).

Chart no. 11. Evolution of the average annual wage (%)



The average monthly wage of an employee in the national economy went up by 22.5%, in real terms by 8.7% as compared to the previous year and accounted in 2008 for 2529.7 lei (chart no. 11).

Labour Remuneration Fund* constituted 17245.5 million lei. As of December 31, 2008, the arrears for labour retribution totalled 102.0

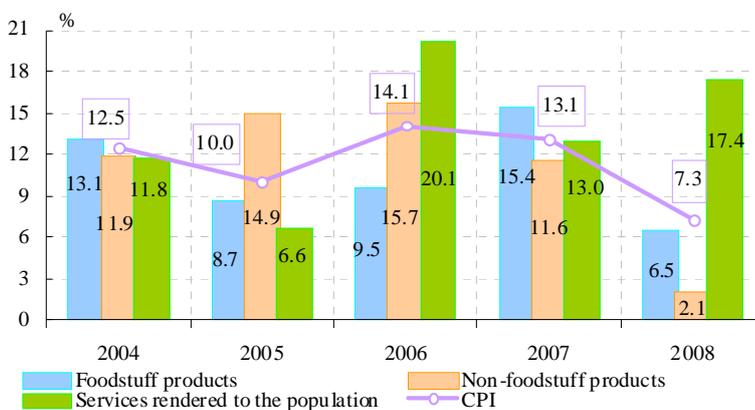
million lei, increasing by 29.5 million lei versus December 31, 2007.

Evolution of prices

Inflation rate as of December 31, 2008 measured by consumer prices index constituted 7.3% as compared to the level of 13.1% recorded at the end of 2007 (chart no. 12). Within the components' structure, the highest prices increase (by 17.4%) was recorded for services rendered to the population,

followed by foodstuff products (by 6.5%) and non-foodstuff products (by 2.1%).

Chart no. 12. Dynamics of inflation level

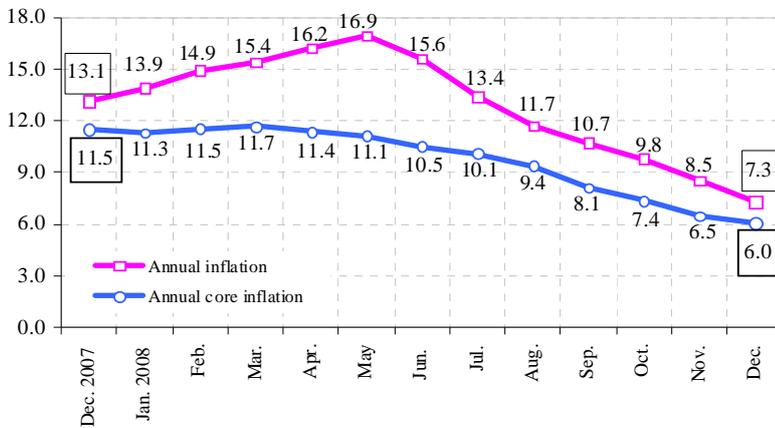


The annual inflation calculated during 2008 through the consumer prices index displayed an opposite evolution (chart no. 13), and embarked upon an ascendant trend during the first five months of the year (from 13.1% as of December 31, 2007

* For enterprises with 20 and more employees (5952 economic and social agents)

to 16.9% as of May 30. 2008), after which the process reversed its trend, going down during the following months and registered an annual inflation of 7.3% at the end of the year.

Chart no. 13. Dynamics of inflation and base inflation (%)



The core inflation* per year recorded an ascendant evolution during the first 3 months of 2008 (11.7% in March 2008), after which decreased continuously until the end of the end of the year, and registered 6.0% in December 2008, by 1.3 percentage points less than the inflation of the consumer prices

index for the same period. It should be mentioned that, during the whole year of 2008, the core inflation recorded inferior values for CPI inflation (chart no. 13).

Table no. 2. Components contribution to CPI (%)

	2007			2008		
	Price growth	contribution	Contribution/CPI	Price growth	contribution	Contribution/CPI
CPI	13.1	13.1	100.0%	7.3	7.3	100.0%
Foodstuff products	15.4	4.9	37.4	6.5	2.3	31.5
Non-foodstuff products	11.6	5.3	40.5	2.1	0.9	12.3
Paid services	13.0	2.9	22.1	17.4	4.1	56.2

Source: NBS, NBM

with a contribution of 2.3 percentage points, or approx. 31.5% and by non-foodstuff products – by 0.9 percentage points, or by 12.3% (table no. 2).

In 2008 the most significant rises were recorded within *foodstuff products* for meat, meat products and canned meat – by 33.1%, miller’s and bakery products – by 10.8%, milk and dairy products – by 4.3%. Simultaneously, prices reductions were registered for vegetables (by 25.8%) and fruits (by 9.9%).

The prices growth rate for *non-foodstuff products* in 2008 was mainly conditioned by prices increases on medicines (by 4.3%), ready-made clothes (by 3.4%), footwear (by 1.3%). Simultaneously, prices reductions were recorded for fuel (by 10.7%).

Within the group of *services rendered to the population* the inflation was mainly induced by the increase on tariffs by 29.2% on utilities, the highest tariffs were recorded for central

* Index calculated through the method of exclusion (foodstuff products, fuel, products and services with administrated prices were excluded), based on CPI calculated by the National Bureau of Statistics of the Republic of Moldova.

heating (by 75.9%). Prices increases were also recorded for passengers' transportation (by 20.1%).

Annual average inflation constituted 12.7% in 2008 versus 12.3% in 2007, including for foodstuff products – 6.0%, for non-foodstuff products – 8.3% and for services rendered to the population – 16.5%.

Industrial producer prices advanced from the beginning of 2008 by 3.4% (including in the domestic market – by 12.8%), including within mining and quarrying industry – by 12.0%, within processing industry – 1.6% (including in the domestic market – by 10.1%) and within the activity of energy and heating supply, gas and water supply – by 43.2%. Simultaneously, during the analysed period industrial production prices index in the external market decreased by 9.5%, including within the base activity – the processing industry – by 9.6%.

Public Finance Sector *

In 2008 the revenues of **national public budget** were projected in an amount of 25317.6 million lei, while expenses – in an amount of 26740.7 million lei.

The revenues of the national public budget, according to preliminary data, equalled to 25488.2 million lei, which is 100.7% of the projected amount, by 14.3% (3196.2 million lei) more as compared to 2007. According to operative data, the expenditures of the national public budget totalled 26119.1 million lei, and represented 97.7% of the yearly budget projections. The national public budget registered a deficit of 630.9 million lei (1.0% of gross domestic product for 2008).

Tax collections (84.5% of total revenues) constituted 21531.3 million lei and were carried out in an amount of 100.5% versus tax revenues foreseen for 2008.

Non-fiscal revenues totalled 1048.8 million lei, or 101.9% of projections. Their weight in the total amount of the national public budget revenues accounted for 4.1%. **Revenues from public institutions' special funds** equalled to 1578.9 million lei, **special funds revenues** – 265.0 million lei and **grants** – 1064.2 million lei, of which 1021.7 million lei represented external grants.

Out of total volume of the national public budgetary expenditures, 65.4% were used for social-cultural programs performance, 13.3% – for the national economy fields, 6.7% – for defence, public order maintenance and national security, 5.5% – for general state services.

State budget revenues in 2008 constituted 15972.0 million lei, surpassing by 1913.4 million lei (13.6%) the volume of revenues collected in 2007. The state budget expenditures constituted 16461.2 million lei, by 15.5% more as compared to the previous year.

The state budget in 2008 was closed with a deficit in the amount of 489.2 million lei.

* Based on preliminary data of the Ministry of Finance of the Republic of Moldova



In 2008 *the budgets of administrative and territorial units* accumulated revenues in an amount of 6129.0 million lei, which is 108.5% versus 2007. Expenditures were carried out at the level of 114.3% versus the previous year and equalled to 6432.2 million lei. On the whole, the budgets of administrative and territorial units were closed with a deficit of 303.2 million lei.

As of December 31, 2008, *the external state debt* constituted USD 778.5 million (the equivalent of 8096.6 million lei), increasing by USD 12.7 million as compared to the end of 2007. *The domestic state debt* amounted to 3509.9 million lei, and was entirely formed of state securities. Out of total amount of the internal state debt, the debt to the National Bank of Moldova constituted 2213.4 million lei. State securities issued through auction constituted 1296.5 million lei.

Balance of payments of the Republic of Moldova for 2008 (preliminary data)

The year of 2008 was characterized by instability in the main international markets, where considerable oscillations of prices on energy resources were recorded, as well as fluctuations of the main foreign currencies. The balance of payments of the Republic of Moldova kept its trends.

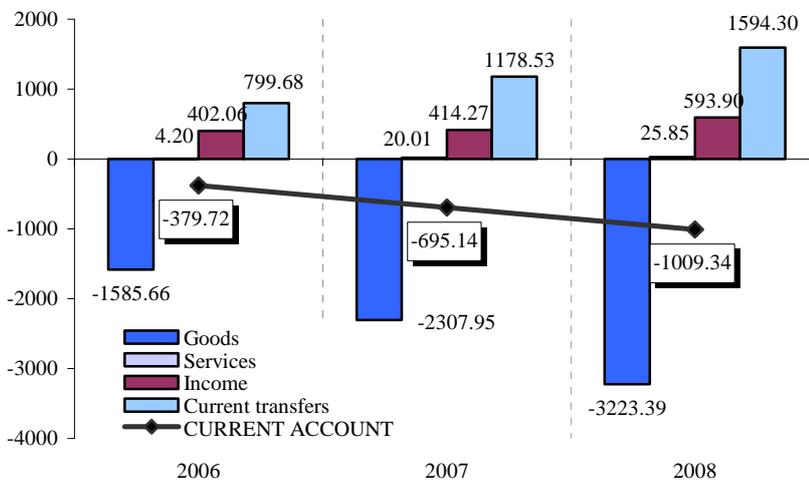
Table no. 3. Balance of payments of Moldova (main aggregates) (USD, million)

	2006	2007	2008 (pr.)
CURRENT ACCOUNT	-379.72	-695.14	-1009.34
Goods and services	-1581.46	-2287.94	-3197.54
Goods	-1585.66	-2307.95	-3223.39
exports (FOB)	1058.76	1368.46	1646.65
imports (FOB), including:	-2644.42	-3676.41	-4870.04
<i>imports of energy resources (except for electricity)</i>	<i>-544.89</i>	<i>-644.70</i>	<i>-903.26</i>
Services	4.20	20.01	25.85
exports	488.55	649.72	849.80
imports	-484.35	-629.71	-823.95
Income	402.06	414.27	593.90
inflow, of which:	605.84	709.97	904.78
compensation of employees working abroad	573.00	649.00	842.00
outflow, of which:	-203.78	-295.70	-310.88
dividends and distributed branch profits	-55.08	-52.77	-37.84
reinvested earnings and undistributed branch profits	-41.59	-112.81	-99.48
interest payable on loans and on governmental bonds ***	-53.18	-67.83	-77.93
Current transfers	799.68	1178.53	1594.30
inflow, of which:	859.63	1258.80	1721.07
workers' remittances from abroad	602.82	842.26	1046.02
outflow	-59.95	-80.27	-126.77
CAPIATL AND FINANCIAL ACCOUNT	315.42	543.92	925.82
Capital transfers	-22.78	-7.96	-14.67
Direct investment	251.79	481.39	679.40
of which: in domestic economy	251.05	493.42	712.76
equity capital and reinvested earnings	160.61	342.07	534.48
loans from affiliated enterprises	90.44	151.35	178.28
Portfolio investment	-4.79	-4.51	6.38
Assets *	-0.21	-0.07	-0.04
equity securities	-0.21	-0.07	-0.03
debt securities			-0.01
Liabilities **	-4.58	-4.44	6.42
equity securities	1.78	1.72	11.36
debt securities	-6.36	-6.16	-4.94
Financial derivatives – banks	0.19	-0.47	0.94
Other investment	231.77	604.33	705.78
Assets *	-49.36	41.32	26.66
trade credits	17.42	-7.61	52.11
currency and deposits abroad	-66.78	48.93	-25.45
Liabilities **	281.13	563.01	679.12
trade credits	44.89	107.08	136.86
long-term loans ***	184.50	313.54	377.94
disbursed	367.39	551.05	805.45
reimbursed	-182.89	-237.51	-427.51
short-term loans	7.18	20.58	43.99
non-residents' deposits in the national banking system	53.32	60.56	53.12
other liabilities ***	-8.76	61.25	67.21
Reserve assets *	-140.76	-528.86	-452.01
Errors and omissions	64.30	151.22	83.52
Note:			
<i>Money transfers from abroad by individuals via authorized banks</i>	<i>854.55</i>	<i>1218.23</i>	<i>1660.06</i>

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

The **Current account** of the balance of payments, according to preliminary data, registered in 2008 a deficit in an amount of USD 1009.34 million, by 45.2% more as compared to the

Chart no. 14. Current account – main components (USD, million)

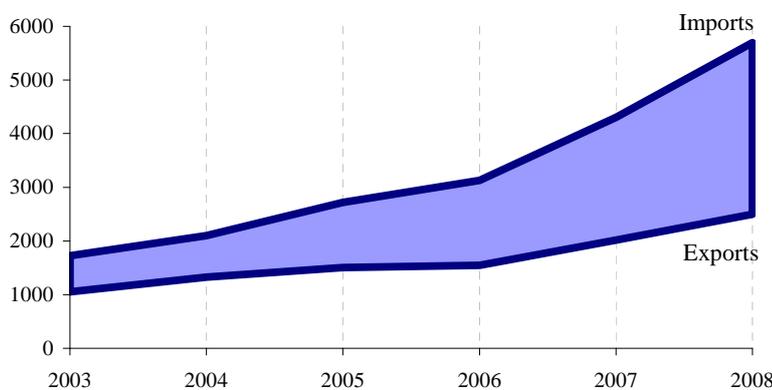


previous year, while the ratio of the current account deficit to GDP reached the level of 16.7%. The current account impairment was determined by the growth of the trade deficit. The cumulative surplus of income and current transfers, increasing by 37.4%, covered 68.4% of the deficit recorded in the external trade in goods and services (that increased by 39.8%).

The dynamics of the main components of the current account is shown in chart no.14.

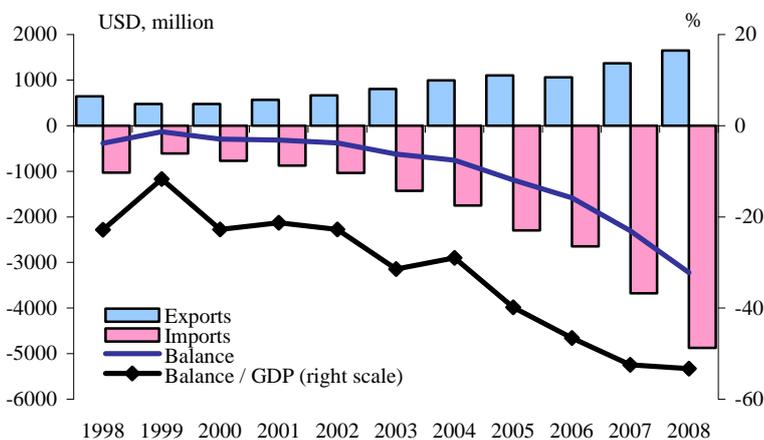
The turnover of the external trade in goods and services advanced versus the previous year

Chart no. 15. External trade deficit in goods and services (USD, million)



by 29.5%, and totalled USD 8190.44 million. This increment was determined by the growth in exports of goods and services by 23.7%, as well as by the increase in imports by 32.2%. The exports to imports ratio diminished as compared to the previous year by 3.1 percentage points and constituted 43.8%.

Chart no. 16. Trade balance



The deficit of the external trade in goods and services amounted to USD 3197.54 million, increasing by 39.8% (chart no. 15).

The deficit of the external trade in goods advanced by 39.7% versus the previous year, up to the level of USD 3223.39 million (FOB prices). The ratio of the trade balance in goods to GDP constituted 53.3% (chart no. 16). It should be mentioned that trade deficit in absolute terms exceeded the value of exports of goods.

Table no. 4. Dynamics of external trade in goods

		2006	2007	2008
Exports of goods (EX)	USD, million	1058.76	1368.46	1646.65
	% versus the previous year	95.9	129.3	120.3
Imports of goods (IM)	USD, million	-2644.42	-3676.41	-4870.04
	% versus the previous year	115.2	139.0	132.5
Trade balance (EX-IM)	USD, million	-1585.66	-2307.95	-3223.39
	% versus the previous year	133.1	145.6	139.7
External trade in goods (EX+IM)	USD, million	3703.18	5044.87	6516.69
	% versus the previous year	108.9	136.2	129.2
Exports / GDP	%	31.1	31.1	27.2
Imports / GDP	%	77.6	83.5	80.5
Trade balance/ GDP	%	-46.5	-52.4	-53.3
Exports to imports ratio	%	40.0	37.2	33.8
Trade openness degree (EX+IM) / GDP	%	108.7	114.6	107.7

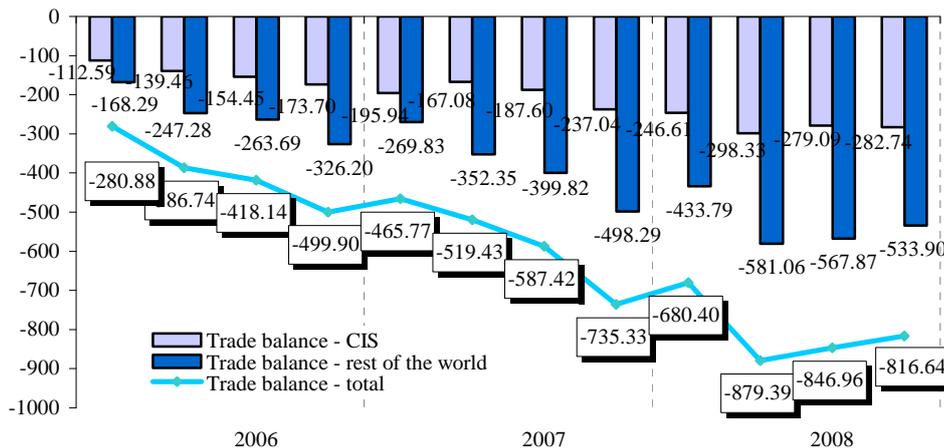
The aggregate indicators that reflect the dynamics of external trade in goods are shown in table no. 4.

Similarly to the previous periods, the exchanges of goods both with

CIS and the rest of the world were closed with deficits (chart no. 17). The deficit recorded with the rest of the world amounted to USD 2116.62 million (increasing by 39.2% versus

the previous year), while with the CIS – to USD 1106.77 million, increasing by 40.5%.

Chart no. 17. External trade balance in goods (f.o.b. – f.o.b.) by geographical regions on a quarterly basis (USD, million)



According to the data of the National Bureau of Statistics (NBS)*, the increase in the trade deficit in 2008 occurred due to the trade with Ukraine, Romania, Russia, Germany, and China. An essential increment

of the trade deficit was also recorded with Belarus.

At the same time, surpluses were recorded in trade with Kazakhstan, United Kingdom, Azerbaijan, Switzerland.

With regard to exports, the most important partners of the Republic of Moldova in 2008 were Romania, Russia, Italy, Ukraine, Belarus, Germany, Poland, United Kingdom, Kazakhstan, and Switzerland. The cumulative exports to these countries, constituted 82.2% of the total exports for the analyzed period.

In 2008, within the structure of exports by groups of goods the following items prevailed: *agricultural and foodstuff products* – 37.3%, *textiles and articles thereof* – 19.7% (table no. 6).

* The NBS data do not include adjustments to the foreign trade in goods operated by the Balance of Payments Division of the National Bank of Moldova, such as, for instance, exports / imports carried out by individuals, repairs on goods, goods purchased in ports by carriers etc. Imports are evaluated in c.i.f. prices and are analysed by country of shipment.

Table no. 5. Exports of goods by groups of countries

	2006	2007	2008	Share in total		2008 versus 2007
				2007	2008	
	USD, million			%		%
European Union 27	537.66	679.27	820.18	50.6	51.3	120.7
European Union 25, of which:	367.99	440.82	462.02	32.9	28.9	104.8
Italy	116.87	140.17	167.07	10.4	10.5	119.2
Germany	51.92	86.28	63.80	6.4	4.0	73.9
Poland	39.22	48.36	56.14	3.6	3.5	116.1
United Kingdom	27.34	34.12	52.27	2.5	3.3	153.2
France	23.85	24.77	21.37	1.8	1.3	86.3
Hungary	14.63	5.07	18.48	0.4	1.2	3.6 times
Netherlands	9.29	14.40	13.15	1.1	0.8	91.3
Austria	13.14	30.88	12.47	2.3	0.8	40.4
Belgium	14.13	11.22	9.65	0.8	0.6	86.0
Greece	5.89	9.64	9.01	0.7	0.6	93.5
Sweden	0.20	0.76	8.75	0.1	0.5	11.5 times
Lithuania	8.55	10.17	8.06	0.8	0.5	79.3
Slovakia	22.72	8.87	7.62	0.7	0.5	85.9
Czech Republic	5.59	5.93	5.34	0.4	0.3	90.1
European Union 2	169.67	238.45	358.16	17.8	22.4	150.2
Romania	155.56	211.18	335.82	15.7	21.0	159.0
Bulgaria	14.11	27.27	22.34	2.0	1.4	81.9
Balkan countries, of which:	32.50	40.89	48.12	3.0	3.0	117.7
Turkey	28.46	32.09	33.44	2.4	2.1	104.2
CIS, of which:	424.13	550.24	627.86	41.0	39.3	114.1
Russia	182.01	232.73	318.40	17.3	19.9	136.8
Ukraine	128.79	167.86	142.82	12.5	8.9	85.1
Belarus	73.96	81.97	92.75	6.1	5.8	113.2
Kazakhstan	24.15	45.54	44.51	3.4	2.8	97.7
Other countries, of which:	57.32	71.34	101.11	5.3	6.3	141.7
Switzerland	14.23	22.58	39.69	1.7	2.5	175.8
USA	16.23	15.18	15.10	1.1	0.9	99.5
Brazil	2.09	1.39	5.92	0.1	0.4	4.3 times
Sudan	1.73	10.85	5.01	0.8	0.3	46.2
Panama	3.55	0.08	4.59		0.3	57.4 times
Syrian Arab Republic	4.32	2.58	3.90	0.2	0.2	151.2
Iraq	1.65	1.57	3.85	0.1	0.2	2.5 times
China	0.37	1.00	2.26	0.1	0.1	2.3 times
Israel	1.27	1.39	1.34	0.1	0.1	96.4
Total	1051.61	1341.74	1597.27	100.0	100.0	119.0

Source: NBS, shuttle trade not included

The exports of agricultural and foodstuff products equalled USD 595.35 million, increasing by 17.3%, of which: alcoholic beverages – USD 193.24 million (increasing by 44.0%); fruit and nuts – USD 85.38 million (decreasing by 8.0%); vegetal oils – USD 62.77 million (increasing by 14.4%); preparations of vegetables, fruit, and other parts of plants – 51.40 (decreasing by

Table no. 6. Exports by main groups of goods

	2006	2007	2008	Share in 2008	2008 versus 2007
I. Livestock and animal products	16.23	13.58	10.14	0.6	74.7
II. Vegetable products	136.49	162.87	210.08	13.2	129.0
III. Animal or vegetable fats and oils	34.86	55.26	62.89	3.9	113.8
IV. Prepared foodstuffs; beverages; spirits; tobacco	276.35	275.97	312.24	19.5	113.1
V. Mineral products	27.43	57.12	63.46	4.0	111.1
VI. Products of the chemical industry	20.81	27.16	33.95	2.1	125.0
VII. Plastics, rubber and articles thereof	15.99	33.08	38.19	2.4	115.4
VIII. Raw hides, tanned leather; furs and articles thereof	23.65	29.07	33.33	2.1	114.7
IX. Wood and articles thereof (furniture not included)	3.98	4.32	5.39	0.3	124.8
X. Wood pulp, paper, paperboard and articles thereof	18.40	27.34	16.72	1.0	61.2
XI. Textiles and textile articles	228.27	276.28	314.00	19.7	113.7
XII. Footwear, headgear, umbrellas and the like	30.95	40.25	48.00	3.0	119.3
XIII. Articles of stone, plaster, cement, ceramic products, glass and glassware	32.58	51.28	52.51	3.3	102.4
XIV. Pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coins	0.14	0.05	0.22	0.0	4.4 times
XV. Base metals and articles thereof	75.84	110.50	119.12	7.5	107.8
XVI. Machinery and mechanical appliances; electrical equipment; image and sound recorders and reproducers	53.13	90.70	171.06	10.7	188.6
XVII. Vehicles, aircraft, and associated transport equipment	16.29	18.72	16.07	1.0	85.8
XVIII. Optical, photographic, cinematographic, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	12.49	23.44	28.88	1.8	123.2
Other	27.73	44.75	61.02	3.8	136.4
TOTAL	1051.61	1341.74	1597.27	100.0	119.0

Source: NBS, shuttle trade not included

35.3%); *cereals* – USD 50.27 million (increasing 2.9 times); *rape seeds* – USD 38.15 million (increasing 3.7 times); *sunflower seeds* – USD 21.81 million (decreasing by 26.6%).

Out of the exports of *textiles and articles thereof* in the amount of USD 314.00 million (that increased by 13.7%), the exports of *clothes and accessories* constituted USD 264.79 million (increasing by 11.4%) and the exports of *carpets and other textile rugs* - USD

Table no. 7. Exports of goods after processing

	2007			2008			Change in share	2008/ 2007	Degree of influence**
	Exports of goods			Exports of goods					
	total	after processing	share in total*	total	after processing	share in total*			
	USD million		%	USD million		%			
Romania	211.18	77.97	36.9	335.82	179.66	53.5	16.6	2.3 times	29.5
Italy	140.17	125.73	89.7	167.07	151.78	90.8	1.1	120.7	7.6
United Kingdom	34.12	28.87	84.6	52.27	33.80	64.7	-19.9	117.1	1.4
Germany	86.28	30.92	35.8	63.80	28.91	45.3	9.5	93.5	-0.6
Turkey	32.09	22.42	69.9	33.44	23.47	70.2	0.3	104.7	0.3
Poland	48.36	13.01	26.9	56.14	11.77	21.0	-5.9	90.5	-0.4
France	24.77	9.72	39.2	21.37	6.88	32.2	-7.0	70.8	-0.8
Belgium	11.22	8.98	80.0	9.65	5.61	58.1	-21.9	62.5	-1.0
Netherlands	14.40	7.64	53.1	13.15	3.79	28.8	-24.2	49.6	-1.1
Slovakia	8.87	4.83	54.5	7.62	3.77	49.5	-5.0	78.1	-0.3
USA	15.18	5.31	35.0	15.10	2.75	18.2	-16.8	51.8	-0.7
Other countries	715.10	9.37	1.3	821.84	11.88	1.4	0.1	126.8	0.7
TOTAL	1341.74	344.77	25.7	1597.27	464.07	29.1	3.4	134.6	34.6

Source: NBS

* share of exports of goods after processing in total exports of goods to the respective country;

** degree of influence of a country on the growth(+)/decrease(-) of exports of goods after processing;

*** percentage points

Table no. 8. Imports of goods by groups of countries (c.i.f. prices)

	2006	2007	2008	Share in total		2008/ 2007
				2007	2008	
	USD, million			%		%
European Union 27	1333.81	1825.28	2351.29	49.5	48.0	128.8
European Union 25, of which:	818.21	1103.12	1421.02	29.9	29.0	128.8
Germany	196.81	286.65	366.94	7.8	7.5	128.0
Italy	155.71	202.13	248.76	5.5	5.1	123.1
Poland	85.61	114.00	139.15	3.1	2.8	122.1
Hungary	42.13	60.77	86.33	1.6	1.8	142.1
France	63.96	65.06	73.47	1.8	1.5	112.9
Austria	31.31	46.04	61.28	1.2	1.3	133.1
Netherlands	24.89	44.04	56.94	1.2	1.2	129.3
Czech Republic	30.17	42.96	54.84	1.2	1.1	127.7
Belgium	37.00	43.56	47.64	1.2	1.0	109.4
European Union 2	515.60	722.16	930.27	19.6	19.0	128.8
Romania	478.02	664.47	870.49	18.0	17.8	131.0
Bulgaria	37.58	57.69	59.78	1.6	1.2	103.6
Balkan states, of which:	112.82	157.84	228.96	4.3	4.7	145.1
Turkey	106.31	149.78	219.06	4.1	4.5	146.3
CIS, of which:	1057.58	1396.61	1815.51	37.9	37.1	130.0
Ukraine	563.34	745.88	923.49	20.2	18.9	123.8
Russia	408.82	500.82	660.80	13.6	13.5	131.9
Belarus	74.38	121.24	201.57	3.3	4.1	166.3
Other countries, of which:	188.98	309.80	503.13	8.4	10.3	162.4
China	66.71	120.30	202.45	3.3	4.1	168.3
USA	22.62	30.03	58.87	0.8	1.2	196.0
Israel	7.51	11.95	34.95	0.3	0.7	2.9 times
Switzerland	21.32	28.43	33.64	0.8	0.7	118.3
South Korea	12.21	26.01	25.44	0.7	0.5	97.8
United Arab Emirates	5.71	11.77	21.81	0.3	0.4	185.3
Brazil	9.00	7.57	16.77	0.2	0.3	2.2 times
India	7.08	10.67	14.39	0.3	0.3	134.9
Vietnam	3.90	6.98	11.13	0.2	0.2	159.5
Total	2693.19	3689.53	4898.89	100.0	100.0	132.8

Source: NBS (shuttle trade not include), selections on imports by county of shipment

34.11 million (increasing by 19.9%).

Other important categories of exports were: *wire, cables, and other insulated electrical conductors, optical fibre cable* – 101.97 (increasing 4.8 times); *cast iron, iron, steel, and articles thereof* – USD 77.49 million (increasing by 43.7%); *glass containers* – USD 41.67 million (increasing by 5.7%); *furniture* –

USD 39.47 million (increasing by 47.2%).

Exports of alcoholic beverages increased due to the resumption of export to Russia, which advanced 15.7 times.

The exports of goods after processing advanced by 34.6% as compared to the previous period, to the level of USD 464.07 million, which constituted 29.1% of the total value of exports in the respective period (table no. 7). Structurally, the exports of goods after processing consisted mainly of: *textiles and articles thereof* – USD 262.01 million (56.5% of total), *wire, cables, and other insulated electrical conductors* – USD 94.11 million (20.3% of total), *footwear and parts thereof* – USD 45.42 million (9.8% of total).

In 2008, according to the NBS data, both the composition and the order of the top 10 countries, from which the Republic of Moldova imported the majority of goods, remained practically the same: Ukraine, Romania, Russia, Germany, Italy, Turkey, Belarus, China, Poland, Hungary.

Within the structure of imports by groups of goods (table no. 9), *mineral products* had the largest share – 23.0%, increasing as compared to the previous year by 42.8% and totalling USD 1126.02 million, of which: *petroleum or bituminous oils* – USD 586.22 million; *petroleum gases and other gaseous hydrocarbons* – USD 333.48 million; *electrical energy* – USD 137.96 million.

Table no. 9. Imports (c.i.f.) by main groups of goods

	2006	2007	2008	Share in total 2008	2008/ 2007
	USD million			%	
I. Livestock and animal products	51.92	61.67	100.34	2.0	162.7
II. Vegetable products	72.76	150.37	166.71	3.4	110.9
III. Animal or vegetable fats and oils	11.12	16.02	20.87	0.4	130.3
IV. Prepared foodstuffs; beverages; spirits; tobacco	179.80	237.85	343.42	7.0	144.4
V. Mineral products	663.73	788.42	1126.02	23.0	142.8
VI. Products of the chemical industry	223.26	317.68	416.76	8.5	131.2
VII. Plastics, rubber and articles thereof	168.54	224.92	276.80	5.7	123.1
VIII. Raw hides, tanned leather; furs and articles thereof	22.80	27.50	33.18	0.7	120.7
IX. Wood and articles thereof (furniture not included)	52.08	67.66	89.32	1.8	132.0
X. Wood pulp, paper, paperboard and articles thereof	75.52	101.42	117.21	2.4	115.6
XI. Textiles and textile articles	206.54	249.60	285.43	5.8	114.4
XII. Footwear, headgear, umbrellas and the like	17.89	21.38	30.89	0.6	144.5
XIII. Articles of stone, plaster, cement, ceramic products, glass and glassware	79.93	102.16	138.70	2.8	135.8
XIV. Pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coins	6.40	8.83	10.87	0.2	123.1
XV. Base metals and articles thereof	219.42	336.70	372.58	7.6	110.7
XVI. Machinery and mechanical appliances; electrical equipment; image and sound recorders and reproducers	379.80	544.64	765.53	15.6	140.6
XVII. Vehicles, aircraft, and associated transport equipment	162.39	286.09	390.65	8.0	136.5
XVIII. Optical, photographic, cinematographic, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	33.49	51.80	74.63	1.5	144.1
Other	65.80	94.82	138.98	2.8	146.6
TOTAL	2693.19	3689.53	4898.89	100.0	132.8

Source: NBS (shuttle trade not included), selections on imports by country of shipment

Other important groups of goods were: *machinery and appliances, mechanical and electrical equipment* – USD 765.53 million; *textiles and articles thereof* – USD 285.43 million; *cast iron, iron, steel and articles thereof* – USD 280.64 million; *plastic, rubber and articles thereof* – USD 276.80 million; *cars and other motor vehicles for the transport of persons* – USD 212.07 million; *pharmaceutical products* – USD 151.42 million; *furniture* – USD 77.82 million; *cigarettes and cigars* – USD 68.74 million.

During the current year, the imports of energy resources registered in the balance of payments amounted to USD 903.26 million (FOB prices), by 40.1% higher as compared to that of 2007. This was mainly due to the increase in import prices. The main suppliers of energy resources in 2008 were Romania (35.3%), Russia (33.7%), Ukraine (14.0%) and Belarus (11.5%).

The physical volume of imported *natural gas* decreased by 6.0%, while the volume of fuel

Table no. 10. Imports (f.o.b.) of energy resources

		2006	2007	2008	Share in total	2008/2007
					2008	%
Energy resources-total	(US\$, mil.)	544.89	644.70	903.26	100.0	140.1
From CIS	(US\$, mil.)	335.93	407.31	546.79	60.5	134.2
Coal	(US\$, mil.) (thou. tons)	12.05 170.47	15.83 179.71	19.28 148.50	2.1	121.8 82.6
Natural gas	(US\$, mil.) (mil. m ³)	170.20 1418.16	203.13 1305.41	256.50 1226.90	28.4	126.3 94.0
Fuel	(US\$, mil.)	153.68	188.35	271.01	30.0	143.9
Fuel oil	(US\$, mil.) (thou. tons)	4.56 16.53	1.62 5.48	6.35 14.00	0.7	3.9 times 2.6 times
Diesel	(US\$, mil.) (thou. tons)	91.71 154.90	118.32 186.09	178.85 188.04	19.8	151.2 101.0
Gasoline	(US\$, mil.) (thou. tons)	13.49 21.36	19.64 30.40	18.69 21.70	2.1	95.2 71.4
Other	(US\$, mil.)	43.92	48.77	67.12	7.4	137.6
From the rest of the world (mil. USD)		208.96	237.39	356.47	39.5	150.2
Coal	(US\$, mil.) (thou. tons)	0.10 1.63		13.12 57.31	1.5	– –
Fuel oil	(US\$, mil.) (thou. tons)	0.19 0.39	1.30 2.36	0.60 0.77	0.1	46.2 32.6
Diesel	(US\$, mil.) (thou. tons)	92.83 152.99	100.18 144.94	160.70 163.27	17.8	160.4 112.6
Gasoline	(US\$, mil.) (thou. tons)	107.00 171.83	125.32 177.12	167.09 189.78	18.5	133.3 107.1
Other	(US\$, mil.)	8.84	10.59	14.96	1.7	141.3

increased as follows: *fuel oil* – by 88.4%; *diesel* – by 6.1%; *gasoline* – 1.9%. The volume of imported *coal* increased by 14.5% (table no. 10).

In 2008, the *balance of services* registered a surplus of USD 25.85 million, which was 0.4% of GDP.

The volume of the external trade in services advanced by 30.8%. It should be mentioned that the growth rates of exports and imports of services were equal.

Table no. 11. Services

	2006	2007	2008	2008 versus 2007
				%
	USD million			
Services	4.20	20.01	25.85	129.2
Exports	488.55	649.72	849.80	130.8
Imports	-484.35	-629.71	-823.95	130.8
Transportation	52.18	47.18	55.80	118.3
Exports	223.75	292.06	380.40	130.2
Imports	-171.57	-244.88	-324.60	132.6
Travel	-75.61	-48.80	-71.34	146.2
Exports	111.75	164.24	202.40	123.2
Imports	-187.36	-213.04	-273.74	128.5
Communications services	42.19	48.12	67.19	139.6
Exports	71.19	85.67	114.56	133.7
Imports	-29.00	-37.55	-47.37	126.2
Other services	-14.56	-26.49	-25.80	97.4
Exports	81.86	107.75	152.44	141.5
Imports	-96.42	-134.24	-178.24	132.8

The volume of services rendered to non-residents constituted USD 849.80 million, at the same time, non-residents rendered services in the total amount of USD 823.95 million (table no. 11).

Transportation services recorded a surplus of USD 55.80 million. In 2008, the value of transportation services rendered to non-residents totalled USD 380.40 million, increasing by 30.2% as compared to the previous year, of which 74.2% were attributed to the transportation of goods (USD 282.21 million).

During the reporting period, transportation services were imported in the value of USD 324.60 million, which constituted by 32.6% more as compared to the previous year. The transportation of goods prevailed with a share of 68.4% and registered USD 221.97 million.

In 2008, travel services registered a deficit that advanced by 46.2%, up to USD 71.34 million, while communication services recorded a surplus in an amount of USD 67.19 million, increasing by 39.6%.

It should also be mentioned the substantial growth (by 41.5%) of the volume of other exported services.

The income account recorded a surplus of USD 593.90 million.

Table no. 12. Current transfers

	2006	2007	2008	2008 versus 2007
	USD million			%
Current transfers	799.68	1178.53	1594.30	135.3
Credit	859.63	1258.80	1721.07	136.7
Debit	-59.95	-80.27	-126.77	157.9
Grants and technical assistance	146.14	209.60	271.69	129.6
Credit	147.61	209.94	272.96	130.0
Debit	-1.47	-0.34	-1.27	3.7 times
Education and staff training	15.67	18.20	18.95	104.1
Credit	16.43	19.00	19.23	101.2
Debit	-0.76	-0.80	-0.28	35.0
Humanitarian aid	10.50	7.88	59.37	7.5 times
Credit	10.50	7.93	59.41	7.5 times
Debit		-0.05	-0.04	80.0
Fees to international organizations	-5.85	-3.90	-5.82	149.2
Credit	0.05	0.06	0.09	150.0
Debit	-5.90	-3.96	-5.91	149.2
Workers' remittances	596.36	826.47	1032.75	125.0
Credit	602.82	842.26	1046.02	124.2
Debit	-6.46	-15.79	-13.27	84.0
Other current transfers	36.86	120.28	217.36	180.7
Credit	82.22	179.61	323.36	180.0
Debit	-45.36	-59.33	-106.00	178.7

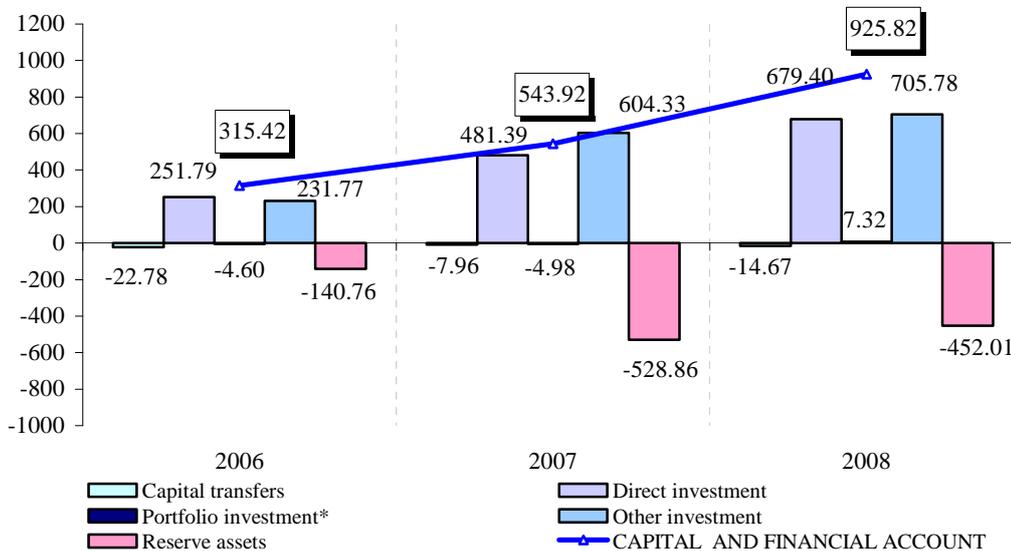
Income inflow constituted USD 904.78 million, by 27.4% more as compared to the previous year, while income outflow – USD 310.88 million, increasing by 5.1%.

Residents' income from work abroad was estimated at USD 842.00 million, or 93.1% of total income inflow.

Income on investment

recorded a deficit of USD 169.10 million.

Chart no. 18. Capital and financial account – main components (USD, million)



The main payments scheduled for the interest service were as follows: service on government bonds – USD 0.98 million, on NBM loans – USD 1.46 million, governmental loans – USD 25.03 million (including USD 9.78 million of interest calculated according to the conditions of bilateral loans

* including financial derivatives

rescheduling negotiated with the Paris Club), on commercial banks' loans – USD 11.20 million, and other sectors' loans – USD 39.26 million (including service on loans received from affiliated foreign companies – USD 14.63 million).

The *current transfers* account registered a surplus of USD 1594.30 million, or 26.4% as compared to GDP (26.8% in 2007).

The inflow of transfers increased by 36.7% versus the previous year, while the outflow – by 57.9% (table no. 12). The value of grants and of technical assistance extended to Moldova in 2008 by the international organizations and foreign governments was evaluated at USD 272.96 million. Humanitarian aid inflow registered by customs statistics constituted USD 59.41 million. The amount of international membership fees paid amounted to USD 5.91 million.

Transfers made by non-resident individuals had the largest share (60.8%) in total current transfers inflow from abroad and were estimated at USD 1046.02 million.

Table no. 13. External assets and liabilities, net flows (USD, million)

	2006	2007	2008
Financial account	338.20	551.88	940.49
External assets	-189.71	-500.16	-458.81
Direct investment	0.74	-12.03	-33.36
Portfolio investment	-0.21	-0.07	-0.04
Financial derivatives	-0.12	-0.52	-0.06
Other investment	-49.36	41.32	26.66
Trade credits	17.42	-7.61	52.11
Currency and deposits	-66.78	48.93	-25.45
Reserve assets	-140.76	-528.86	-452.01
External liabilities	527.91	1052.04	1399.30
Direct investment	251.05	493.42	712.76
Portfolio investment	-4.58	-4.44	6.42
Financial derivatives	0.31	0.05	1.00
Other investment	281.13	563.01	679.12
Trade credits	44.89	107.08	136.86
Loans	191.68	334.12	421.93
Currency and deposits	53.32	60.56	53.12
Other liabilities	-8.76	61.25	67.21

The Capital and financial account of the balance of payments registered net inflow in an amount of USD 925.82 million (chart no. 18).

Capital transfers registered net outflow in an amount of USD 14.67 million.

Financial account recorded a surplus of USD 940.49 million (table no. 13).

In 2008, external assets (claims) increased by USD 458.81 million, particularly following *the increase in official reserve assets*.

External *liabilities* increased by USD 1399.30 million, mainly due to the substantial growth of foreign direct investment in the domestic economy, drawings on new loans, as well as due to external trade credits extended to economic agents of the country.

Table no. 14. Direct investment (USD, million)

	2006			2007			2008		
	inflow	outflow	net	inflow	outflow	net	inflow	outflow	net
Direct investment	384.87	133.08	251.79	574.61	93.22	481.39	867.76	188.36	679.40
<i>abroad</i>	8.51	7.77	0.74	5.51	17.54	-12.03	19.02	52.38	-33.36
<i>in domestic economy:</i>	376.36	125.31	251.05	569.10	75.68	493.42	848.74	135.98	712.76
Equity capital	129.12	10.10	119.02	251.67	22.41	229.26	475.22	40.22	435.00
banks	33.18		33.18	39.98		39.98	30.06		30.06
other sectors	95.94	10.10	85.84	211.69	22.41	189.28	445.16	40.22	404.94
Reinvested earnings	41.59		41.59	112.81		112.81	99.48		99.48
banks	7.09		7.09	27.57		27.57	22.68		22.68
other sectors	34.50		34.50	85.24		85.24	76.80		76.80
Other capital (other sectors)	205.65	115.21	90.44	204.62	53.27	151.35	274.04	95.76	178.28
Structure of direct investment inflow in domestic economy (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
banks	10.7		16.0	11.9		13.7	6.2		7.4
other sectors	89.3	100.0	84.0	88.1	100.0	86.3	93.8	100.0	92.6

Chart no. 19. Foreign direct investment in domestic economy in annual dynamics (USD, million)

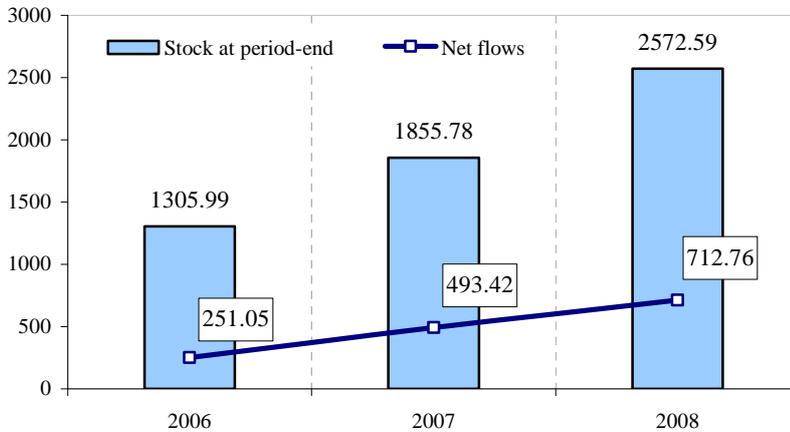
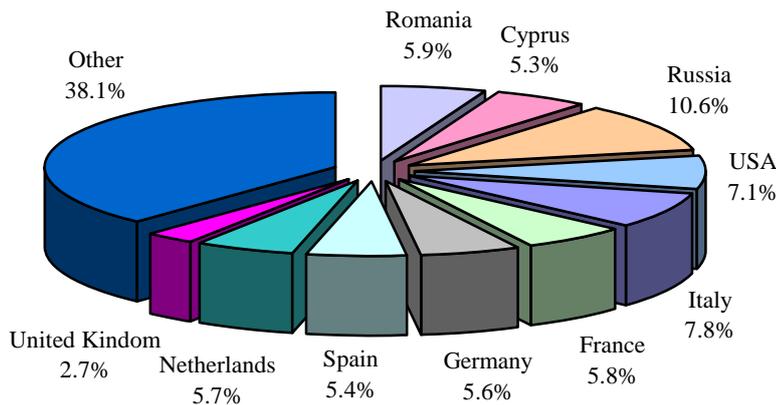


Chart no. 20. Foreign direct investment – equity capital accumulated as of 31.12.2008, by countries



Foreign direct investment inflow (table no. 14) in the domestic economy was evaluated in the net value of USD 712.76 million, of which USD 435.00 million – in the equity capital.

Earnings, reinvested by non-residents were estimated at USD 99.48 million.

Drawings on new loans from non-resident affiliated companies (other capital) constituted USD 274.04 million, increasing versus the previous year by 33.9%. Repayments were scheduled in an amount of USD 95.76 million, of which USD 85.73 million were actually paid.

The stock of foreign direct investment accumulated in the domestic economy by the end of 2008 was evaluated at USD 2572.59 million, of which: equity capital and reinvested earnings – USD 1883.46 million, other capital – USD 689.13 million. The

foreign direct investment per capita equalled to USD 721 (chart no. 19).

The breakdown of foreign direct investment (accumulated equity capital) in the domestic economy by group of countries is shown in chart no. 20.

The net direct investment abroad made by residents was estimated at USD 33.36 million, being determined both by transfers of funds in equity capital (USD 16.13

Table no. 15. Portfolio investment (USD million)

	2006	2007	2008
Portfolio investment	-4.79	-4.51	6.38
Assets (transactions with securities issued by non-residents)	-0.21	-0.07	-0.04
Equity securities	-0.21	-0.07	-0.03
Other sectors	-0.21	-0.07	-0.03
Debt securities			-0.01
Banks			-0.01
Liabilities (transactions with securities issued by residents)	-4.58	-4.44	6.42
Equity securities	1.78	1.72	11.36
Banks	1.66	1.47	10.98
equity securities sold	1.73	1.65	12.38
equity securities repurchased	-0.07	-0.18	-1.40
Other sectors	0.12	0.25	0.38
equity securities sold	0.25	0.79	0.66
equity securities repurchased	-0.13	-0.54	-0.28
Debt securities – bonds and notes	-6.36	-6.35	-6.36
General government	-6.36	-6.35	-6.36
Money market instruments		0.19	1.42
General government		0.19	1.42
treasury bills sold		0.19	4.56
treasury bills repurchased			-3.14

Note: Non-resident to non-resident transactions are not reflected in the balance of payments.

million) and loans extended by resident economic agents to non-resident affiliated enterprises (USD 17.23 million).

Net portfolio investment flows (table no. 15) constituted USD 6.38 million, the inflow was conditioned by non-residents' purchase of shares in the banking sector and of treasury bills, while the outflow – by principal payments due on Eurobonds.

Other investment recorded a net capital inflow in an amount of USD 705.78 million,

Table no. 16. External loans (USD, million)

	2006		2007		2008	
	drawings	repayments	drawings	repayments	drawings	repayments
Monetary authorities loans (NBM from IMF)	65.15	24.10	33.27	22.05	37.56	25.43
Governmental loans	118.84	61.03	79.28	51.68	74.82	54.73
of which: rescheduled	87.71	14.44	31.94	21.18	31.52	21.74
Banking loans	24.20	16.99	161.43	39.23	243.70	68.99
long term	24.20	16.99	142.98	39.23	210.95	64.48
short term			18.45		32.75	4.51
Other sectors' loans	171.84	86.23	305.02	131.92	526.30	311.30
long term	159.20	80.77	295.52	124.55	482.12	282.87
short term	12.64	5.46	9.50	7.37	44.18	28.43
TOTAL	380.03	188.35	579.00	244.88	882.38	460.45
TOTAL except rescheduled	292.32	173.91	547.06	223.70	850.86	438.71

external financial assets decreased by USD 26.66 million, while the liabilities to non-residents went up by USD 679.12 million.

Net trade credits repayments on those extended previously by domestic economic agents

(assets) were evaluated, in 2008, at USD 52.11 million, while the net growth of trade credits received from foreign partners (liabilities) – at USD 136.86 million.

Table no. 17. Other liabilities (USD, million)

	2006	2007	2008
Other liabilities	-8.76	61.25	67.21
General Government	-60.90	-0.13	
accumulation of principal arrears	19.35	21.18	21.74
accumulation of interest arrears	6.74	10.76	9.78
repayment of principal arrears	-0.05	-0.09	
repayment of interest arrears		-0.04	
rescheduling of arrears	-86.94	-31.94	-31.52
Other sectors	52.14	51.08	77.51
accumulation of principal arrears	52.00	63.02	93.47
accumulation of interest arrears	2.95	5.75	9.46
repayment of principal arrears	-2.81	-17.63	-25.42
repayment of interest arrears		-0.06	
Banks		10.30	-10.30

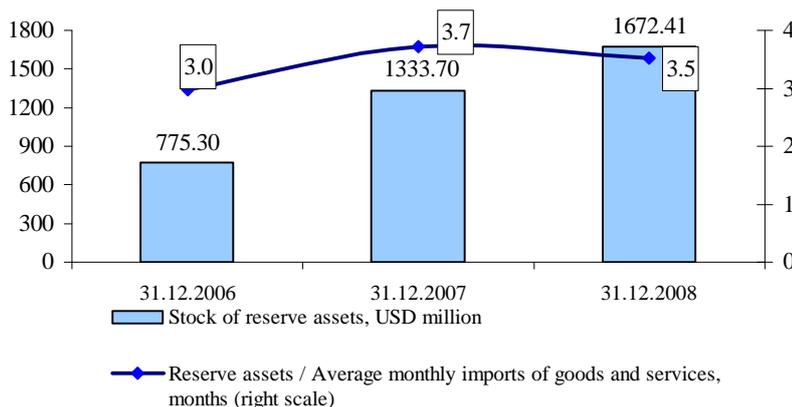
External assets in the form of *currency and deposits* increased by USD 25.45 million (net), of which the assets of authorized banks went up by USD 36.20 million, while those of economic agents from other sectors and of individuals diminished by USD 10.75 million. The deposits of non-residents with domestic authorized

banks (liabilities) enlarged on the net basis by USD 53.12 million.

External *loans* broken down by sector are shown in table no. 16.

In 2008, the BNM drew USD 37.56 million from the IMF financing programme and reimbursed USD 25.43 million from previously contracted loans.

Chart no. 21. Official reserve assets of the Republic of Moldova



The Government of the Republic of Moldova borrowed from abroad USD 43.30 million. Scheduled for repayment were USD 54.73 million, and actual payments totalled USD 32.99 million. The rescheduled amounts, according to the conditions of the Paris Club, constituted USD 31.52 million, of which principal – USD 21.74 million.

Authorized banks made drawings from abroad in the amount of USD 243.70 million, by 51.0% more than in 2007.

The economic agents of other sectors borrowed from abroad USD 526.30 million. USD 311.30 million were scheduled for repayment, of which USD 260.48 million were actually paid. The unpaid amounts (arrears) were recorded under other liabilities.

Chart no. 22. External debt by maturity (USD, million)

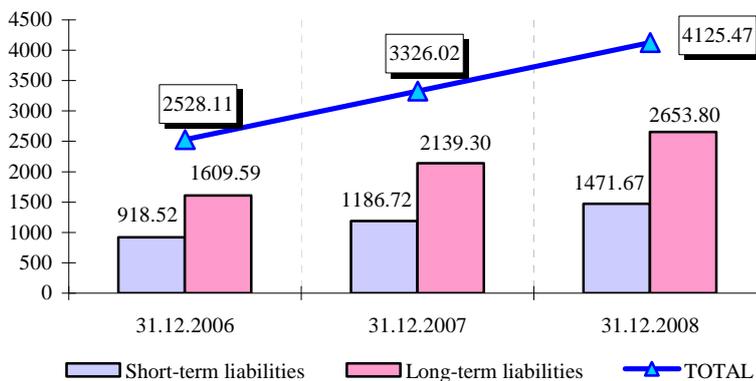


Table no. 18. Gross External debt by sector (USD, million)

	31.12.2006	31.12.2007	31.12.2008
General Government	718.23	765.80	778.30
Short-term	0.13		
Other debt liabilities	0.13		
Arrears	0.13		
Long-term	718.10	765.80	778.30
Bonds and notes	19.04	12.69	6.35
Loans	699.06	753.11	771.95
Monetary authorities	140.96	159.36	166.97
Long-term	140.96	159.36	166.97
Loans	140.96	159.36	166.97
Banks	150.77	373.45	581.75
Short-term	106.78	207.24	273.74
Loans		18.45	46.70
Currency and deposits	106.78	178.49	227.04
Other debt liabilities		10.30	
Long-term	43.99	166.21	308.01
Loans	43.99	166.21	308.01
Other sectors	1134.45	1470.82	1866.90
Short-term	789.14	949.32	1155.51
Loans	8.60	11.07	25.61
Trade credits	387.41	501.73	628.13
Other debt liabilities	393.13	436.52	501.77
Arrears	68.84	89.80	137.82
Other	324.29	346.72	363.95
of which debt for energy resources	319.74	345.10	362.33
Long-term	345.31	521.50	711.39
Loans	345.31	521.50	711.39
Direct investment: Intercompany lending	383.70	556.59	731.55
Debt liabilities to direct investors	383.70	556.59	731.55
Arrears	22.47	30.16	42.42
Others	361.23	526.43	689.13
TOTAL	2528.11	3326.02	4125.47

Note: data for 2007 were revised

During 2008, *other liabilities* (arrears and other outstanding liabilities) registered the net increase by USD 67.21 million (table no. 17). Arrears of economic agents from other sectors went up by USD 77.51 million. Other banking external liabilities reduced due to the issue of non-resident investors shares in extinction of advance payment made in 2007.

The official reserve assets equalled to USD 1672.41 million by the end of 2008. (chart no. 21).

Out of reserves, USD 81.80 million were allocated for the external debt service, USD 12.58 million – to the maintenance of embassies, USD 3.70 million – to the payment of membership fees to international organizations.

External debt of the Republic of Moldova

The country's gross external debt at the end of 2008 constituted USD 4125.47 million.

Short-term liabilities held 35.7% of total (chart no. 22).

Table no. 19. External public and publicly guaranteed debt and non-guaranteed private sector debt (USD, million)

	31.12.2006	31.12.2007	31.12.2008
Public and publicly guaranteed debt	876.38	943.99	957.05
<i>Short-term</i>	<i>0.13</i>	<i>0.04</i>	<i>0.12</i>
Other debt liabilities	0.13	0.04	0.12
Arrears (principal and interest)	0.13	0.04	0.12
of which: debt of public corporations*		0.04	0.12
<i>Long-term</i>	<i>876.25</i>	<i>943.95</i>	<i>956.93</i>
Bonds and notes	19.04	12.69	6.35
Loans	857.21	931.26	950.58
of which: debt of public corporations		5.29	0.73
Non-guaranteed private debt	1651.73	2382.03	3168.42
<i>Short-term</i>	<i>895.92</i>	<i>1156.51</i>	<i>1429.12</i>
Loans	8.60	29.52	72.31
Currency and deposits	106.78	178.49	227.04
Trade credits	387.41	501.73	628.13
Other debt liabilities	393.13	446.77	501.64
Arrears (principal and interest)	68.84	89.75	137.69
Other	324.29	357.02	363.95
<i>Long-term</i>	<i>372.11</i>	<i>668.93</i>	<i>1007.75</i>
Loans	372.11	668.93	1007.75
Direct investment: Intercompany lending	383.70	556.59	731.55
Debt liabilities to foreign investors	383.70	556.59	731.55
Arrears	22.47	30.16	42.42
Other	361.23	526.43	689.13
Total	2528.11	3326.02	4125.47

*reclassification

Note: Since September 2007 the external public debt includes the liabilities of public corporations (economic agents in which the government holds 50.0% or more of equity capital).

Short-term debt included: trade credits (formed of advance payments received for subsequent exports of goods and services and postponed payments for imports already received), short-term loans and arrears on external loans service (formed of outstanding liabilities), and deposits of non-residents.

In the total of short-term external debt (USD 1471.67 million), trade credits in the form of postponed payments for imports accounted for 16.5%, while in form of advances for delayed exports – 21.8%, short-

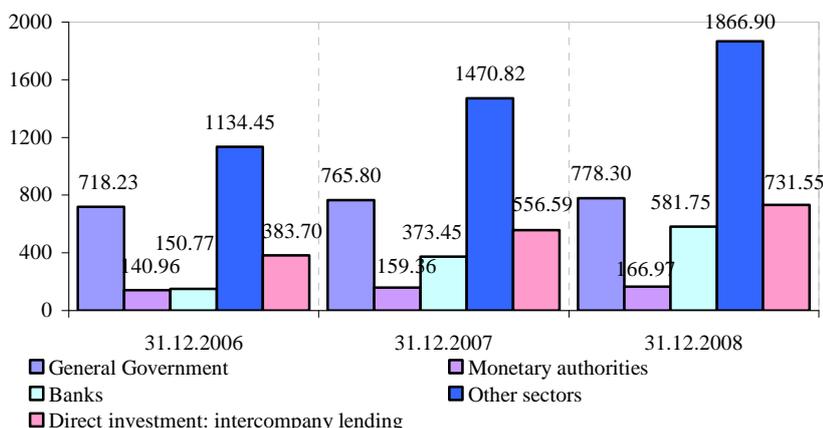
term loans and accumulated arrears on external loans service (including those on loans from affiliated creditors) – 17.2%, historical debt for imported energy resources – 24.6%, deposits of non-residents (both demand deposits and time deposits) – 15.4%.

The debt of the National Bank of Moldova to the IMF advanced by 4.8%, following the disbursement of two tranches in an amount of USD 37.56 million, USD 25.43 million were reimbursed of previously contracted loans, while the fluctuation of exchange rates of other currencies against the US dollar reduced the stock by USD 4.52 million.

The increase, during 2008, of the banking sector’s liabilities from USD 373.45 million to USD 581.75 million, or by 55.8% was due to drawings on new loans under credit lines from international financial institutions and affiliated banks from abroad, as well as to the increase in non-residents’ deposits.

The stock of public and publicly guaranteed external debt advanced over 2008 by 1.4%, and recorded USD

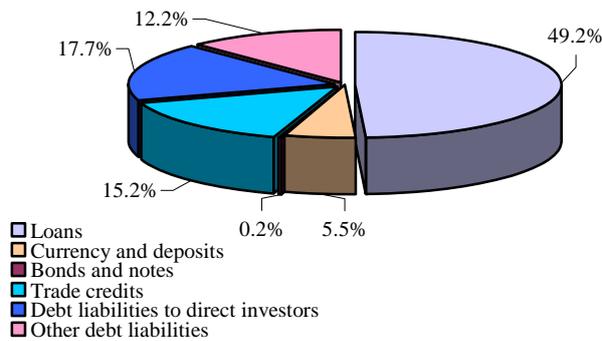
Chart no. 23. External debt – by sectors (USD, million)



957.05 million. The non-guaranteed private external debt constituted USD 3168.42 million, increasing by 33.0% versus the end of 2007 (table no. 19).

Within the structure of debt by institutional sectors, the economic agents of other sectors held the highest share – 45.3% (chart no. 23).

Chart no. 24. Structure of external debt by type of liability



The external debt structure by types of liability revealed the continuous prevalence of loans (49.2%) in the total debt (chart no. 24).

Liabilities in the form of loans and debt securities (table no. 20) equalled USD 2906.35 million and were distributed as follows: private sector - 67.4% (including the publicly guaranteed private debt), public sector - 32.6% (including the NBM debt, direct governmental debt, and the

debt assumed by the government as a result of the guarantee activation, as well as the debt of public corporations).

Table no. 20. External loans and debt securities* (USD, million)

	31.12.2006	31.12.2007	31.12.2008
Monetary authorities	140.96	159.36	166.97
Loans (from the IMF)	140.96	159.36	166.97
Governmental debt	718.23	765.80	778.30
<i>Direct governmental debt</i>			
debt	698.40	747.22	762.77
Loans	679.36	734.53	756.42
Debt securities	19.04	12.69	6.35
<i>Publicly guaranteed assumed debt**</i>			
19.83	18.58	15.53	
Other sectors	19.83	18.58	15.53
Loans	19.70	18.58	15.53
Arrears on loans	0.13		
Debt of public corporations	-	5.33	0.85
Banks	-	0.59	
Loans	-	0.59	
Other sectors	-	4.74	0.85
Loans	-	4.70	0.73
Arrears on loans	-	0.04	0.12
Publicly guaranteed private debt***	17.19	13.50	10.93
Other sectors	17.19	13.50	10.93
Loans	17.19	13.50	10.93
Private debt non-guaranteed by the government	833.25	1344.79	1949.30
Banks	43.99	184.07	354.71
Loans	43.99	184.07	354.71
Other sectors	789.26	1160.72	1594.59
Loans	697.95	1040.80	1414.48
Arrears on loans	91.31	119.92	180.11
TOTAL	1709.63	2288.78	2906.35

*including arrears on principal and interest

** loans under the guarantee of the government serviced by the government

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

Table no. 21. External loans and debt securities by creditor* (USD, million)

	31.12.2006	31.12.2007	31.12.2008
Monetary authorities	140.96	159.36	166.97
IMF	140.96	159.36	166.97
Direct governmental debt	698.4	747.22	762.77
<i>Multilateral creditors</i>	412.65	461.65	480.24
IBRD and IDA	393.37	434.49	436.40
EBRD	4.41	3.44	2.47
IFAD	12.24	19.31	31.64
CEB	2.63	4.41	8.79
EIB			0.94
<i>Bilateral creditors</i>	266.71	272.88	276.18
USA	56.99	56.74	56.41
Japan	22.26	22.51	26.89
Russia	137.31	135.84	133.51
Other	50.15	57.79	59.37
<i>Debt securities</i>	19.04	12.69	6.35
Publicly guaranteed assumed debt**	19.83	18.58	15.53
<i>Multilateral creditors</i>	0.13		
EBRD	0.13		
<i>Other creditors</i>	19.70	18.58	15.53
Debt of public corporations		5.33	0.85
<i>Other creditors</i>		5.33	0.85
Publicly guaranteed private debt***	17.19	13.50	10.93
<i>Multilateral creditors</i>	17.19	13.50	10.93
EBRD	17.19	13.50	10.93
Private debt non-guaranteed by the government	833.25	1344.79	1949.30
<i>Multilateral creditors</i>	79.63	100.02	166.68
<i>Other creditors</i>	753.62	1244.77	1782.62
TOTAL	1709.63	2288.78	2906.35

*including arrears on principal and interest

** loans under the guarantee of the government serviced by the government

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

The stock of the external governmental debt enlarged by USD 12.50 million, or by 1.6%: the direct governmental debt grew by 2.1%, the publicly guaranteed assumed debt declined by 16.4%. The dynamics of the governmental debt was determined by drawings on loans in an amount of USD 43.30 million, repayments of principal on loans and on debt securities – USD 39.32 million, as well as by interest accrued to be rescheduled – USD 9.78 million (according to the rescheduling conditions negotiated with the Paris Club), and the exchange rates fluctuations of the main currencies against the US dollar.

During the reporting period, no new loans under the government guarantee were contracted, economic agents repaid USD 2.55 million from previously contracted loans.

The private sector benefited from new loans in an amount of USD 1044.06 million and repaid USD 422.56 million of principal.

The main creditors of the Republic of Moldova are specified in table no. 21. It should be mentioned that the share of multilateral creditors continues to decrease, thus, it constituted 28.4% of the total liabilities on external loans accumulated at the end of 2008, 32.1% – at the end of 2007 and 38.1% – at the end of 2006.

The evolution of indicators revealing the indebtedness of the country is shown in table no. 22.

Table no. 22. Indicators of External Indebtedness

	Unit	2006	2007	2008
External debt at the end of the year	USD, million	2528.11	3326.02	4125.47
Exports of goods and services	USD, million	1547.31	2018.18	2496.45
External debt in form of loans and debt securities	USD, million	1709.63	2288.78	2906.35
Service of external public debt in form of loans and debt securities* (according to schedule)	USD, million	123.76	92.69***	91.33***
Service of external public debt in form of loans and debt securities* (effective payments)	USD, million	98.16	92.75***	91.25***
Service of external governmental debt** (effective payments)	USD, million	66.45	53.16	54.89
Service of external public debt in form of loans and debt securities* (according to schedule)/Exports of goods and services	%	8.0	4.6	3.7
Service of external public debt in form of loans and debt securities* (effective payments)/Exports of goods and services	%	6.3	4.6	3.7

* including service of loans under the government's guarantee

** including payments by the government on guaranteed loans

*** including service of loans to public corporations since 09.09.2007

Activity of the National Bank of Moldova

The achievement of the monetary and foreign exchange policy in 2008

The basic attribution of the National Bank of Moldova is to establish and implement the monetary and foreign exchange policy of the state within the Government's single economic policy. The monetary and foreign exchange policy is defined as a set of measures undertaken by the National Bank of Moldova with the purpose of achieving its fundamental objective, by creating favorable monetary conditions for maintaining the macroeconomic stability and encouraging the sustainable economic growth.

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

With the view of achieving this objective, the National Bank of Moldova establishes and maintains the conditions of the money, credit and foreign exchange market, which lead to a sustainable, stable economic development of the state, and, especially, of the financial and foreign exchange system based on market laws.

The legislative and macroeconomic framework in 2008

The monetary and foreign exchange policy for the year of 2008 was worked out pursuant to the Law on the National Bank of Moldova, and was finalized in collaboration with the respective financial and economic authorities of the Government of the Republic of Moldova and approved by the Council of administration of the National Bank of Moldova on December 20, 2007.

While working out the foreign exchange and monetary policy of the National Bank of Moldova for the year of 2008, the following issues were taken into account:

1. Scenarios of economic development of the Republic of Moldova presented in the medium – term expenditures for the period of 2008-2010.
2. The strategy of the Government of the Republic of Moldova and of the National Bank of Moldova regarding the development of the financial sector of the Republic of Moldova for the period of 2005-2010.
3. The State Budget Law for the year of 2008.

With the purpose of creating the conditions for sustainable economic growth, the monetary and foreign exchange policy during 2008 was aimed at reducing the inflation level, the further consolidation of the banking system and the maintenance of the favorable conditions for the economic development in the foreign exchange financial and credit market. For this purpose, monetary and foreign exchange policy for 2008 was based on the following assumptions and expectations:

- Gross Domestic Product will increase by 6.0% in real terms;

- the growth rates of the monetary aggregates will be below the level of 2007;
- the growth rate of the foreign currency inflows into the country will be maintained;
- the trade balance with goods and services will improve on the account of the increased export;
- Gradual reduction of the inflationary expectations.

In 2008, the Government of the Republic of Moldova, the National Bank of Moldova and the International Monetary Fund continued the implementation of the provisions of the Memorandum regarding the Financial and Economic Policies for the period of 2006-2008.

During the year of 2008 the coordination of the budget and fiscal, monetary and foreign exchange policy was also carried out within the framework of the Liquidity Management Committee, founded by the National Bank of Moldova and the Ministry of Finance in 2006, with the purpose of collaborating efficiently to achieve the attributions of managing and monitoring the liquidity in the financial market.

Objectives of the monetary and foreign exchange policy in 2008

In 2008 the monetary and foreign exchange policy of the National Bank of Moldova was focused on the ensuring and the maintenance of the inflation rate in the limit of up to 10.0%. Without prejudice to its fundamental objective, the National Bank of Moldova promoted and maintained a financial system based on market principles and sustained the Government's general economic policy.

In 2008 the National Bank of Moldova promoted the monetary and foreign exchange policy based on the following principles:

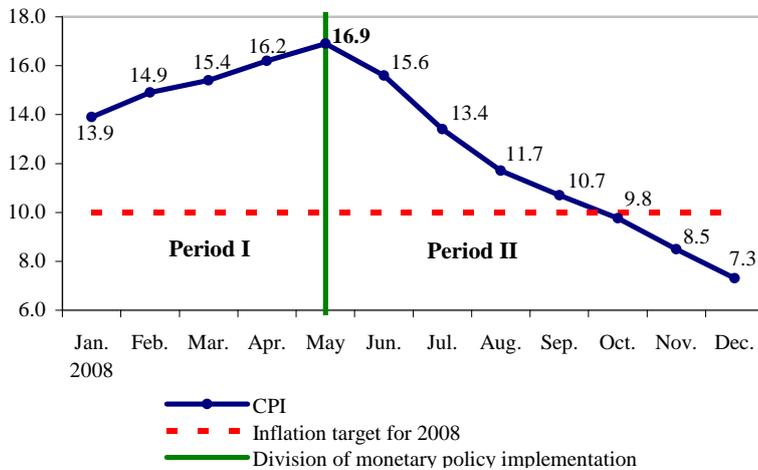
- maintenance of the base rate of the National Bank of Moldova at a positive real level;
- the setting up of the required reserves ratio taking into account the inflation level, inflationary expectations, the economic situation and the conditions of the domestic money market;
- the optimization of monetary policy instruments in order to improve the opened market operations;
- the further maintenance of the floating exchange rate regime;
- the mitigation of inflationary expectations, including via coverage in the media of the approved decisions and of the obtained results.

Implementation and promotion of the monetary and foreign exchange policy during 2008

The monetary and foreign exchange policy implementation and promotion during 2008 can be divided into two stages (chart no. 25):

- a) ***from the beginning of the year to the end of May***, a period, in which the inflation index increased rapidly and reached the level of 7.4% from the beginning of the year and of 16.9% for the last twelve months;

Chart no. 25. Inflation dynamics and monetary policy implementation periods over 2008 (%)



b) *from June to the end of 2008.* During this period, a 2.0%-deflation was registered in June-July, followed by the moderate increase of the inflation over August, September, October and November 2008 of 0.7, 0.6, 0.8, 0.0%, respectively, and in December a deflation of 0.2% was recorded, which conditioned an annual inflation level of 7.3%.

In the first period, the rapid increase of inflation up to 16.9% versus May 2007 was determined by:

- significant prices increase of foodstuff products, as a result of adverse weather conditions from the Republic of Moldova and the region in 2007;
- increase of prices on energy resources and of tariffs for services conditioned by the evolution of the world prices;
- money supply increase, as a result of the enlargement of foreign currency flows and of the rapid growth of the banking lending.

During this period, the National Bank of Moldova increased three times the base rate in order to reverse the inflation trend and to bring inflation in the limit of 10.0% in the annual value:

- on January 31, 2008 by 2.5 percentage points to 16.0% per year;
- on March 12, 2008 by 1.0 percentage points to 17.0% per year;
- on May 23, 2008 by 1.5 percentage points to 18.5% per year.

Simultaneously, the National Bank of Moldova used the required reserves ratio as the monetary policy instrument in order to moderate the inflationary expectations and to stimulate the population to reduce current consumption in favor of savings.

On March 12, 2008 the Council of administration of the National Bank of Moldova decided to increase the required reserves ratio both in MDL, as well as, in free convertible currency by 1.0 percentage point, setting it up in the value of 16.0% of the calculation base beginning with the tracing period of the attracted funds April 6 – 20, 2008. On May 23, 2008 the Council of administration approved the scheduled increase of the required reserves ratio by 6.0 percentage points.

In June, the inflation level recorded an downward trend as a result of certain measures applied jointly by the National Bank of Moldova and the Government of the Republic of Moldova, and namely: the intensification of the monetary and foreign exchange policy, the promotion of the balanced budget and fiscal policy and the ensuring of the market activity based on the principles of free competitiveness.

Another factor that influenced the diminution of the inflation level in September – December, was the price reduction for oil resources, as a result of their evolution in the world market and of the positive effects of the crop in 2008.

The second period in the monetary policy promotion and implementation was characterized by the gradual liberalization of the monetary policy due to the reversal of the inflation trend and to the compliance of the inflation forecast with the limit established for 2008.

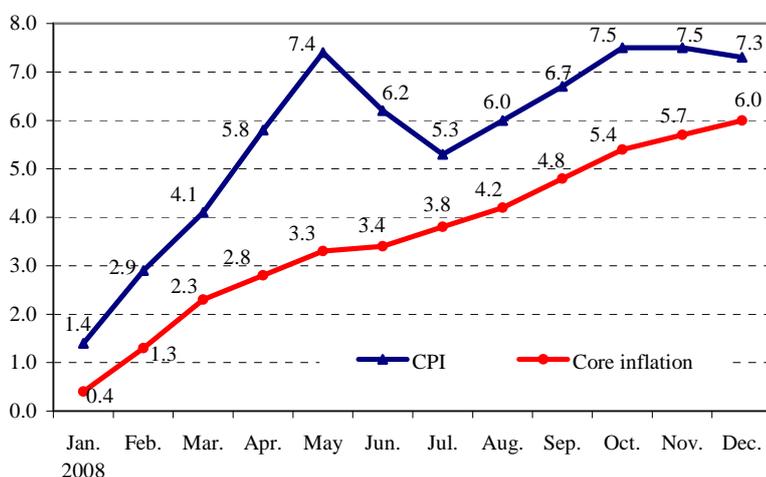
Taking into account the time lag of 3 – 6 months between the approved decisions and their effects on the fundamental objective, the National Bank of Moldova maintained the level of the base rate until September 2008.

Subsequently, as the inflation trend reversed, the inflationary expectations reduced, the Council of administration of the National Bank of Moldova adopted the following decisions:

1. On September 25, 2008 - 1.5 percentage point-reduction of the base rate, down to 17.0% per year and 1.5 percentage point-reduction of the required reserves ratio, down to 20.5% of base calculation starting with the tracing period of attracted funds October 6 – 20, 2008.
2. On November 27, 2008 - 1.5 percentage point-reduction of the base rate, to 15.5% per year and 1.5 percentage point-reduction of the required reserves ratio, to the level of 19.0% of the calculation base starting with the tracing period of attracted funds November 21 – December 5, 2008.
3. On December 18, 2008 - 1.5 percentage point-reduction of the base rate, to 14.0% per year and 1.5 percentage point-reduction of the required reserves ratio, to 17.5% of base calculation starting with the tracing period of the attracted funds December 21, 2008 – January 5, 2009.

Results of the monetary and foreign exchange policy over 2008

Chart no. 26. Cumulative evolution of consumer prices index for 2008 (%)



According to the calculations of the National Bureau of Statistics, the real GDP growth in 2008 constituted 7.2%. During the same period the growth rate of exports with goods and services constituted 23.7%, while that of imports – 32.2% as compared to the previous year. The average exchange rate of the national currency in 2008 constituted MDL 10.3895 per USD 1. The state Budget recorded a deficit 0.8% of GDP.

At the end of 2008 the inflation constituted 7.3%, including prices for foodstuff products increased by 6.5%, for non-foodstuff products by 2.1% and for services rendered to the population by 17.4% (chart no. 26).

Core inflation index* in 2008 constituted 6.0%, by 1.3 percentage points below the level of the inflation rate and by 4.0 percentage points lower as compared to the limit of the initially forecast inflation indicator, which denotes the reduced impact of the monetary factor on the increase of the consumer prices in 2008.

Dynamics of monetary indicators

During 2008, the National Bank of Moldova used the monetary policy instruments and contributed to the essential diminution of the growth rate of monetary aggregates as compared to 2007 and achieved the respective provisions set up by the monetary and foreign exchange policy for 2008.

Table no. 23. Reserves money components at period-end (MDL, million)

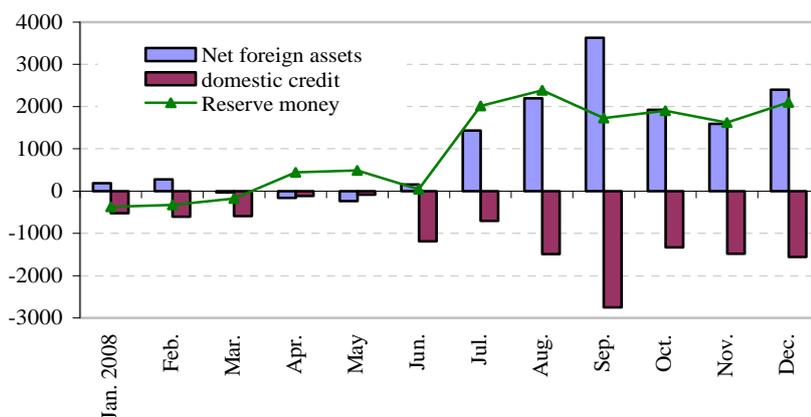
	2007	2008	Change	
			relative %	absolute MDL, million
Reserve money	9537.2	11633.6	22.0	2096.4
Currency	6664.9	7578.7	13.7	913.8
Bank reserves	2872.2	4051.3	41.1	1179.1
Required reserves	1948.0	2886.3	48.2	938.3
Other reserves	924.2	1165.0	26.1	240.8
Deposits of state enterprises	0.1	3.6		3.5

Reserve money

In 2008 *reserve money*** went up by 22.0% (2096.4 million lei) versus the previous year and constituted 11633.6 million

lei at the end of December 2008. The increase of the reserve money was mainly determined by the evolution of the *net foreign assets* of the National Bank of Moldova,

Chart no. 27. Components of reserve money increase versus December 2007 (MDL, million)



which soared by 2396.0 million lei, or by 18.1% versus the end of 2007. The main factor that determined their increase was the net foreign currency acquisitions in the interbank foreign exchange market.

In this context, it should be mentioned that, during January-May 2008, the net foreign assets displayed a relatively steady evolution.

* The index is calculated through the exclusion method (foodstuff products, fuel, products and serviced with administered prices were excluded), based on CPI calculated by the National Bureau of Statistics of the Republic of Moldova.

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

However, as the foreign currency acquisitions by the National Bank of Moldova in the interbank market advanced during July-September 2008, the growth rates of the net external assets went up essentially. Thus, in Quarter III, 2008 foreign currency acquisitions constituted 55.7% of the total annual volume of acquisitions in the interbank foreign exchange market (chart no. 27).

At the same time, *net domestic assets* diminished by 299.6 million lei, or by 8.1% versus the end of 2007, as a result of the reduction of the *domestic credit* by 1556.1 million lei, or by 50.1% (including of the reduction of claims to the Government by 386.9 million lei and of NBM claims to banks by 1169.2 million lei), as well as, of the increase of other items by 1256.5 million lei. The reduction of the net internal assets was due to huge sterilizations as a result of the restrictive monetary policy promotion and of the budget and fiscal policy balancing.

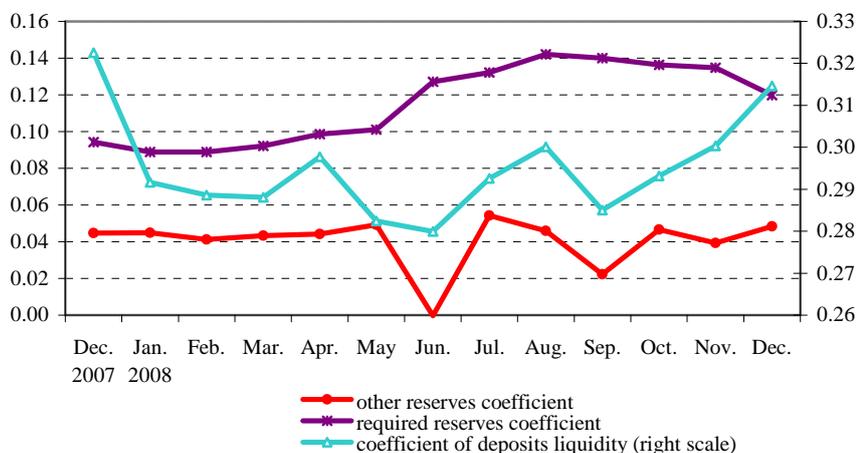
At the end of 2008, the weight of currency in circulation within the structure of reserve money dropped by 4.8 percentage points, from 69.9% to 65.1%. Simultaneously, the weight of the banks' reserves advanced from 30.1% to 34.9%. The growth of the weight of the banks' reserves over 2008 was conditioned by the increase of the required reserves ratio from funds attracted in national currency and in foreign currency by 4.0 percentage points (from 15.0% at the end of 2007 to 19.0% at the end of 2008).

Money multiplier M3 (ratio of reserve money to money supply M3) fell over the reporting period from 2.87 to 2.72, which denotes the higher increase of reserve money as compared to the money supply M3 growth.

In the course of 2008, the money multiplication effect displayed a contradictory trend, which was determined by the behavior of both the population and the banking sector regarding the saving level, the liquidity level and the national economy lending degree.

Under these conditions, the dynamics of money multiplier M3 was determined by the fluctuations of its components, and, namely, the required reserves factor (which was within

Chart no. 28. Dynamics of M3 money multiplier over 2008 (%)



the limits of 0.14% and 0.09%), other bank reserves factor (0.005% and minus 0.0006%), as well as, the liquidity factor (0.32% and 0.28%) (chart no. 28).

At the same time, the efficient use of the monetary policy instruments focused on the diminution of both the excess reserves of the banking system and of the growth rates of the volume of credits extended to the national economy led to the

reduction of the money multiplication and, subsequently, the money multiplier M2 (ratio of

reserve money to broad money M2) went down over the reporting period from 1.93 to 1.87. It should be mentioned that, the annual average excess reserves of the banking system stepped back in 2008 as compared to 2007 by 89.9 million lei (of 2.1 times), from 169.7 million lei to 79.8 million lei.

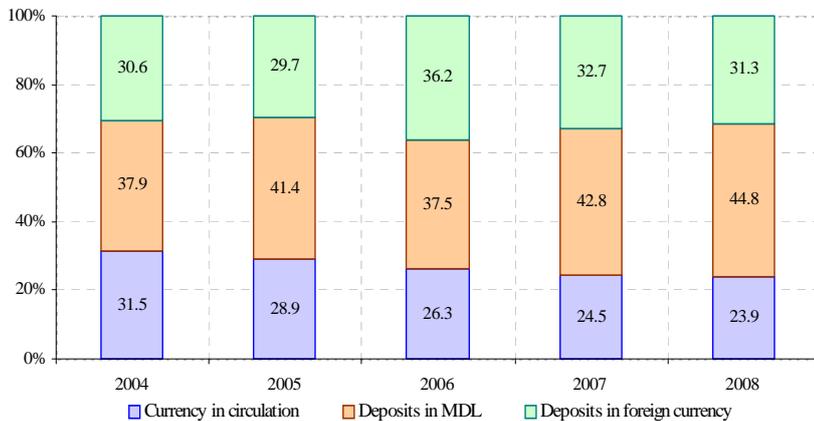
Money supply evolution

Broad money (M2)* amounted at the end of 2008 to 21774.0 million lei, increasing by 3377.3 million lei, or by 18.4% versus the end of 2007.

At the same time, **money supply (M3)**** enlarged by 4336.6 million lei, or by 15.9% and constituted 31680.7 million lei as of December 31, 2008.

The analysis of the liability components of the money supply (M3) denoted that its

Chart no. 29. Structure of monetary mass M3 over the years 2004–2008



increase was mainly determined by significant growth of *deposits in national currency*, which contributed by 56.8% of money supply M3 increase (chart no. 29). *Deposits in foreign currency and currency in circulation* contributed by 22.1% and 21.1%, respectively, to the growth rate of money supply M3.

Thus, at the end of 2008 as compared to 2007, the weight of deposits in national currency in the volume of money supply M3

increased by 2.0 percentage points, and accounted for 44.8%, while the weight of deposits in foreign currency and of currency in circulation diminished by 1.4 and 0.6 percentage points, and constituted 31.3 and 23.9%, respectively (table no. 24).

Table no. 24. Liability components of money supply at period-end (MDL, million)

	2007	2008	Growth %	Weight in M3 2008 %
Money supply (M3)	27344.1	31680.7	15.9	100.0
Broad money (M2)	18396.7	21774.0	18.4	68.7
Currency (M0)	6664.9	7578.7	13.7	23.9
Deposits	20661.9	24085.2	16.6	76.1
In MDL	11714.5	14178.5	21.0	44.8
In foreign currency	8947.4	9906.7	10.7	31.3
Monetary market instruments	17.3	16.8	-2.7	0.0

In 2008 *currency in circulation (M0)* increased by 13.7% (913.7 million lei) versus the previous year, and totalled 7578.7 million lei at the end of December 2008. The monthly average rate of currency in circulation constituted 1.1%. During the year of 2008 currency in circulation recorded a different trend versus the previous years and displayed a significant growth in December

* Broad money M2 includes currency in circulation (M0), deposits in MDL and money market instruments.
 ** Money supply M3 includes broad money M2 and deposits in foreign currency of residents expressed in MDL.

(by 7.3%, or by 515.7 million lei versus November 2008).

In the course of the analysed period the main factor that determined the increase of the monetary aggregate (M0) was represented by foreign currency purchases – sales by individuals.

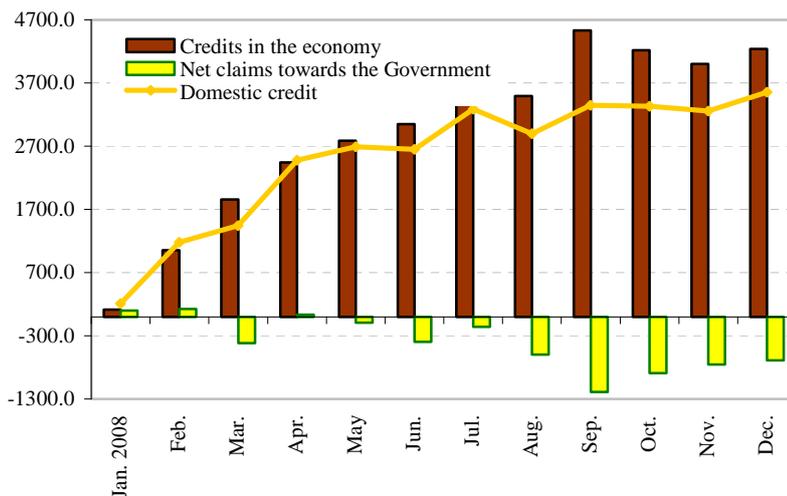
The net volume of the banks' foreign currency buying operations from individuals equalled in 2008 to USD 2272.3 million, as compared to the volume of USD 1628.1 million recorded in 2007.

The growth of money supply M3 over 2008 was due to the upward trend of its components, especially, to the increase of the *net domestic assets* of the banking system by 3501.1 million lei (22.4%) versus the end of 2007.

Simultaneously, *the domestic credit* within the banking system advanced by 3551.8 million lei (16.6%), to the level of 25014.0 million lei, this increase was due to the growth of the *balance of credits to economy*. At the same time, *net claims to the Government* reduced in

2008 by 687.0 million lei, or 1.2 times (chart no. 30).

Chart no. 30. Components of the growth of domestic credit compared with December 2007 (MDL, million)



At the end of 2008 the weight of claims to the Government diminished by 4.3 percentage points and constituted minus 0.6% of the net domestic assets of the banking system. Claims to economy fell by 2.2 percentage points and reached the level of 131.3% of total net internal assets.

Net foreign assets (convertible) of the banking system soared by USD 171.7 million, and

amounted to USD 1205.8 million.

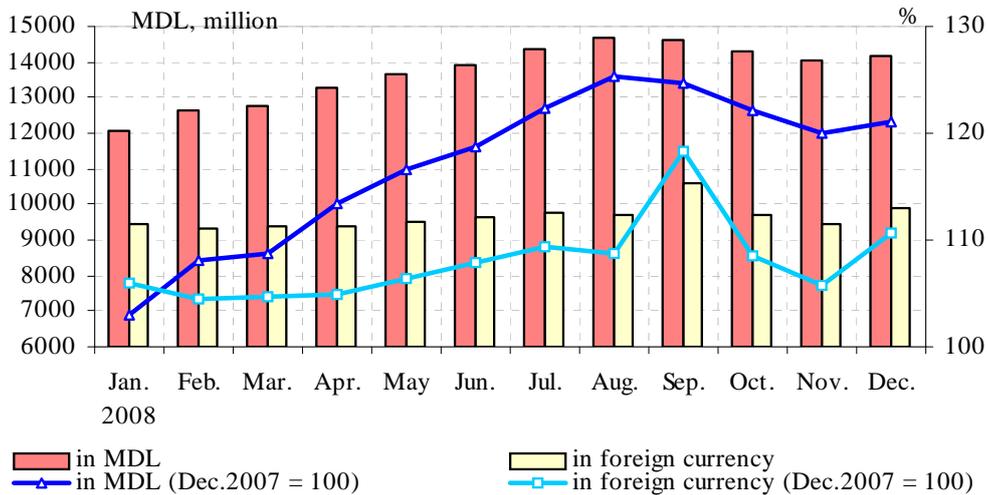
The growth of the *net foreign assets* of the banking system in 2008 was determined by the increase of *the net international reserves of the banking system* by USD 178.3 million. Within their structure, *net international reserves of the National Bank of Moldova* augmented by USD 332.0 million versus the end of 2007 and reached the level of USD 1505.3 million, while *net international reserves of banks* diminished by USD 153.8 million, to the level of minus USD 279.7 million.

Under these conditions the *net international reserves of the National Bank of Moldova* within the structure of the net external assets of the banking system soared versus the end of 2007 by 11.3 percentage points, while net international reserves of banks reduced 2.2 times at the end of 2008.

Deposits market

The balance of deposits* within the banking system totalled 24085.2 million lei at the end of 2008, exceeding by 16.6% (3423.3 million lei) the level of the previous (chart no. 31). The increase of the total balance of deposits was generated by both components, that in

Chart no. 31. Evolution of deposits in 2008



national currency recorded a more accelerated dynamics (21.0%) compared to that in foreign currency (10.7%). The prevalence of deposit in national currency against deposits in foreign currency was due both to the relative stabilization of the foreign exchange rate and the confidence of the population in the national currency, at the same time, being supported by the high rates on deposits in national currency.

The balance of deposits in national currency in 2008 recorded an increase (by 2464.1 million lei, or by 21.0%), to the level of 14178.5 million lei, less as compared to 2007 (by 4390.1 million lei, or by 59.9%).

With a weight of 32.0% of total of money supply (M3), **term deposits in national currency** enlarged by 2692.1 million lei, to 10148.0 million lei. Their weight was mainly due to deposits of individuals, which increased by 31.4% (1984.6 million lei) versus the end of 2007.

The balance of **deposits in foreign currency** of residents, expressed in MDL, equalled to 9906.7 million lei (the equivalent of USD 952.5 million), increasing by 959.3 million lei, which represents 28.0% of annual growth of deposits within the banking system.

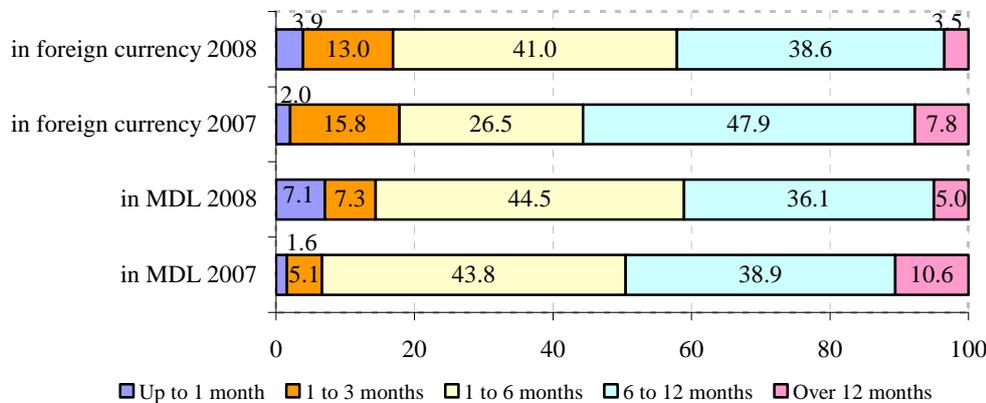
The balance of term deposits in foreign currency of residents went up by 18.4%, to 7955.6 million lei. Expressed in USD, these advanced by USD 171.4 million and constituted USD 764.9 million at the end of 2008. It should be mentioned that **term deposits in foreign currency of individuals** recorded 88.0% and they increased by 18.4% (1089.0 million lei, the equivalent of USD 150.9 million) versus the end of 2007.

Consequently, the weight of **deposits in foreign currency** within the structure of total deposits reduced by 2.2 percentage points, generating, thus, the reduction of deposits dollarization from 43.3% in December 2007 to 41.1% in December 2008.

* According to the methodology of the IMF, the funds of the commercial banks and financial institutions, state budget accounts, extra budgetary funds, deposits of non-resident individuals and firms.

During the reporting year *the volume of term deposits attracted by banks* constituted

Chart no. 32. Structure of the volume of term deposits attracted by in MDL and in foreign currency (%)



33766.3 million lei, increasing by 60.4% as compared to 2007. In 2008 the ascendant trend of growth rates of term deposits in national currency was maintained (79.4% in 2008 versus 70.9% in 2007), and reached the value of 18219.8 million lei.

Within the structure, term deposits with terms of 3 to 6 months held the most significant share (44.5%), followed by those with terms of 6 to 12 months, whose weight reduced by 2.8 percentage points, to 36.1% (chart no. 32).

The volume of term deposits in foreign currency increased in 2008 by 4647.5 million lei (42.6%), and accounted for 15546.5 million lei. Out of total term deposits attracted in foreign currency, 86.8% were held by individuals. According to the terms of attracted funds, within the structure of deposits in foreign currency, deposits with terms of 3 to 6 months prevailed and, totalled 41.0% of total, or 6367.7 million lei (increasing by 14.5 percentage points, or by 3484.3 million lei), while those with terms of 6 to 12 months recorded an insignificant weight of 38.6% (decreasing by 9.3 percentage points compared to the previous year).

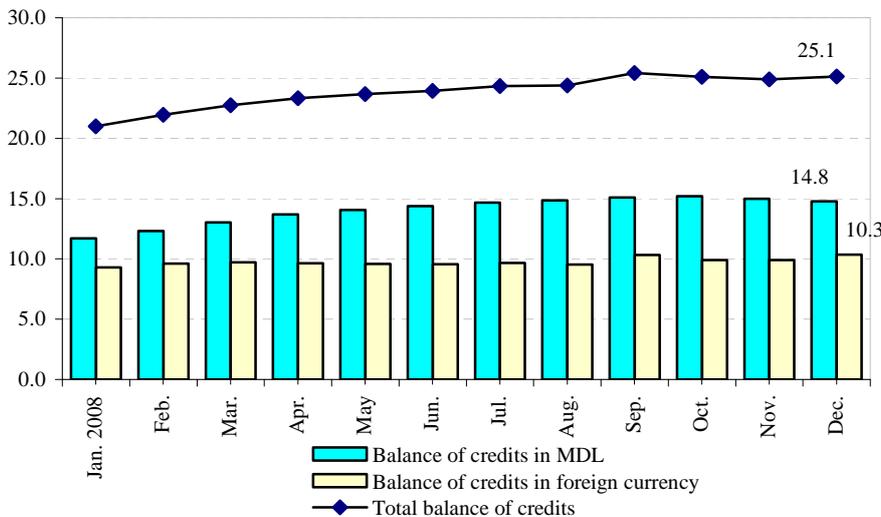
Credits market

In the course of 2008 the evolution of credits market divided into two periods with contradictory dynamics. The first period – January-June resulted in an average growth rate of credits of 51.2% for the last twelve months. In order to reverse the inflation trend and to mitigate the evolution of credits, the National Bank of Moldova increased the required reserves ratio and the base rate. As a result, the growth rate of credits reduced over the second half of 2008 and amounted by the end of the year to 20.3% versus the end of 2007. Simultaneously, it should be mentioned that the international financial crisis had also an impact on the evolution of credits in the period of September-December. *The total balance of credits extended to economy** equaled 25122.6 million lei at the end of 2008, increasing by 20.3%, or by 4238.8 million lei versus the end of 2007 (chart no. 33).

The balance of credits in national currency recorded a growth by 3011.0 million lei (25.6%), up to 14779.9 million lei, which represents 58.8% of total bank credits.

* According to IMF methodology, out of total credits to economy (including interest calculated on credits) interbank credits and loans extended to the Government are excluded.

Chart no. 33. Evolution of credits to economy (MDL, billion)



The volume of credits in national currency increased by 18.0% and equalled 17127.2 million lei. Within the maturity structure, credits with terms of over 12 months prevailed and registered an increase by 1341.6 million lei (15.2%), to the level of 10166.2 million lei, which is 59.4% of total credits in national currency extended in 2008. The volume of credits with terms of up to 1 month

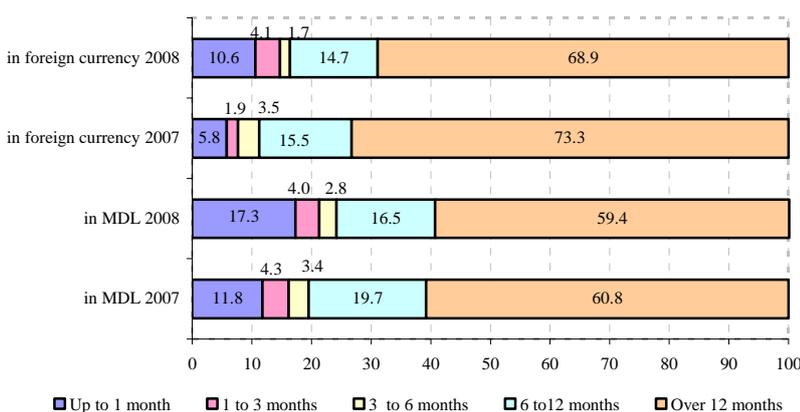
advanced by 1250.5 million lei (73.0%), and held the weight of 17.3%.

At the same time, it should be mentioned that the volume of credits with terms 6 to 12 months reduced by 29.9 million lei, or by 1.0% and their weight constituted 16.5% in 2008.

The balance of credits in foreign currency constituted 10342.7 million lei (994.5 million USD) at the end of 2008 and enlarged by 1227.8 million lei (189.2 USD million, or by 23.5%).

The analysis of credits supply from the banking system to the national economy at the end of 2008 reveals that credits extended to industry and trade posted the highest weight, and

Chart no. 34. Term structure of credits (%)



constituted 12275.2 million lei (48.9% of total at the end of 2008), increasing by 19.9%, or by 2039.3 million lei (chart no. 34).

The weight of credits for real estate, construction and development recorded 36.9% (994.7 million lei) versus the end of 2007. Their weight advanced by 1.8 percentage points, and constituted 14.7% of total (table no. 25). As compared to the end

of 2007, the weight of consumer credits diminished (by 1.3 percentage points, to the level of 12.9%), despite 9.9%-increase (293.9 million lei).

Table no. 25. Credits breakdown by branches (MDL, million)

	As of 31.12.2007 MDL, million	Weight in 2007 (%)	As of 31.12.2008 MDL million	Weight in 2008 (%)	Absolute growth MDL, million	Relative growth (%)
Credits to agriculture and food industry	2918.70	14.0	3344.52	13.3	425.8	14.6
Credits for real estate, construction and development	2692.87	12.9	3687.62	14.7	994.7	36.9
Consumer credits	2962.21	14.2	3256.13	12.9	293.9	9.9
Credits to energy and fuel industry	427.84	2.1	499.13	2.0	71.3	16.7
Credits to industry/trade	10235.92	49.0	12275.23	48.9	2039.3	19.9
Credits for road construction and transportation	469.43	2.2	396.70	1.6	-72.7	-15.5
Other credits	1176.80	5.6	1663.24	6.6	486.4	41.3
Total	20883.77	100.0	25122.59	100.0	4238.8	20.3

The volume of credits in foreign currency amounted in 2008 to 10684.6 million lei, decreasing by 10.8% versus the previous year. Simultaneously, their equivalent in foreign currency increased by USD 41.9 million (4.2%) and constituted USD 1028.4 million.

During the reporting period, credits in foreign currency extended for a longer period (over 12 months) held the highest share (68.9% of total), decreasing by USD 14.3 million.

Dynamics of interest rates on deposits and credits

During 2008, the National Bank of Moldova intensified the sterilization operations by increasing the base rate and the required reserves ratio in order to moderate the inflationary processes. The restrictive monetary policy revealed through the fact that money became more expensive and the average interest rates on deposits and credits recorded an upward trend.

The annual average weighted interest rate on term deposits in national currency increased by 2.96 percentage points versus 2007, and constituted 18.09%

The annual average weighted interest rate on term deposits in foreign currency soared by 3.63 percentage points as compared to the level of the previous year, and constituted 9.64%

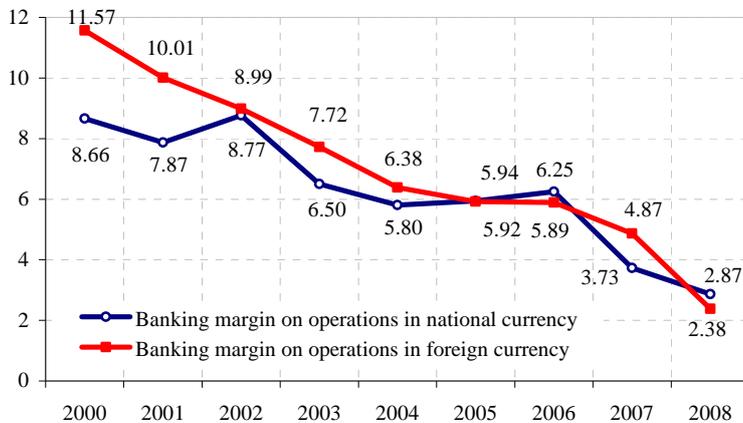
The annual average weighted interest rate on credits extended in national currency advanced by 2.11 percentage points, from 18.85% in 2007 to 20.96% in 2008.

The annual average weighted interest rate on credits extended in foreign currency augmented by 1.14 percentage points versus 2007, and constituted 12.02% in 2008.

The increase of the required reserves ratio and of the base rate conditioned the reversal of the inflation trend and, as inflation was brought in the planned limits the National Bank of Moldova resorted to the liberalization of the monetary policy. These actions did not generate the gradual decrease of the interest rates on credits and deposits; this was due to the turbulence on the international markets and to the effect of the international financial crisis on national economy in the period of September – December 2008.

During the year of 2008 the *banking margin* (the difference between the average interest rate on credits and deposits)

Chart no. 35. Dynamics of the banking margin on operations in national currency and in foreign currency (percentage points)



continued the descendent trend recorded in the period of 2000-2007. Thus, the banking margin related to operations in national currency diminished by 0.86 percentage points, to the level of 2.87 percentage points, while that related to transactions in foreign currency reduced by 2.49 percentage points, and constituted 2.38 percentage points in 2008 (chart no. 35). It should be mentioned that, in 2008 the banking margin recorded a more

accelerated reduction than its average descendant trend during the previous years. In the period of 2000-2007 the average reduction rate of the banking margin for the operations in national currency constituted 10.0% while for those in foreign currency - 10.2%, in 2008 the banking margin for the operations in national currency diminished by 23.1% and for those in foreign currency - by 51.1%.

Achievement of the provisions of the Memorandum on Economic and Financial Policies for 2006-2008

In 2008 the National Bank of Moldova achieved entirely the provisions of the Memorandum on Economic and Financial Policies signed between the International Monetary Fund, the Government of the Republic of Moldova and the National Bank of Moldova.

Table no. 26. Achievement of performance criteria stipulated in the Memorandum of Economic and Financial Policies (MDL, million)

	Effective on 31.12.2008	Ceiling on 31.12.2008	Difference versus the ceiling
Reserve money	11633.6	12040.0	- 406.4
Net domestic assets at the programme exchange rate*	- 8713.0	- 8238.0	- 475.0
Net international reserves at the programme exchange rate*	20353.2	20278.0	75.2

* the programme exchange rate was established at MDL/USD 13.2911 MDL/USD

At the end of 2008 the reserve money accounted for 11633.6 million lei, the provided limit constituted 12040.0 million lei and the *reserve amounted to 406.4 million lei*.

The net international assets constituted minus 8713.0 million lei, the provided limit was minus 8238.0 million lei and the *reserve scored 475.0 million lei*.

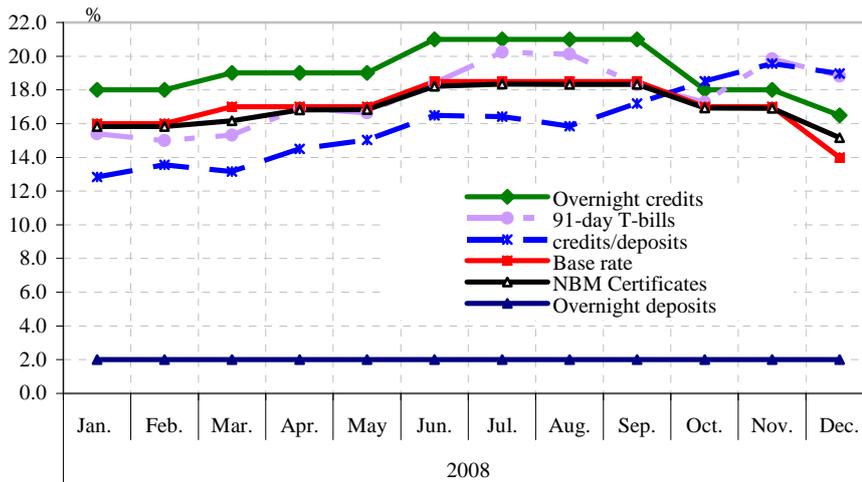
The net international reserves equalled to 20353.2 million lei, the provided limit posted 20278.0 million lei and the *reserve constituted 75.2 million lei*.

Monetary policy instruments

Interest rates policy

During the year of 2008, the National Bank of Moldova promoted a prudent interest rates policy, and responded promptly to the evolution of inflation, the dynamics of monetary indicators and to inflationary expectations.

Chart no. 36. Dynamics of the corridor of interest rates in 2008



During Semester I, 2008, the National Bank of Moldova increased the base rate applied on the NBM main short-term operations of monetary policy by 2.5 percentage points, from 16.0 to 18.5% per year (table no. 27, chart no. 36). The further evolution of the inflation rate and the reduction of the inflationary expectations allowed to the National Bank of Moldova to decrease, in the period of September –

December, the base rate by 4.5 percentage points, from 18.5 to 14.0% per year.

The base rate on long term credits was maintained over 2008 at the level of 10.5% per year.

Table no. 27. Interest rates on monetary instruments

Date of decision enforcement *	Decision
February 8, 2008	<ul style="list-style-type: none"> – to maintain the base rate at the level of 16.0% per year; – to maintain the rate on overnight credits at the level of 18.0% per year; – to maintain the rate on overnight deposits at the level of 2.0% per year.
March 18, 2008	<ul style="list-style-type: none"> – to increase the base rate from 16.0 to 17.0% per year; – to increase the rate on overnight credits from 18.0% to 19.0% per year; – to maintain the rate on overnight deposits at the level of 2.0 % per year.
May 30, 2008	<ul style="list-style-type: none"> – to increase the base rate from 17.0 to 18.5% per year; – to increase the rate on overnight credits from 19.0% to 21.0% per year; – to maintain the rate on overnight deposits at the level of 2.0% per year.
September 30, 2008	<ul style="list-style-type: none"> – to decrease the base rate from 18.5 to 17.0% per year; – to decrease the rate on overnight credits from 21.0 to 18.0% per year; – to maintain the rate on overnight deposits at the level of 2.0% per year.
December 2, 2008	<ul style="list-style-type: none"> – to decrease the base rate from 17.0 to 15.5% per year; – to decrease the rate on overnight credits from 18.0% to 17.5% per year; – to maintain the rate on overnight deposits at the level of 2.0% per year.
December 23, 2008	<ul style="list-style-type: none"> – to decrease the base rate from 15.5% to 14.0% per year; – to decrease the rate on overnight credits from 17.5% to 16.5% per year; – to maintain the rate on overnight deposits at the level of 2.0% per year.

* publication date of the decision of the NBM Council of administration in the Official Monitor of the Republic of Moldova

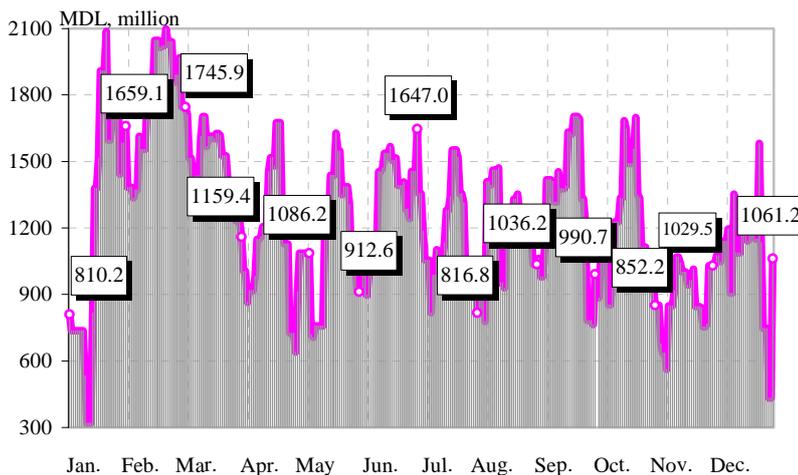
Liquidity management operations of the National Bank of Moldova

In 2008 NBM resorted to excess liquidity absorption through the issuance of NBM Certificates (CNB) by announcing the minimum price, and accepting integrally the banks purchase demands.

In order to manage efficiently the liquidity in the money market, NBM related the interest rate of the issued NBM Certificates to the monetary policy interest rate (base rate) and resorted to the gradual adoption, towards the end of the year, to a single maturity – 7 days. Thus, starting with June 2008, the 28-day NBC auctions were substituted by 14-day NBC auctions, while in the course of the last month of the year, NBM issued Certificates with a single maturity – 7days (except for the last auction of December, where 14-day NBC were offered for placement).

Over 2008 *the average weighted interest rate on sterilization operations* amounted to 17.0% per year versus 14.4% in 2007.

Chart no. 37. Balance of sterilization operations carried out by NBM in 2008



The high interest rate on sterilisation operations allowed for the maintenance of the daily balance of sterilizations over the limit of 1000.0 million lei. The maximum values of the daily average balance of sterilizations were recorded during Quarter I, 2008, when in February the balance was maintained for a period of ten days over the level of 2000.0 million lei (chart no. 37).

In 2008 the daily average balance of sterilization operations fell by 21.9%, and constituted 1239.1 million lei as compared to the previous year. This was due, in particular, to a more frequent use of the required reserves mechanism over the analysed year, through the increase of the required reserves ratio applied for the banks’ attracted funds in MDL and in foreign currency over Quarter II and III of the year.

Despite the fact that the interest rates accepted by NBM were higher, the decrease of the average balance of sterilization operations as compared to the previous year led to the price reduction sustained by NBM for the excess liquidity sterilization, from 226.7 million lei in 2007 to 210.8 million lei during the reported year.

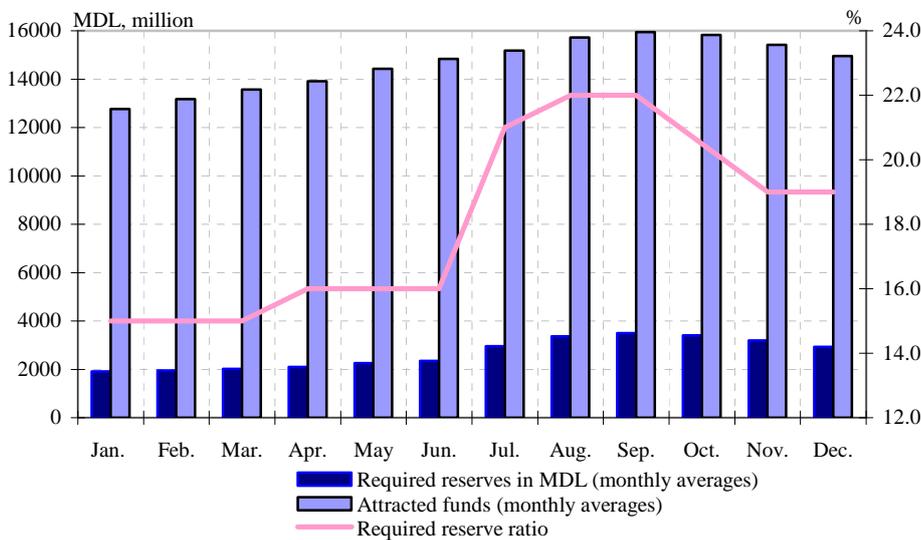
Required reserves

In 2008 the required reserves ratio was more frequently used as a monetary policy instrument, and supported the main monetary instrument – the base rate.

In order to improve the process of excess liquidity management from banking system, the required reserves regime underwent several changes starting with February 2008, with reference to the 15-day increase of the time lag between the beginning of the tracing period of attracted funds and the beginning of the maintenance period of required reserves in MDL on the banks' „Loro” accounts (Decision of the Council of administration of NBM no. 338 of December 27, 2007).

In the course of 2008, the dynamics of the required reserves constituted by banks was mainly determined by the volume of the required reserves ratio and the amount of attracted funds.

Chart no. 38. Dynamics of the attracted funds and required reserves in MDL, required reserve ratio in 2008

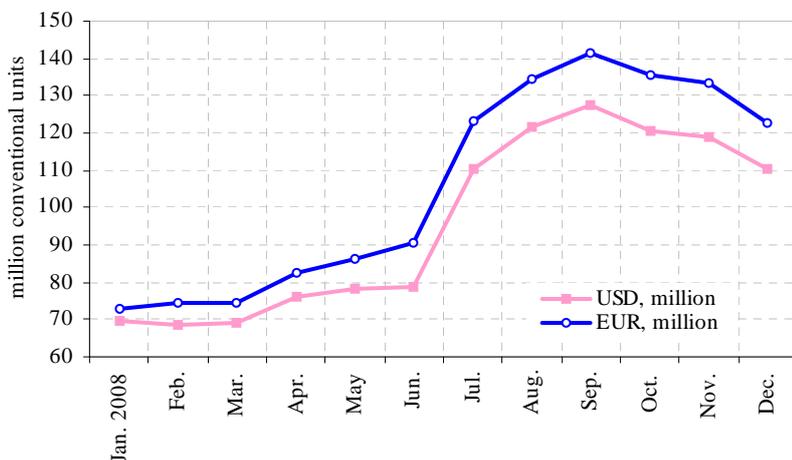


In the period of January – September 2008, as a result of the positive evolution of the attracted funds and of the ratio increase, the required reserves in MDL recorded a growth from 1887.6 to 3525.6 million lei. In the period of October – December, following the ratio reduction and the drop in the funds attracted by banks, the required reserves level embarked upon a descendant trend

and totalled 2886.3 million lei at the end of the year (chart no. 38).

Required reserves in foreign currency showed a similar behaviour over the analysed year as the required reserves in MDL.

Chart no. 39. Dynamics of the required reserves in USD and in EUR in 2008



As of December 31, 2008 the amount of required reserves maintained by banks in USD and in EUR constituted USD 110.4 million and EUR 122.5 million, increasing by USD 42.6 million and EUR 53.2 million, or 1.6 and 1.8 times respectively, as compared to the required reserves maintained by banks at the end of December 2007.

The consecutive reduction of the required reserves ratio injected funds in MDL and in free convertible foreign currency, thus, achieving the liquidity's increase within the banking system and the growth of lending resources, and respectively the diminution of the interest rates on credits.

With a view of lessening the costs related to bank assets, imposed additionally on banks by need of making requires reserves, at the share of required reserves that exceeds 5.0% of liabilities on the basis of which these reserves are calculated, the NBM, in 2008, paid to banks an interest rate in an amount of 49.05 million lei, which surpassed 3 times the amount of the interest rate paid in 2007

Standing facilities

The standing facilities regime (overnight deposits and credits), set up by the National Bank of Moldova during the year of 2008, allowed banks to efficiently manage their own liquidities and offered to the National Bank of Moldova an additional flexibility in achieving the monetary policy.

Overnight deposit facility

In 2008, as compared to 2007, the most of the banks resorted to overnight deposit facility, which denoted a better capacity of banks to manage the short term funds. Banks resorted mainly to overnight deposit facility at the end of maintenance periods of required reserves.

The volume of overnight deposits with the National Bank of Moldova totalled 14566.5 million lei during the reporting year, by 1216.9 million lei, or by 9.1% more versus the volume recorded in 2007.

The daily average balance of deposits placed overnight in 2008 constituted 51.8 million lei.

Overnight credit facility

In 2008 banks resorted more frequently to overnight credit facility versus the previous year, as a result of the restrictive monetary policy promoted by the National Bank of Moldova in the first nine months of the year and of the reduction of the excess of liquidity in the market in the period of September-December 2008.

Overnight credits extended in 2008 constituted 1041.2 million lei, increasing 2.4 times as compared to the previous year. Overnight credits, calculated as a daily average balance, equalled to 4.7 million lei as compared to the balance of 1.2 million lei recorded in 2007

Credit debt monitoring

In 2008 the National Bank of Moldova continued to monitor the credits extended to banks in the period of 1992–2002 for lending to Housing Construction Cooperatives pursuant to the decisions of the Parliament and of the Government of the Republic of Moldova.

In 2008 the balance of credits extended to banks diminished by 21.2%, and recorded 26.4 million lei by the end of the year.

The volume of credits paid out over 2008 equalled 7.1 million lei, including 6.5 million lei, or 91.5% were reimbursed in advance.

Collaboration of the National Bank of Moldova with the Government of the Republic of Moldova

Government's debt to the National Bank of Moldova

The domestic state debt management in 2008 was carried out by the National Bank of Moldova based on State Budget Law for 2008 no. 254-XVI from November 23, 2007, Law on public debt, state guarantees and state re-financing no. 419-XVI from December 22, 2006, Law on the National Bank of Moldova no. 548-XIII from July 21, 1995.

Pursuant to the provision of the *Agreement on the balance of the state debt previously contracted from the National Bank of Moldova for the year of 2008*, concluded between the Ministry of Finance and the National Bank of Moldova on August 24, 2007, and of the *Plan of conversion of state loans contracted previously from the National Bank of Moldova into state securities (SS)*, approved by the Ministry of Finance and the National Bank of Moldova in September 2007, the National Bank of Moldova carried out in the course of 2008 re-issuances from own portfolio of state securities that reached their maturity and converted state loans into state securities at market rates.

As a result of loans conversion over Quarter I, 2008 into SS according to the Plan of conversion, the state debt to NBM was restructured so that at the end of 2008 it was integrally made up of state securities.

As of December 31, 2008 the state debt to NBM totalled 2213.4 million lei (at purchase price), decreasing by 118.8 million lei as compared to the end of 2007, following the reimbursement on March 27, 2008 by the Ministry of Finance.

State securities, obtained in the NBM own portfolio as a result of the re-issuances and loans conversion carried out in the course of 2008, displayed maturities ranging between 84–182 days. The interest rates on the issued securities varied from 15.04 to 20.61% per year, while the average weighed interest rate on SS held within the portfolio as of December 31, 2008 registered the level of 19.05% per year. the average maturity of state securities from the portfolio equalled on the last day of the reporting period to 57 days, by 10 days below the average maturity recorded at the end of December 2007.

As a result of reflecting the calculated interest and of evaluation of state securities held within the BNM portfolio at market prices, the balance sheet value of the state debt amounted as of December 31, 2008 to 2304.2 million lei.

State deposits placed with the National Bank of Moldova

Based on the Agreement between the National Bank of Moldova and the Ministry of Finance of December 5, 2007 and taking into account the provisions of the Regulation on deposits acceptance from the Ministry of Finance, approved by the Decision of the NBM Council of administration no. 358 of December 28, 2006, the Ministry of Finance placed in 2008 term deposits in MDL with the National Bank of Moldova for a term of one month to one year in the total amount of 1270.5 million lei, by 372.5 million lei more versus the amount of deposits placed with NBM in 2007.

Deposits were placed at an interest rate calculated taking into account the average weighted interest rates within the banking system for deposits with the same term available for the last three months.

The average weighted interest rate on deposits placed over 2008 recoded the level of 16.96% per year, versus 11.83% per year for deposit placed in 2007.

As of December 31, 2008 the balance of deposits placed with BNM constituted 825.0 million lei, increasing by 458.0 million lei as compared to the previous year.

The average weighed interest rate on deposits equalled as at the end of 2008 to 18.16% per year, increasing by 3.16 percentage points versus the rate on the balance of deposits at the end of previous year.

The average term on deposits accounted at year-end for 253 days, decreasing by 48 days versus the previous year.

Monetary market

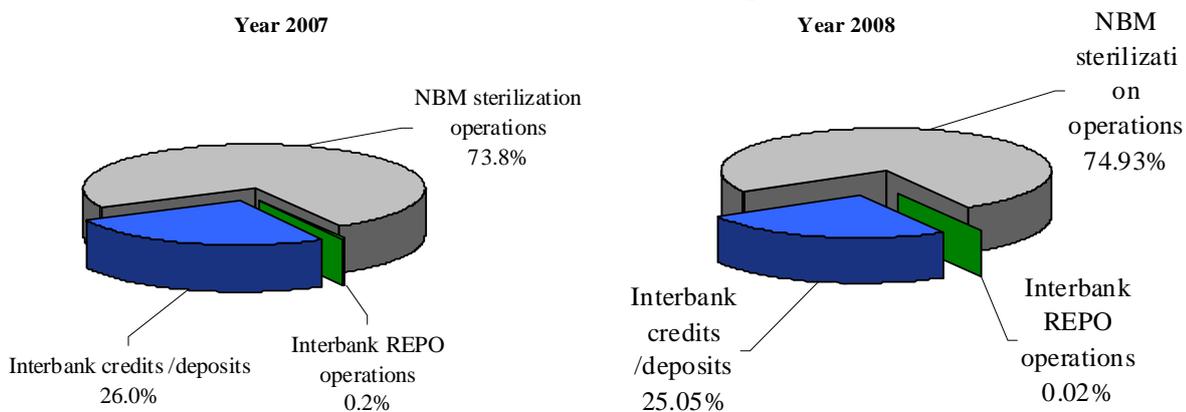
Interbank monetary market

The quantitative indicators of the interbank money market (including transactions segment with NBM) went up considerably over 2008, and constituted 61514.8 million lei, increasing by 17709.6 million lei, or by 40.4% as compared to 2007.

The growth was mainly due to the intensification of operations with the National Bank of Moldova, while the volume of transactions in the interbank segment registered a moderate increase.

The total volume of banks' transactions with the National Bank of Moldova in 2008 constituted 46091.5 million lei, or 74.9% of total interbank market turnover, as compared to the level of 74.0% recorded in 2007.

Chart no. 40. Interbank market operations



The volume of transactions on the interbank segment amounted over the reporting year to 15423.3 million lei, increasing by 3971.2 million lei, or by 34.7% as compared to 2007.

Chart no. 41. Interbank transactions (MDL, million)

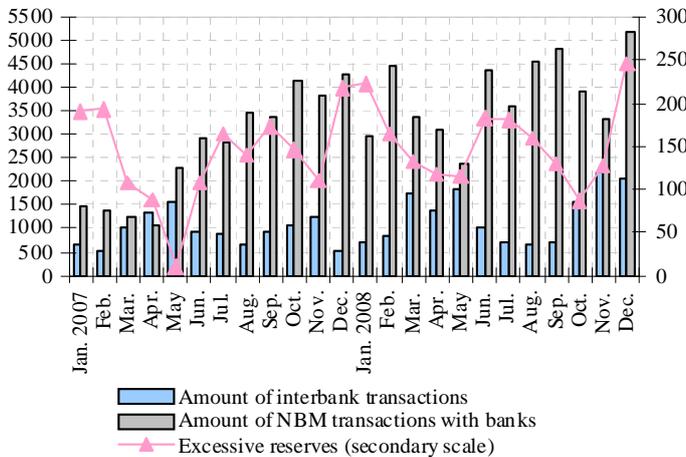
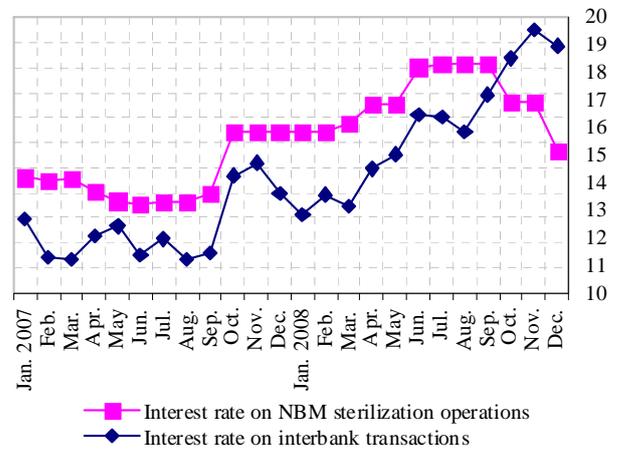


Chart no. 42. Evolution of interest rates (%)



The intensification of transactions on this market segment produced as a result of the excess liquidity increase within the banking system and to the attractive rate on short-term funds traded in the interbank market.

During the reporting period, like in the previous years, the main amount in the turnover of transactions on traditional interbank segment was represented by interbank credits/deposits that amounted to 15409.2 million lei (99.9% of total), the interbank REPO operations, which constituted only 14.1 million lei (0.1%).

In 2008, similarly to 2007, a significant volume of interbank credits and deposits was recorded at the minimum maturity, the weight of overnight transactions constituted 94.3% of total volume.

In 2008 the transactions on interbank segment displayed a non-uniform trend, on the background of the intensification of sterilization operations of the National Bank of Moldova and, respectively, of the liquidity fluctuations within the system.

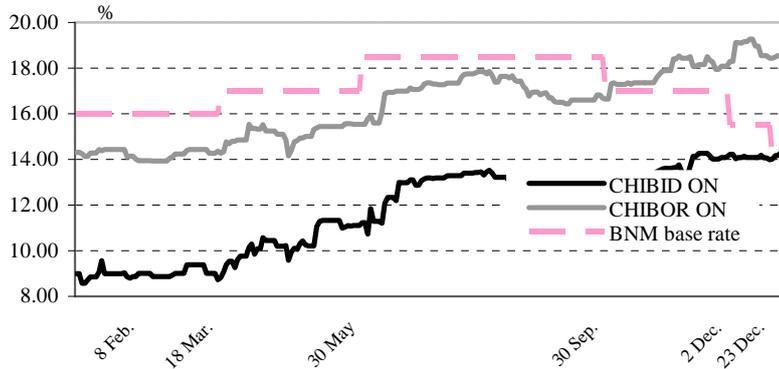
During 2008 the interest rate on interbank transactions (excluding NBM) displayed an ascendant trend, following generally the trajectory of high interest rates applied by the BNM on sterilization operations.

The monthly average rate on interbank credits/deposits transactions at the end of the reporting year constituted 18.98% per year, by 5.34 percentage points more as compared to the average rate recorded in December 2007. At the same time, the annual average interest rate on interbank transactions advanced in 2008 versus the previous year – by 3.99 percentage points, and equalled 16.42% per year.

Reference rates in the interbank monetary market

In the course of 2008, the curve of CHIBOR/CHIBID yields acted in compliance with the base rate of the NBM as long as they were high; starting with Quarter IV, 2008, when the NBM reduced gradually the base rate by 4.5 percentage points, the interbank reference

Chart no. 43. Reference interest rates on the interbank market and the NBM base rate

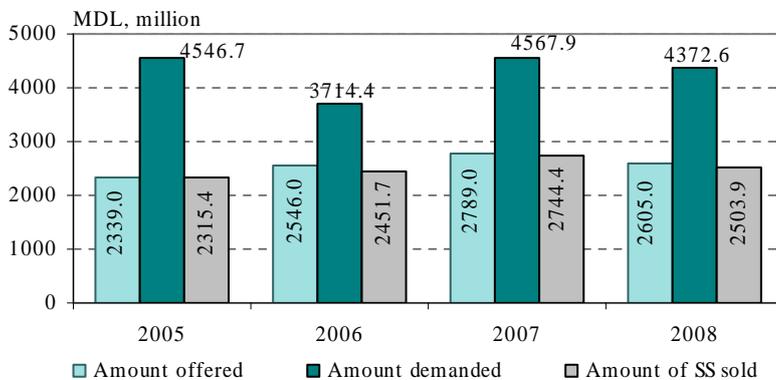


interest rates (banks resorted mainly to overnight facility in 2008) decreased simultaneously as they increased, and registered maximum values of over 5 percentage points during the first 3 months of the year and minimum values of about 3 percentage points in September (chart no. 43).

Primary market of state securities

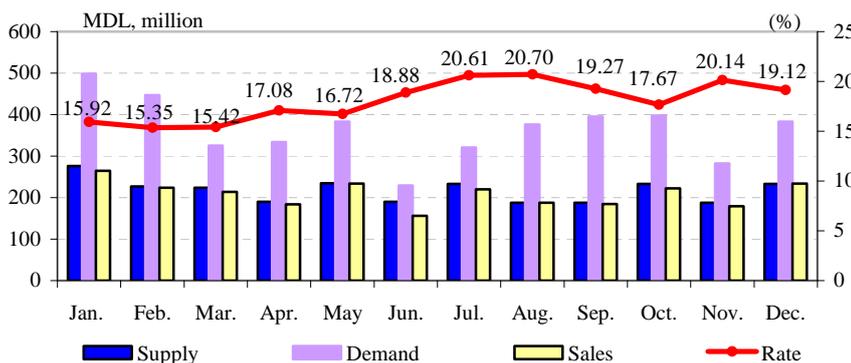
Acting as the fiscal agent of the state in organizing the placement and redemption of state securities (SS) in the form of book entries, the National Bank of Moldova carried out during the reporting year 171 state securities issuances.

Chart no. 44. Supply of, demand for and sales of SS



The Ministry of Finance offered in the primary market auctions state securities in an amount of 2605.0 million lei, by 184.0 million lei less as compared to 2007, thus, decreasing the expenses for redemption of the Government's domestic debt (chart no. 44).

Chart no. 45. Monthly dynamics of SS supply, demand and sales volume at primary market auctions in 2008



Like in the previous years the demand exceeded the supply of the Ministry of Finance, decreasing as compared to the 2007 by 195.3 million lei, and accounted for 167.9%.

The value of state securities in circulation equalled to 2503.9 million lei and, the share of sold state securities decreased from

98.4% in 2007 to 96.1% over the reporting year.

The monthly demand of state securities was net superior to the supply, the maximum value was recorded in January - 498.6 million lei, while the minimum value in July - 229.6 million lei (chart no. 45).

It should be mentioned that the evolution of demand in the SS market was mainly influenced by the monetary policy promoted by the National Bank of Moldova over the year, such as the modification of the required reserves ratio and of the NBM base rate, as well as, the currency acquisitions.

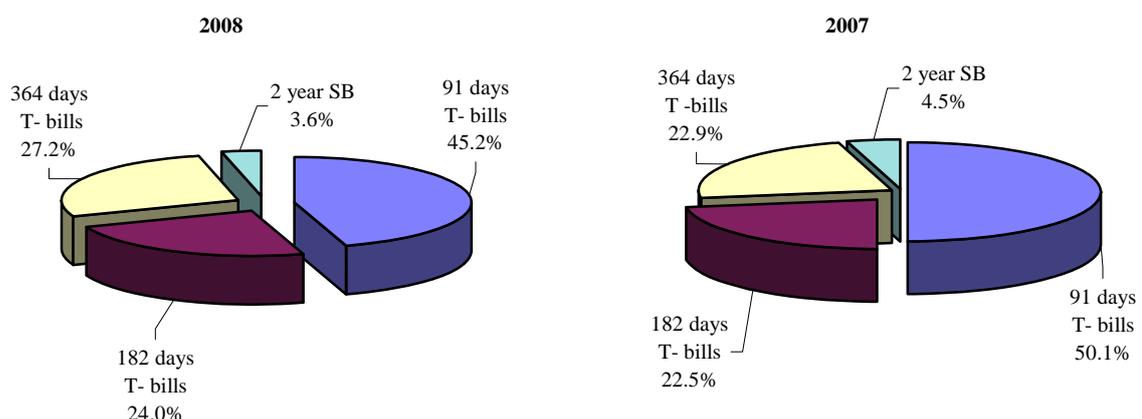
The monthly share of sold state securities recorded the minimum value in June - 82.4%, while the last six months registered values of over 94.0%. The integral placement of the announced offer succeeded only in December.

During 2008 the non-banking investors aimed at state securities market due to the high rates on state securities, thus, they purchased SS in an amount of 270.6 million lei, and reached the share of 10.8% in the total volume of SS sold at auctions as compared to 7.4% in 2007. Respectively, purchases by banks within the own portfolio diminished both in their absolute value and their weight.

Simultaneously, the activity of foreign investors in the SS market increased especially in August, when interest rates registered the highest values. Non-residents acquisitions equalled in 2008 to 48.4 million lei, or 2.0% of the total.

Compared to 2007, the structure of state securities issuances in 2008 did not register essential modifications (chart no. 46).

Chart no. 46. Structure of SS issuances by type



State securities with the maturity of up to 1 year were issued with three terms: 91 days, 182 days and 364 days, the weight of these in the issued volume accounted for 96.4%.

Like in the previous years, most of state securities were issued with 91-day maturity, or 45.2% of the total volume of issuances launched by the Ministry of Finance.

The Ministry of Finance offered state bonds (SB) at a floating interest rate and with the maturity of 2 years that were less attractive for banks and investors, which preferred short-

term investments. Thus, the Ministry of Finance succeeded in placing SB in an amount of only 76.5% of the offer, their share in the SS decreased from 4.5% in 2007 to 3.6% in 2008.

The annual average maturity of state securities issued during the reporting year went up from 203 days in 2007, to 206 days in 2008.

Interest rates on state securities with the maturity of up to 1 year, issued in the course of 2008 displayed an ascendant trend, and reached the highest levels of the last five years.

As the NBM monetary policy rate and interbank rates continued to be high, the average rates on state securities maintained mostly an ascendant trend during the first eight months of 2008, and recorded values of over 20.0% in July and August. Beginning with the first auctions from August, the Ministry of Finance oriented the rates on a descendant trend through non-acceptance of high-rate demands. The decrease in September of interest rates on NBM instruments maintained a descendant trend until the end of October, consequently, reducing the yields by about 3 percentage points.

In November interest rates increased again, comparable to the evolution of interest rates from the interbank market of credits and deposits, generated by the low demand of state securities, due to the liquidity reduction in the money market on the background of the decrease of funds attracted by banks.

The interest rates on SS recorded at the end of the year a descendant trend due to the last two reductions of NBM interest rates.

During 2008 the real interest rates on state securities adjudicated recorded positive values,

and became for a time frame the most attractive instrument of investments for banks and investors.

Like in the previous year the interest rates on state securities with the maturity of up to 1 year issued in the course of the year were very close as value for all three maturities (chart no. 47).

At the last SS issuances of 2008, the average interest rates on securities with the maturity of 91, 182 and 364 constituted 18.04, 18.36 and 18.72% per year respectively, exceeding by circa 2 percentage points the values recorded at the end of the previous year.

The annual average interest rate on state securities with the maturity of up to 1 year adjudicated in 2008 increased and registered 17.95% per year as compared to 13.02% per year in 2007.

Chart no. 47. Dynamics of nominal interest rates on SS with the maturity of up to 1 year issued in 2008

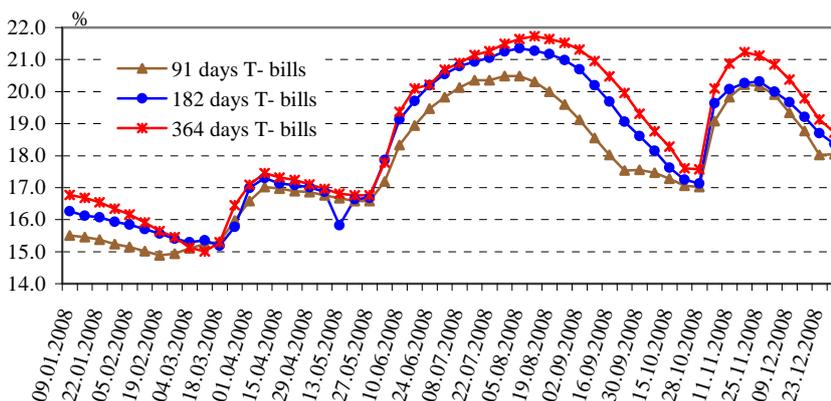


Table no. 28. Average weighted yields on traded state securities (%)

	91-day T-bills	182-day T-bills	364-day T-bills	2-year SB
2007	12.66	13.32	13.65	15.31*
2008	17.70	18.10	18.39	19.02*

*effective yield

The annual nominal average weighted interest rates on state securities traded during the last two years at auctions in the primary market, within the maturity structure, are shown in table no. 28.

Secondary market of state securities

In 2008 the interest rates on state securities in the secondary market recorded insignificant increases of quantitative indicators and sensible ascendant evolutions.

Thus, the value of buying – selling operations of SS went up to 209.3 million lei, versus 179.4 million lei in 2007, which determined the increase in the number of transactions with lower values as compared to the previous year. The transactions negotiated in 2008 constituted 263 as compared to 133 in 2007.

The transactions' structure reflected the main characteristics of the secondary market of state securities – an activity rather reduced in interbank transactions with SS. Out of total transactions, 83.3% were represented by selling-buying operations performed between banks and their clients.

The analysis of the maturity structure of SS traded in the secondary market denoted an increased interest of the participants for SS with terms of 28 and 91 days, their weight constituted 60.3% of total volume of transactions with SS as compared to 38.6% in 2007.

In the course of the year, price of the traded state securities normalized, which determined both buyers and sellers to conduct transactions. State securities registered the minimum prices of the last two years, which guaranteed high yields for investors.

The nominal average weighted rate on SS with the maturity of up to 1 year recorded an ascendant trend (except March and October, when minor fluctuations were recorded), from the minimum level of 14.61% (January) to 18.19% (December), the maximum level of 18.84% was registered in September. Thus, the nominal average weighted rate on state securities with the maturity of up to 1 year traded in the secondary market registered 17.45% per annum, increasing by 4.54 percentage points as compared to the previous year.

Transactions with state securities concluded through *REPO agreements* in the interbank market amounted over the reporting year to 14.1 million lei, of which 10.1 million lei was carried out with state securities at a rate of 16.77%, while 4.0 million lei with Certificates of the National Bank of Moldova (CNB) at a rate of 18.50%.

State securities recording in the Book-Entry System (BES) of the NBM

The Book-Entry System (BES) is important for the National Bank of Moldova because of its interaction with the payments system, and because of the role of the state securities recorded in (BES) for monetary policy operations.

The National Bank of Moldova administrates the Book-Entry System, which in interaction with automated interbank payments system (AIPS) ensures the storing and the settlement of operations with state securities and Certificates of the National Bank of Moldova.

BES processes operations carried out by participants with the issuer (the registration of primary market results, interest/coupon payments and total repurchases) and operations performed by participants in the secondary market (selling/buying transactions, REPO operations and portfolio transfers).

State securities in the amount of 4869.5 million lei at nominal value were recorded as of December 31, 2008 in the Book-Entry System and the breakdown by issuers is shown below:

I. Ministry of Finance – SS in an amount of 3802.6 million lei, including:

- 1437.7 million lei, or 37.8% - SS issued through the primary market auctions;
- 2364.9 million lei, or 62.2% - SS issued and delivered to the National Bank of Moldova.

II. National Bank of Moldova – NBM Certificates in an amount of 1066.9 million lei, issued through the primary market auctions.

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

Banks

- as of 31.12.2008 - 1306.1 million lei
- as of 31.12.2007 - 1404.8 million lei

Other investors (*including Deposit Guarantee Fund*)

- as of 31.12.2008 - 131.6 million lei
- as of 31.12.2007 - 124.5 million lei

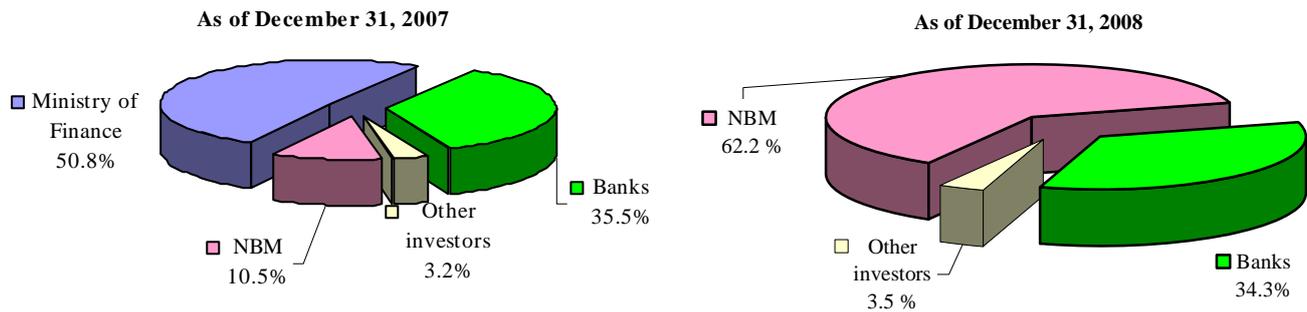
Ministry of Finance (*SS pledged NBM as guarantee for extended loans*)

- as of 31.12.2008 - –
- as of 31.12.2007 - 2006.5 million lei

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

- as of 31.12.2008 - 2364.9 million lei
- as of 31.12.2007 - 415.5 million lei

Chart no. 48. Structure of state securities in circulation by portfolios



The analysis of SS structure registered as of December 31, 2007 and December 31, 2008 in BES by holders denotes the reduction of the share held by banks and the insignificant increase of the share held by other investors, which as investment alternatives preferred assuming lower risks, and thus, invested in the state securities market (chart no. 48). The structure by majority holders – the National Bank of Moldova and the Ministry of Finance underwent changes due to the conversion of loans previously contracted from the NBM in state securities, according to the *conversion Plan*, approved by the Decision of the College of the Ministry of Finance and the Decision of the Council of administration of the National Bank of Moldova.

NBM Certificates in an amount of 1064.1 million lei were recorded in banks' portfolio, while 2.8 million lei in other investor's portfolio.

During the reporting period, 8479 operations were recorded in BES of the National Bank of Moldova in an amount of 114023.3 million lei (by 24178.6 million lei more as compared to the previous year), of which:

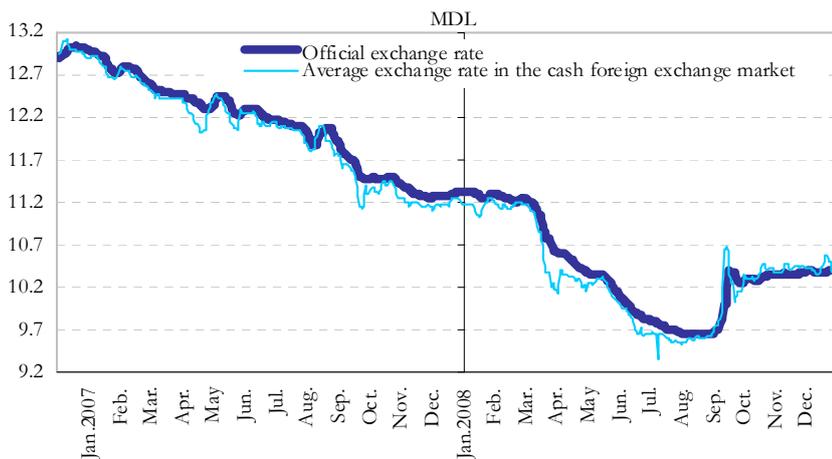
- primary market operations (new issuances) – 56035.3 million lei;
- redemption by the Ministry of Finance of state securities at maturity – 9879.8 million lei;
- repurchase by the National Bank of Moldova of NBM Certificates at maturity – 46053.6 million lei;
- selling-buying operations – 209.7 million lei (0.4 mil. lei – between the clients of the same bank);
- interbank REPO operations (stage I and II) – 29.3 million lei;
- pledge operations – 1814.1 million lei;
- other operations – 1.5 million lei.

Evolution of foreign exchange market

Foreign exchange rate dynamics in 2008

In the course of 2008, *the official nominal exchange rate of the national currency* against USD appreciated by 8.1% (from MDL 11.3192 per USD 1 as of December 31, 2007 to MDL 10.4002 per USD 1 as of December 31, 2008) (chart no. 49), while against EUR – by 11.4% (respectively, from MDL 16.6437 to MDL 14.7408 lei per EUR 1).

Chart no. 49 Dynamics of the exchange rate of the national currency against USD in the domestic foreign exchange market



From the beginning of the year until September 3, 2008 an appreciation trend of the national currency against USD was registered in the domestic foreign exchange market. During this period, the official nominal exchange rate appreciated by 14.7%. Beginning with September 4 until the end of 2008, on the background of the increase of the foreign currency demand as a

result of the change of expectations, the official nominal exchange rate of the national currency against USD depreciated by 7.8% (from MDL 9.6507 per USD 1 as of September 3, 2008 to MDL 10.4002 per USD 1 as of December 31, 2008).

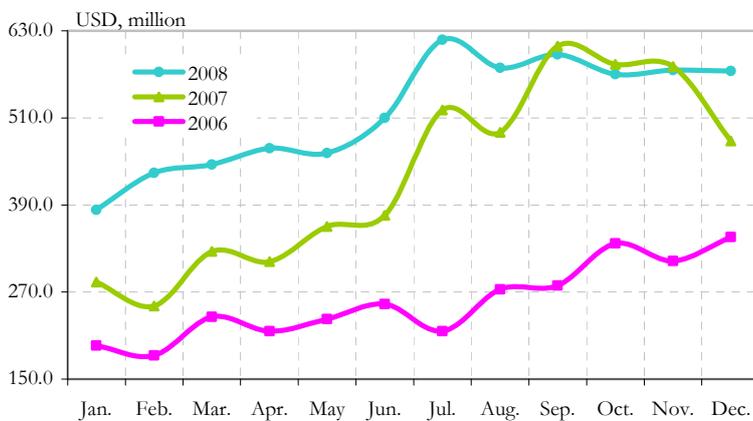
The evolution of the *average exchange rate* of the national currency against USD in the domestic cash foreign exchange market displayed the same trend as the official exchange rate of the national currency against USD. The official average exchange rate of the national currency against USD in 2008 constituted MDL 10.3895 per USD 1, as compared to MDL 12.1362 per USD 1 in 2007. The official average exchange rate of the national currency against EUR in 2008 constituted MDL 15.2916 per EUR 1, as compared to MDL 16.5986 per EUR 1 in 2007.

During 2008, the evolution of the exchange rate of the national currency against USD in the domestic foreign exchange market was influenced by a set of factors, which conditioned the exchange rate appreciation of MDL against USD (from the beginning of the year until September 3, 2008), as well as the exchange rate depreciation (from September 4 until the end of 2008).

I. Factors that determined the appreciation of exchange rate of MDL against USD are as follows:

- *Increase of the volume of liquidity in foreign currency in the domestic foreign exchange market on the background of the significant foreign exchange inflows into the country.*

Chart no. 50. Monthly evolution of the foreign currency inflow through banks



The volume of liquidity in foreign currency in the domestic foreign exchange market went up as a result of the net foreign currency supply increase from individuals, of the net inflow related to direct investment, portfolio investment and credits contracted from affiliates, of the net inflow related to private external credits, grants and technical assistance.

In January - August 2008 as compared to the respective period of 2007:

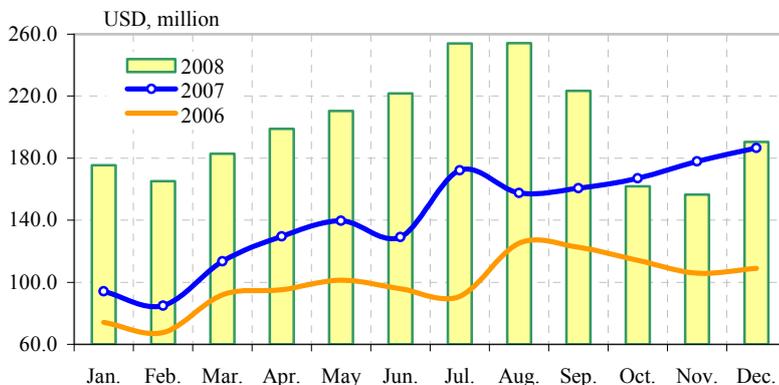
- the volume of net foreign currency

supply from individuals increased by 62.9%, and constituted the equivalent of USD 1662.4 million;

- the net inflow related to private external credits, grants and technical assistance advanced by 40.8%, and reached the equivalent of USD 219.9 million;

- the net inflow related to direct investment, portfolio and credits contracted from affiliates enlarged by 76.6%, and constituted the equivalent of USD 197.9 million.

Chart no. 51. Dynamics of the net foreign currency supply from individuals



- *Increase of foreign currency supply, following the growth of deposits in MDL as a result of the partial conversion of funds from foreign currency into national currency.*

The attractiveness of Moldovan leu as the saving currency contributed to the conversion of a part of the funds in foreign currency (VS) and their placement with banks in the form of sight and term deposits in

national currency, which conditioned the increase of the foreign currency supply in the domestic foreign exchange market.

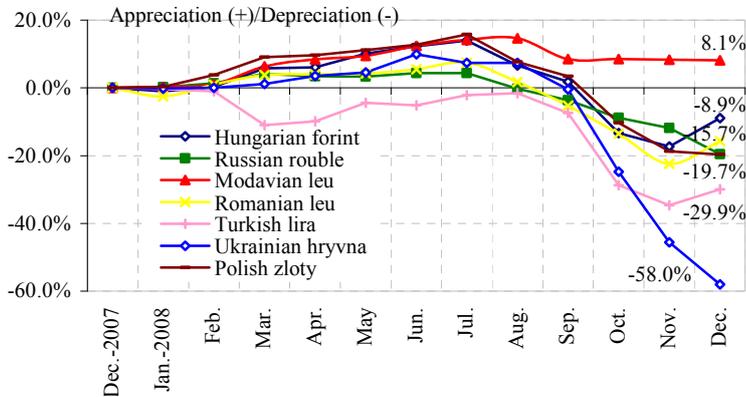
II. Factors that determined mainly the exchange rate depreciation of MDL against USD:

- *Depreciation of currencies from certain countries of the region, including of main trade partners of the Republic of Moldova.*

The international financial crisis, followed by the economic recession, affected the macroeconomic situation in different countries. Speculative attacks from certain participants of the foreign exchange market and the increasing imbalances in the external market, generated considerable pressures on the economy of the main trade partners of the Republic

of Moldova and conditioned the depreciation of the national currencies of these countries over 2008 (chart no. 52).

Chart no. 52. Change of the nominal exchange rate against USD

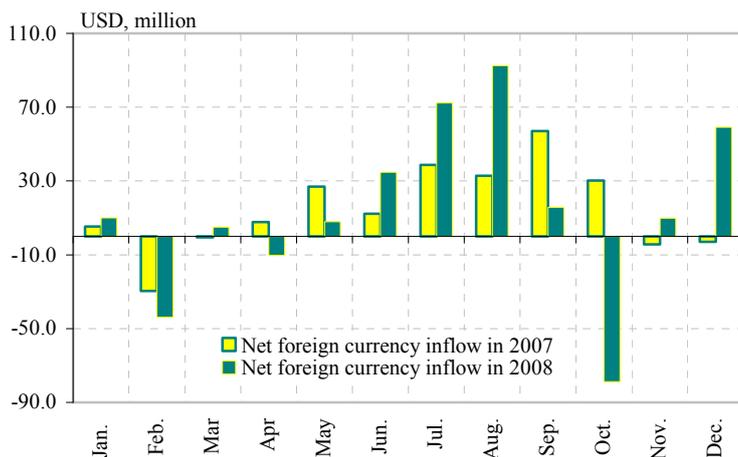


Beginning with September until the end of December 2008, in the Republic of Moldova, the official nominal exchange rate of the national currency against USD displayed a slower depreciation trend as compared to the evolution of exchange rate of certain foreign currencies from the region. Thus, in the period of September – December 2008, the official nominal exchange rate against USD depreciated by 7.7%, as compared to the significant depreciation against USD of other foreign currencies from the region, as follows: Ukrainian hryvna (by 70.5%), Polish zloty (by 29.6%), Turkish lira (by 27.9%), Russian rouble (by 19.4%), Romanian leu (by 17.7%) and Hungarian forint (by 16.7%). From the mentioned above one could conclude that the depreciation trend against USD is a world phenomenon both for the Republic of Moldova and other countries.

- **Decrease of the net foreign currency inflow in the domestic market in September – November 2008 as compared to their level, recorded in the respective period of 2007.**

In the course of September – November 2008 a net negative inflow was recorded, which constituted the equivalent of minus USD 53.2 million as compared to the net positive foreign currency inflow of USD 82.9 million in the respective period of 2007, mainly influenced by the decrease of income from export with goods and services by 18.0% and of the net inflow related to direct and portfolio investment – by 82.7% (chart no. 53).

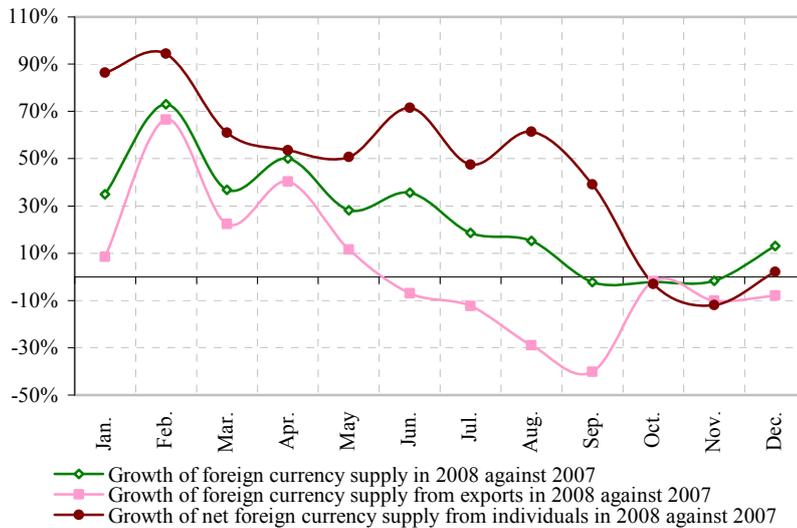
Chart no. 53. Dynamics of the net foreign currency inflow during 2007 - 2008



– by 1.8% and in November 2008 – by 10.0% (chart no. 54).

The net foreign currency supply from individuals lessened in October and November 2008 by 3.0 and 12.0%, respectively, versus the similar period of 2007 (in the respective months of 2007, the net foreign currency supply increased by 46.2 and 68.0%, respectively, as compared to the similar period of 2006).

Chart no. 54. Dynamics of the monthly net foreign currency supply from individuals and exports



During 2008 the nominal effective exchange rate of the national currency (NEER), calculated against December 2000, taking into account the weight of main trade partners within the external trade transactions appreciated by 34.4 percentage points. The nominal effective exchange rate of the national currency appreciated from 97.6% in December 2007 to 132.0% in December 2008, as a result of the significant depreciation, in 2008, of the exchange rate against USD of foreign currencies of the main trade

partners of the Republic of Moldova, as follows: Ukrainian hryvna (by 58.0%), RUB (by 19.6%) and RON (by 15.7%), with a weight of approx. 44.5% of external trade of the Republic of Moldova.

The real effective exchange rate of the national currency (REER), which is an indicator that reflects the change of the MDL exchange rate in real terms against the currencies of the main trade partners (calculated versus December 2000, taking into consideration the inflation level of the trade partner countries and the change of the monthly average exchange rate) constituted 133.1% in December 2008. During 2008 the real effective exchange rate of the national currency appreciated by 28.4 percentage points.

Chart no. 55. Dynamics of the nominal effective and real effective exchange rate of the national currency calculated on the basis of the weight of the main trade partners

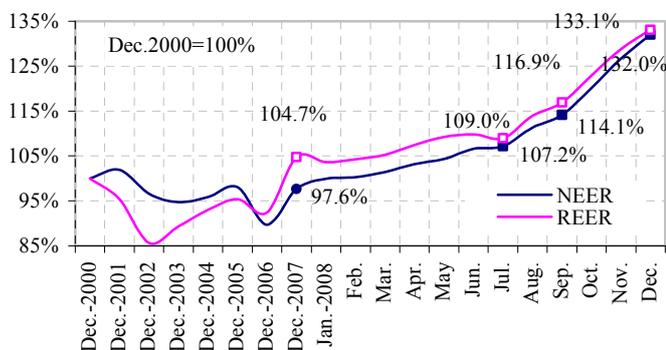
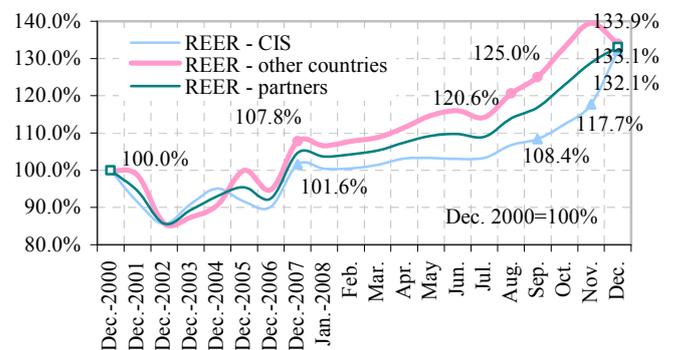


Chart no. 56. Dynamics of the real effective exchange rate of the national currency calculated on the basis of the weight of the main trade partners (including for CIS countries and other states)



The real effective exchange rate of the national currency, calculated against the currencies of the trade partners from CIS as compared to December 2000, constituted 132.1% in December 2008 and was accompanied by the increase in 2008 of exports with goods in this region by 14.1% as compared to 2007. In the course of 2008 the real effective exchange rate

of the national currency calculated against the currencies of the trade partners from CIS countries appreciated by 30.5 percentage points.

The real effective exchange rate of the national currency calculated against the currencies of the trade partners from other countries (excluding the CIS countries), constituted 133.9% in December 2008 as compared to 2000 and was accompanied by the increase in 2008 of exports with goods in this region by 22.5% as compared to 2007. During 2008 the real effective exchange rate of the national currency calculated against the currencies of the trade partners from other countries (excluding the CIS countries) appreciated by 26.1 percentage points.

The appreciation of the real effective exchange rate of the national currency over 2008 did not affect the evolution of exports with goods, which increased by 19.0% as compared to 2007, due to other factors, as follows: the competitiveness of local products in the external markets (ensured mainly by the low costs of labour force and of some local raw materials), the diversification of external trade and reorientation from CIS markets to European Union markets, etc.

Foreign exchange market of the Republic of Moldova. Activity of the National Bank of Moldova in the foreign exchange market

The analysis of the foreign exchange market of the Republic of Moldova in 2008 denoted the ascendant trend of transactions carried out in the domestic foreign exchange market against MDL. The total turnover of foreign currencies traded against MDL in this period equalled to the equivalent of USD 13908.1* million, increasing by 51.9% versus 2007 (table no. 29). Within the structure of total turnover, foreign currency acquisitions in the domestic foreign exchange market against MDL constituted USD 7082.9 million, while sales – USD 6825.2 million.

Table no. 29. Total turnover of transactions in the domestic foreign exchange market (foreign currency purchases/sales against MDL) (equivalent in USD, million)

	Non-cash domestic foreign exchange market*						Cash domestic foreign exchange market**			Domestic foreign exchange market
	NBM	Resident banks	Non-resident banks	Businesses	Others	total	Foreign exchange bureaux of banks	Foreign exchange offices	total	
<i>Equivalent in USD, million</i>										
2007	377.5	461.6	45.1	4694.7	551.2	6130.1	2392.6	630.9	3023.5	9153.6
2008	590.4	521.4	21.2	7626.7	1182.0	9941.7	3309.8	656.6	3966.4	13908.1
<i>Weight, %</i>										
2007	4.1	5.1	0.5	51.3	6.0	67.0	26.1	6.9	33.0	100.0
2008	4.2	3.8	0.2	54.8	8.5	71.5	23.8	4.7	28.5	100.0
<i>Growth rate against the previous year, %</i>										
2008	56.4	13.0	-53.0	62.5	2.1times	62.2	38.3	4.1	31.2	51.9

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

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

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

The volume of transactions in foreign currency carried out in the domestic foreign exchange market in 2008 displayed an ascendant trend, and recorded the maximum value of USD 3883.6 million in Quarter II, 2008.

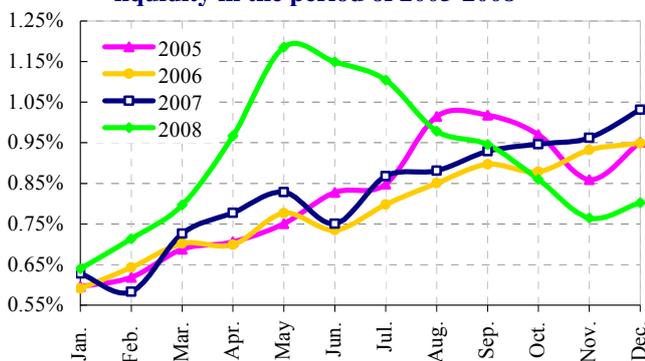
In 2008 the turnover in the non cash foreign exchange market increased by 62.2% as compared to 2007, while the turnover in the cash foreign exchange market – by 31.2%.

The weight of the non cash foreign exchange market in the total turnover of the domestic foreign exchange market enlarged by 4.5 percentage points (from 67.0% in 2007 to 71.5% in 2008), while the weight of cash foreign exchange market decreased in the same value (from 33.0% in 2007 to 28.5% in 2008).

Within the structure of total turnover of operations carried out in the domestic foreign exchange market by the main participants, in 2008 as compared to the previous year, the weight of businesses increased by 3.5 percentage points, of the National Bank of Moldova – by 0.1 percentage point, while the weight of the banks’ foreign exchange bureaux diminished – by 2.3 percentage points, of foreign exchange offices not belonging to banks – by 2.2 percentage points, of resident banks – by 1.3 percentage points and non-resident banks – by 0.3 percentage points.

The liquidity of the foreign exchange market*

Chart no. 57. Foreign exchange market liquidity in the period of 2005-2008



enlarged from 0.83% in 2007 to 0.91% in 2008. The components of this indicator, and namely, the daily average turnover of transactions in foreign currency against MDL increased, as compared to the previous year, by USD 18.3 million (from 36.5 to USD 54.8 million (chart no. 57). The maximum values of the liquidity in foreign currency were registered in Quarter II, 2008, mainly, in May - 1.19%.

Compared to the neighbouring states and the main trade partners of the Republic of Moldova, the liquidity index of the foreign exchange market of the Republic of Moldova is more reduced than in the Russian Federation (3.44%) and is higher than in Ukraine (0.76%) and Belarus (0.66%) (table no. 30).

Table no. 30. Forex market liquidity by countries (%)

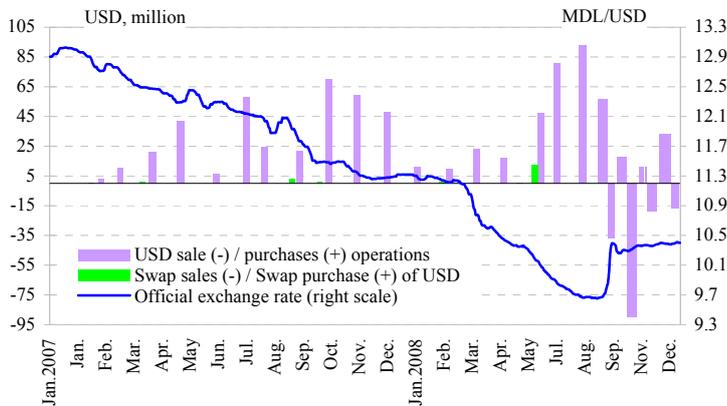
	2007	2008
Russian Federation	3.08	3.44
Moldova	0.83	0.91
Ukraine	0.59	0.76
Belarus	0.45	0.66

With the view of mitigating the excess fluctuations of the official nominal exchange rate of the national currency against USD, during 2008, NBM conducted interventions in the domestic foreign exchange market by using the following instruments: USD buying/selling

operations in the net value of USD 237.5 million and swap selling/buying reverse operations in the amount of USD 1.0 million (chart no. 58).

* Ration between the daily average turnover of transactions against and the gross domestic product, expressed in percentage.

Chart no. 58. Official exchange rate of MDL/USD



The foreign exchange reserves of the state went up during 2008 by USD 338.7 million, or by 25.4%, from 1333.7 to USD 1672.4 million, which covers an estimated 3.5 import months.

The currency analysis of the structure of total turnover of foreign exchange transactions in the domestic foreign exchange market during 2007 and 2008 revealed the prevalence of transactions in free convertible currencies. In 2008 the annual average weights of

currencies in the total turnover showed the following evolution: USD – 54.9%, EUR – 34.8%, RUB – 9.5% and other currencies 0.8% (table no. 31).

Table no. 31. Structure of turnover by currencies

	Non-cash foreign exchange market		Cash foreign exchange market		Total foreign exchange market		in total turnover
	Purchases	Sales	Purchases	Sales	Purchases	Sales	
2007	<i>Weight, %</i>						
USD	66.7	71.3	48.9	40.0	57.8	66.4	62.0
EUR	29.7	25.3	47.5	53.9	38.6	29.8	34.3
RUB	3.3	2.9	2.5	2.9	2.9	2.9	2.9
Other currencies	0.3	0.5	1.1	3.2	0.7	0.9	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2008	<i>Weight, %</i>						
USD	49.3	71.0	37.6	31.4	43.9	66.0	54.9
EUR	25.5	25.8	55.3	61.5	39.3	30.3	34.8
RUB	25.0	2.8	6.0	3.4	16.2	2.9	9.5
Other currencies	0.2	0.4	1.1	3.7	0.6	0.8	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The US dollar continued to prevail in the foreign exchange market transactions of the Republic of Moldova. Nevertheless, during 2008 as compared to 2007, USD yielded 7.1 percentage points of its weight in the domestic foreign exchange market of the Republic of Moldova, while the weight of EUR raised by 0.5 percentage points. In 2008 the weight of EUR for purchases in the cash foreign exchange market increased by 7.8 percentage points (from 47.5% in 2007, to 55.3% in 2008), while for sales – by 7.6 percentage points (from 53.9% to 61.5%). The growth of the weight of EUR transactions in the cash foreign exchange market was conditioned by the increase of the volume of transfers carried out in EUR by the citizens of the Republic of Moldova working abroad.

Compared to 2007, purchases of foreign currency carried out by the banks of the Republic of Moldova in the domestic foreign exchange market in 2008 advanced by USD 2438.9 million, or by 56.5%. This growth was mainly due to the increase of purchases from businesses by USD 1009.4 million (62.5%) and from individuals – by USD 868.7 million (40.7%) (table no. 32). In 2008, foreign currency purchases by banks in the domestic foreign exchange market were mainly carried out by individuals (44.5%), businesses (38.9%), resident banks (3.8%), NBM (2.6%) and non-resident banks (0.3%).

Table no. 32. Main sources of foreign currency purchases by banks in the domestic foreign exchange market* (equivalent in USD, million)

	Foreign currency purchases in the domestic foreign exchange market against MDL							TOTAL
	NBM	Resident banks	Non-resident banks	Businesses	Foreign exchange offices	Individuals	Others	
<i>Equivalent in USD, million</i>								
2007	5.1	231.7	38.9	1616.3	0.1	2136.5	286.3	4314.9
2008	176.0	255.4	20.6	2625.7	0.0	3005.2	670.9	6753.8
<i>Weight, %</i>								
2007	0.1	5.4	0.9	37.5	0.0	49.5	6.6	100.0
2008	2.6	3.8	0.3	38.9	0.0	44.5	9.9	100.0
<i>Growth rate against the previous year. %</i>								
2008	34.5 times	10.2	-47.0	62.5	-100.0	40.7	2.3 times	56.5

*Source: Reports on foreign exchange purchases/sales by banks in foreign exchange market and balances in foreign exchange accounts of banks' clients, as well as NBM data

Compared to 2007, in the course of the reporting period the weight of purchases from NBM increased (by 2.5 percentage points), from businesses (by 1.4 percentage points). Simultaneously, the weight of purchases from individuals decreased (by 5.0 percentage points), from resident banks (by 1.6 percentage points) and from non-resident banks (by 0.6 percentage points).

Compared to 2007, foreign currency sales performed by the banks of the Republic of Moldova in the domestic foreign exchange market in 2008 advanced by USD 2289.9 million, or by 54.4%, and were conditioned, in particular, by the increase of sales to businesses by USD 1922.6 million (62.5%), to individuals – by USD 186.5 million (43.8%) and to NBM – by USD 42.0 million (11.3%) (table no. 33).

The sale of foreign currency by banks in the domestic foreign exchange market in 2008 was especially carried out to businesses (77.0%), to individuals (9.4%), to NBM (6.4%), and to resident banks (4.1%).

In 2008 as compared to 2007 the weight of foreign currency sales to businesses increased (by 3.8 percentage points). Simultaneously, it is to be mentioned that the weight of foreign currency sales to the National Bank of Moldova decreased (by 2.4 percentage points), to resident banks (by 1.4 percentage points), to individuals (by 0.7

Table no. 33. Main directions of foreign currency sales by banks in the domestic foreign exchange market* (equivalent in USD, million)

	Foreign currency sales in the domestic foreign exchange market against MDL							Total
	NBM	Resident banks	Non-resident banks	businesses	Foreign exchange offices	individuals	others	
<i>Equivalent in USD, million</i>								
2007	372.4	229.9	6.2	3078.4	0.0	425.7	95.2	4207.8
2008	414.4	266.0	0.6	5001.0	0.0	612.2	203.5	6497.7
<i>Weight, %</i>								
2007	8.8	5.5	0.1	73.2	0.0	10.1	2.3	100.0
2008	6.4	4.1	0.0	77.0	0.0	9.4	3.1	100.0
<i>Growth rate against the previous year. %</i>								
2008	11.3	15.7	-90.3	62.5	-	43.8	2.1 times	54.4

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

In 2008 as compared to 2007 the weight of foreign currency sales to businesses increased (by 3.8 percentage points). Simultaneously, it is to be mentioned that the weight of foreign currency sales to the National Bank of Moldova decreased (by 2.4 percentage points), to resident banks (by 1.4 percentage points), to individuals (by 0.7

Table no. 34. Net balance of foreign currency purchase/sale transactions against MDL (equivalent in USD, million)

	Net balance							Total
	NBM	Resident banks	Non-resident banks	businesses	Foreign exchange offices	Individuals	others	
<i>Equivalent in USD, million</i>								
2007	-367.3	1.8	32.7	-1462.1	0.1	1710.8	191.1	107.1
2008	-238.4	-10.6	20.0	-2375.3	0.0	2393.0	467.4	256.1

percentage points) and to non-resident banks (by 0.1 percentage points).

The foreign currency surplus in the domestic foreign exchange market in the total amount of USD 2880.4 million (deriving mainly from individuals – USD 2393.0 million, or 83.1%), purchased by banks in 2008, was mainly sold to businesses – USD 2375.3 million and to NBM - 238.4 million. The net balance of foreign currency selling/buying operations against MDL in 2008 constituted USD 256.1 million (table no. 34).

Dynamics of banks' assets and liabilities in foreign currency

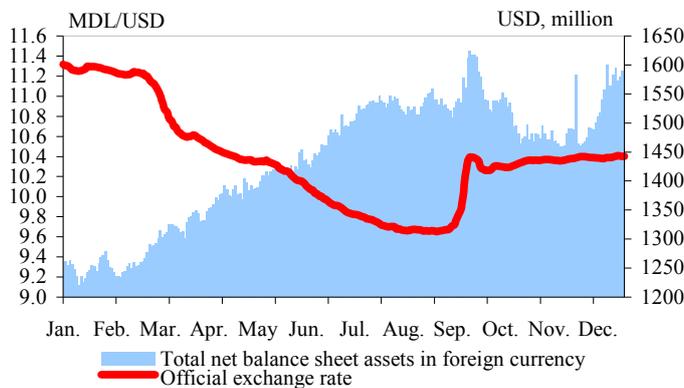
As of December 31, 2008 the banks' *net balance sheet assets in foreign currency* (extended loans, available funds, required reserves and other assets in foreign currency) enlarged as compared to as of December 31, 2007 by the equivalent of USD 352.1 million, or by 28.7%, constituting USD 1580.2 million (table no. 35, chart no. 59).

Table no. 35. Net balance sheet assets in foreign currency by banks (equivalent in USD, million)

	Balance as of 31.12.2007	Weight in total %	Balance as of 31.12.2008	Weight in total %	Change against 31.12.2007 %
Loans	803.5	65.4	988.3	62.5	23.0
Foreign currency available funds	219.0	17.8	246.7	15.6	12.6
Required reserves in foreign currency	169.8	13.9	284.0	18.0	67.3
Other assets in foreign currency	35.8	2.9	61.2	3.9	70.9
Total net balance sheet assets in foreign currency	1228.1	100.0	1580.2	100.0	28.7

Out of total net balance sheet assets in foreign currency, the balance of *credits extended in foreign currency* held the highest weight and constituted 62.5% as of December 31, 2008, decreasing by 2.9 percentage points versus the end of 2007. This indicator varied during 2008 from the minimum level of 61.4% to the maximum level of 69.15. Compared to the end of 2007, the balance of credits extended in foreign currency as of December 31, 2008 went up by the equivalent of USD 184.8 million (from 803.5 to USD 988.3 million), or by 23.0%.

Chart no. 59. Dynamics of the net balance sheet assets in foreign currency of banks and of the official exchange rate of the national currency against USD in 2008



The currency structure of the balance of credits extended in foreign currency recorded at the end of 2008 the following weights: EUR – 63.4%, USD – 36.6%. As of December 31, 2008 as compared to the end of 2007, the weight of the balance of credits extended in EUR in the total balance of credits in foreign currency enlarged by 8.3 percentage points (from 55.1 to 63.4%), (table no. 36).

Table no. 36. Loans in foreign currency within the banking system (equivalent in USD, million)

	Balance as of 31.12.2007	Weight in total %	Balance as of 31.12.2008	Weight in total %	Change against as of 31.12.2007 %
EUR	442.4	55.1	626.2	63.4	41.5
USD	361.0	44.9	361.9	36.6	0.2
RUB	0.1	0.0	0.2	0.0	2.0 times
Total	803.5	100.0	988.3	100.0	23.0

As of December 31, 2008 the

weight of *available funds in foreign currency* constituted 15.6% of banks' total net balance sheet assets in foreign currency. This indicator varied over 2008 from the minimum level of 11.1% to the maximum level of 19.4%. At the end of the reporting period, the available funds in foreign currency compared to December 31, 2007, increased in absolute values by the equivalent of USD 27.7 million (from 219.0 to USD 246.7 million), or by 12.6%, while the weight in the total net balance sheet assets in foreign currency diminished by 2.2 percentage points (from 17.8 to 15.6%).

The banks' available funds in foreign currency as of December 31, 2008 had the following structure: "Nostro" accounts opened abroad – 40.0%, cash in foreign currency – 28.0%, deposits placed overnight – 16.5%, deposits abroad of the banks of the Republic of Moldova – 15.4% and securities in foreign currency – 0.1%.

Table no. 37. Foreign currency available funds of banks by currencies in 2008 (equivalent in USD, million)

	Balance as of 31.12.2007	Weight in total %	Balance as of 31.12.2008	Weight in total %	Change against as of 31.12.2007 %
EUR	122.2	55.8	116.4	47.2	- 4.7
USD	82.9	37.9	116.0	47.0	39.9
RUB	7.7	3.5	10.4	4.2	35.1
Other currencies	6.2	2.8	3.9	1.6	- 37.1
Total	219.0	100.0	246.7	100.0	12.6

At the end of 2008 the balance of available funds in foreign currency had the following structure by types of currencies: EUR – 47.2%, USD – 47.0%, RUB – 4.2%, other currencies – 1.6% (table no. 37).

As of December 31, 2008 the balance of *required reserves in foreign currency* constituted 18.0% of the banks' total net balance sheet assets in foreign currency and over the year varied between the minimum level of 13.7% and the maximum level of 21.3%.

Table no. 38. Net balance sheet liabilities in foreign currency (equivalent in USD, million)

	Balance as of 31.12.2007	Weight in total %	Balance as of 31.12.2008	Weight in total %	Change against as of 31.12.2007 %
Clients' term deposits	620.1	51.7	792.0	50.4	27.7
Clients' sight deposits	230.8	19.2	219.1	14.0	-5.1
Loans received	174.8	14.6	325.6	20.7	86.3
Term deposits of foreign banks	116.2	9.7	155.6	9.9	33.9
"LORO" accounts of foreign banks	5.0	0.4	5.7	0.4	14.0
Other liabilities in foreign currency	53.1	4.4	72.1	4.6	35.8
Total	1200.0	100.0	1570.1	100.0	30.8

The banks' *net balance sheet liabilities in foreign currency* recorded during the reporting period an increase by the equivalent of USD 370.1 million (from USD 1200.0 million as of December 31, 2007 to USD 1570.1 million as of December 31, 2008), or by 30.8% (table no. 38).

The clients' *term deposits in foreign currency* held at the end of 2008 the most significant weight in total net balance sheet liabilities in foreign currency (50.4%). The balance of such deposits stepped up at the end of 2008 by the equivalent of USD 171.9 million versus the end of 2007 (from 620.1 to USD 792.0 million), or by 27.7%.

At the end of the analyzed period the balance of the clients' *sights deposits in foreign currency* held 14.0% of total net balance sheet liabilities in foreign currency, decreasing in absolute values by the equivalent of USD 11.7 million (from USD 230.8 million as of December 31, 2007 to USD 219.1 million as of December 31, 2008), or by 5.1%.

The weight of the balance of credits *received in foreign currency* in the banks' net balance sheet liabilities in foreign currency equalled as of December 31, 2008 to 20.7%, increasing in absolute values by the equivalent of USD 150.8 million (from 174.8 to USD 325.6 million), or by 86.3%.

The balance of *foreign banks' term deposits in foreign currency* increased at the end of 2008 as compared to December 31, 2007 by the equivalent of USD 39.4 million (from 116.2 to USD 155.6 million), or by 33.9%. Their weight in total net balance sheet liabilities in foreign currency at the end of 2008 constituted 9.9%, increasing by 0.2 percentage points versus the end of the previous year.

The balance of „LORO” accounts of foreign banks during the reporting period advanced by USD 0.7 million (from USD 5.0 million as of December 31, 2007 to USD 5.7 million as of December 31, 2008), or by 14.0%, their weight in total net balance sheet liabilities in foreign currency at the end of 2008 constituted 0.4%.

Major balance sheet liabilities in foreign currency of banks (clients' term deposits and sight deposits) augmented by the equivalent of USD 160.2 million (from USD 850.9 million as of December 31, 2007 to USD 1011.1 million at the end of 2008), or by 18.8%.

In 2008 the European currency was the most attractive currency for savings to banks' clients. The weight of the balance of deposits in EUR in the clients' total deposits in foreign currency constituted at the end of the reporting period 70.6%, increasing by 4.7 percentage points as compared to as of December 31, 2007, the minimum weight being of 65.6%, while

the maximum – 72.3% (table no. 39). The balance of the clients' deposits in EUR increased by the equivalent of USD 153.2 million, or by 27.3% as compared to December 31, 2007 and at the end of 2008 constituted the equivalent of USD 714.3 million.

Table no. 39. Total deposits in foreign currency of banks clients (equivalent in USD, million)

	Balance as of 31.12.2007	Weight in total %	Balance as of 31.12.2008	Weight in total %	Change against as of 31.12.2007 %
EUR	561.1	65.9	714.3	70.6	27.3
USD	283.0	33.3	290.6	28.7	2.7
RUB	3.1	0.4	2.6	0.3	- 16.1
Other currencies	3.7	0.4	3.6	0.4	- 2.7
Total by currencies	850.9	100.0	1011.1	100.0	18.8

At the end of 2008, the weight of the balance of the clients' deposits

in USD reduced by 4.6 percentage points as compared to the end of 2007 (from 33.3 to 28.7%). The maximum weight of these deposits was of 33.6%, while the minimum weight – of 26.5%. The balance of deposits in USD at the end of the reporting period constituted USD 290.6 million, increasing by USD 7.6 million, or by 2.7% as compared to December 31, 2007. Deposits in RUB and in other foreign currencies constituted an insignificant part of the clients' deposits in foreign currency of the banking system. At the end of the analyzed period, deposits in RUB constituted the equivalent of USD 2.6 million, their weight in the total clients' deposits being of 0.3%.

The banks' *conditional assets and liabilities* in foreign currency at the end of the reporting period registered a significant diminution as compared to December 31, 2007, respectively, conditional assets reduced by 78.7%, while conditional liabilities – by 81.2% (table no. 40).

Table no. 40. Conditional assets and liabilities in foreign currency of banks in 2008 (equivalent in USD, million)

	Balance as of 31.12.2007	Weight in total %	Balance as of 31.12.2008	Weight in total %	Change against as of 31.12.2007 %
Conditional assets in foreign currency					
Current purchases	196.0	47.2	22.9	25.9	-88.3
Term purchases	216.9	52.2	59.5	67.4	-72.6
Other conditional assets	2.3	0.6	5.9	6.7	2.6 times
Total conditional assets	415.2	100.0	88.3	100.0	-78.7
Conditional liabilities in foreign currency					
Current sales	196.0	46.1	22.8	28.6	-88.4
Term sales	228.8	53.8	56.3	70.6	-75.4
Other conditional liabilities	0.2	0.1	0.6	0.8	3.0 times
Total conditional liabilities	425.0	100.0	79.7	100.0	-81.2
Total normative capital (TNC)	455.1		642.8		
(conditional assets – Conditional liabilities)/TNC (%)	-2.2		1.3		

As of December 31, 2008, the conditional assets in foreign currency had the following structure: term purchases – 67.4%, current purchases – 25.9% and other conditional assets – 6.7%. Simultaneously, the structure of conditional liabilities in foreign currency was as follows: term sales – 70.6%, current sales – 28.6%, other conditional liabilities – 0.8%.

The difference between conditional assets and

liabilities in foreign currency as against the total normative capital increased from minus 2.2% as of December 31, 2007 to 1.3% as of December 31, 2008.

The open (long) foreign exchange position of banks on all currencies went up by 22.1% at the end of 2008 versus the end of 2007 (from 24.4 to USD 29.8 million), including in USD – by 98.9% (from 8.8% to USD 17.5 million). Compared to the end of 2007, the banks' open long foreign currency position in EUR decreased by 34.1% over the analyzed period (from 8.8 to USD 5.8 million). At the same time, the open long foreign exchange position in RUB increased by 10.9% during the reporting period (from 4.6 to USD 5.1 million).

Foreign exchange regulation in 2008

As of March 21, 2008 the Parliament of the Republic of Moldova approved the Law on the foreign exchange regulation (no. 62-XVI) worked out by the National Bank of Moldova. The Parliament established the time frame of coming into force of the respective law of 6 months from the publication date – on January 18, 2009.

In 2008 the modification operated by the National Bank of Moldova to the legal framework in the field of the foreign exchange regulation was especially conditioned by the modification of the enforced legislation of the Republic of Moldova.

I. In order to define the categories of non-residents and of foreign exchange operations they may perform, in the Regulation on foreign exchange regulation on the territory of the Republic of Moldova, in the definition of the notion „non-residents” were included the international organizations constituted in accordance with the international treaties. Simultaneously, other points of the regulation were modified, thus, the provisions that refer to diplomatic missions (accounts regime, payments/transfers performance) to be applied to international organizations as well.

II. Following the amendments to certain legislative acts, in 2008, modifications and completions were operated to the Instruction no.10018-25 „Activity conditions of duty-free shops with foreign currency” (hereinafter – Instruction no.10018-25).

Thus, according to modifications operated to the Customs Code no.1149-XIV of July 20, 2000, the duty-free shops were permitted to be located at the international border lines of the Republic of Moldova, but, in order to open a duty-free shop, the legal entity shall obtain the license issued by the Chamber of licensing under the agreement of the National Bank of Moldova for trading goods against free convertible foreign currency. Previously, the document that permitted the activity of duty-free shops was the authorization of the activity of duty-free shop, issued by the Ministry of Economy and Trade, while the NBM issued authorizations for trading goods against foreign currency.

Taking into consideration the above-mentioned, the Instruction no.10018-25 was completed with the provisions related to the activity of duty-free shops located at the international border lines of the Republic of Moldova and the procedure of issuing the agreement of the NBM for trading goods against free convertible foreign currency was established.

In the context of the modification of the Law no.451-XV of July 30, 2001 regarding the regulation by licensing the entrepreneurial activity, in Instruction no.10018-25 were modified the provisions related to the control of the duty-free shops’ activity.

III. Taking into account the modifications operated in the Law on financial institutions no.550-XIII of July 21, 1995, in particular, related to the substitution of the wording „authorized bank” by the wording „licensed bank” and, as result of the exclusion of the provisions regarding the authorisation by the National Bank of Moldova of the additional financial activity and of the extending of different types of authorizations depending on the minimum quantum of the capital held by the bank, a series of normative acts of the NBM in the field of the foreign exchange regulation were modified.

IV. In the course of the reporting year the following modifications and completions were operated to the normative acts in the field of the foreign exchange regulation that include provisions related to the reporting of foreign exchange operations to the National Bank of Moldova.

- Taking into consideration the modification of the procedure of submission by banks to the National Bank of Moldova of reports in electronic form, amendments were operated to a series of normative acts of the BNM, according to which the reports submitted by the licensed banks to the National Bank of Moldova shall be presented only in electronic form.

- Regarding the Report on foreign currency buying and selling operations carried out in the foreign exchange market and balances in foreign currency accounts of the banks’ clients, modifications were operated to the respective instructions in order to specify the source of data on the basis of which the report is worked out, and namely, taking into consideration the purposes of the information from the report, in the instruction was stipulated intentionally that the report is worked out based on data of the analytical record, reflected in the banks’ balance sheet accounts.

- Modifications were operated to the report regarding the amount of foreign currency purchased and sold by banks against MDL, by introducing the information on status of the resident/non-resident with which the bank concluded the buying/selling transaction.
- The instruction that regulates the compilation and submission of the report on correspondent accounts and other placements of the licensed bank was adopted in a new edition.

International collaboration

International Monetary Fund (IMF)

The Republic of Moldova has been a member of the International Monetary Fund (FMI) since August 12, 1992. At the end of 2008 the subscription fee of the Republic of Moldova with IMF constituted XDR 123.2 million (the equivalent of USD 190.7 million).

In 2008 the total payments related to the servicing of loans extended by IMF constituted USD 26.9 million (the equivalent of XDR 16.9 million), of which payments on principal related to the respective credits constituted USD 25.4 million (the equivalent of XDR 16.0 million), while payments on interest – USD 1.5 million (the equivalent of XDR 0.9 million).

During 2008 the relations of the National Bank of Moldova with IMF took place in the context of the IMF missions of assessment of the performances in the achievement of the commitments under the PRGF* Program, as well as of the yearly bilateral consultations based on Article IV of the IMF Statute.

Within the framework of the mission carried out in March 2008 (the third evaluation mission of the financing facility for poverty reduction and economic growth), the IMF experts assessed the performance of the implementation of macroeconomic policies and structural reforms as laid down in the Memorandum on Economic and Financial Policies of November 29, 2006, and mentioned that the Republic of Moldova achieved encouraging economical performances, despite of the multiple shocks. The balancing policies of the authorities contributed to the maintenance of the macroeconomic stability as well. The finalization of the assessments allowed for the disbursement of an amount equivalent to XDR 11.44 million (about USD 18.9 million) as of March 28, 2008.

Table no. 41. Financial arrangements with IMF

Type of facility	Approved amount (XDR, million)	Disbursed amount as of 31.12.2008 (XDR, million)	Weight of disbursements in total approved amount (%)	Stock as of 31.12.2008 (XDR, million)	Stock as of 31.12.2008 (USD, million)
Extended Fund Facility (EFF)	135.0	87.5	64.8	4.2	6.5
Poverty Reduction and Economic Growth Facility (PRGF)	221.8	115.7	52.2	103.7	160.5

The IMF mission took note of the activity of the Government of the Republic of Moldova and of the National Bank of Moldova in the context of achieving the

* Poverty Reduction and Growth Facility (PRGF) represents a preferential lending mechanism extended by IMF to low-income states. Credits within PRGF are extended at an average interest rate of 0.5% per year. Credits are extended for a term of 10 years, with a grace period of 5.5 years.

commitments under the program funded through PRGF and assessed the macroeconomic expectations for 2008.

In the period of May 7-20, 2008 the mission of the European Department of the International Monetary Fund carried out the fourth evaluation within the PRGF Program.

The mission noted satisfactorily that the economic results achieved by the Republic of Moldova are promising, and those of PRGF Program are positive. Simultaneously, the mission shared the Government's concern about the impact of prices increase for foodstuff products and energy resources.

The assessment of macroeconomic expectations for the rest of 2008 was also encouraged and the *Memorandum on Economic and financial policies (MEFP)* was negotiated and updated for the rest of the months of 2008.

In July 2008 the Board of Executive Directors approved the extending of the sixth tranche, thus, as of July 28, 2008 was disbursed the amount equivalent to XDR 11.44 million (about USD 18.7 million).

In the period of July 24 – 25, 2008 NBM hosted a seminar on: “Efficient implementation of precautionary requirements with regard to clients”, organized by the International Monetary Fund in collaboration with the NBM and the European Council. Within the framework of the seminar, the members of the IMF mission held speeches as they were in a business call during this period in the Republic of Moldova. Other representatives of the above mentioned institutions and, of the National Bank of Ukraine, of local banks and of Moldovan Banks Association participated in the discussions as well.

Within the context of the mission of September 11-18, 2008, the IMF experts appreciated the progress in reducing the inflation, specifying that, despite the impact of the drought from the previous year, the country's economic growth could reach a higher level than that foreseen. The mission had discussions on the State Budget project for 2009.

In the period of November 24 – 26, 2008 a roundtable on: “Anti - Money Laundering and Combating Financing Terrorism supervision regime of the banking sector” took place at the National Bank of Moldova, organized by the International Monetary Fund in collaboration with the NBM. Representatives of the financial authorities from Guernsey, Hungary, Romania and Italy participated in this meeting.

In the period of December 4 – 15 the IMF mission carried out the fifth evaluation within the PRGF Program. The IMF mission appreciated the stability of the financial system of the Republic of Moldova within the context of the world crisis, and remarked satisfactorily the performance achieved in reducing inflation rate below 10% and the robust economic growth. The reforms provided within the PRGF Program were achieved in the established time frame.

In the period of August 1, 2008 – July 31, 2009 NBM takes advantage of technical assistance from the IMF consultant in the field of inflation targeting and monetary policy implementation.

World Bank Group (WB)

As of December 31, 2008 the value of total commitments of the Republic of Moldova to the World Bank amounted to USD 440.1 million, of which USD 128.6 million (29.2%) constituted the debt of the Republic of Moldova to the International Bank for Reconstruction and Development (IBRD) and USD 311.5 million (70.8%) represented the stock of loans extended by the International Development Association (IDA).

During 2008 the World Bank approved the following loans for the Republic of Moldova:

- IDA in an amount of USD 6.0 million, within Additional Financing of the Project 2 for Investment and Country Services;
- the second loan in the total amount of USD 10.0 million for financing poverty reduction;
- IDA loan in the total amount of USD 14.0 million, within the National Project for water supply and sewage, etc.

European Bank for Reconstruction and Development (EBRD)

In the course of 2008 EBRD approved 4 projects in the total value of about EUR 128.2 million equivalent, including: 2 projects within the financial system, 1 project for agrobusiness sector and 1 project in the field of transport.

As of September 30, 2008 the Board of Directors of the EBRD approved a long-term loan in an amount of USD 18.0 million to Efes Vitanta Brewery Company. The loan will be used to modernize and expand company's brewing capacity, and will also be used to build a waste water treatment facility.

As of November 11, 2008 the EBRD approved the second project of Chişinău International Airport modernisation, and extended a loan in an amount of EUR 25.5 million, which represents the biggest infrastructure project funded by EBRD in 2008. European Investment Bank is co-financing alongside EBRD with a loan of EUR 20 million. The proceeds will be used for the rehabilitation and upgrade of the existing runway, taxiways, aprons and other connected core assets of the Airport.

As of November 25, 2008 the Board of Directors of the EBRD approved a loan in an amount of EUR 20.0 million to a bank from the Republic of Moldova, in two tranches, for on-lending to small and medium-sized enterprises (SMEs) and to larger companies of the Republic Moldova. The proceeds of the credit line will be used to provide medium and long-term financing of private companies for the production, investment, trade, services and working capital needs.

As of February 19, 2008 the EBRD approved the Financial Sector Intermediation Facility in the total amount of about EUR 70.0 million equivalent.

Within this facility, the EBRD will expand to Financial Institution Partners a series of financial products, including mortgage financing, credit lines for small and medium-sized enterprises, consumer credits, and credit lines for energy efficiency, leasing, guarantee facilities, syndicalized loans, subordinate loans and capital investment. In the frame of this

facility EBRD approved also the extension of a loan in an amount of USD 20.0 million to a bank from the Republic of Moldova.

European Union (EU)

The legal framework of the collaboration relations between the Republic of Moldova and European Union represents the Partnership and Cooperation Agreement (PCA), signed on November 28, 1994 (in force from July 1, 1998), and concluded initially for a period of 10 years.

The main document of PCA implementation is the Action Plan Republic of Moldova–European Union (RM-EU), which laid down the strategic objectives of the cooperation between EU and the Republic of Moldova for the period of February 22, 2005 – February 22, 2008. In the course of 2008 the National Bank of Moldova implemented all the measures provided for in the Action Plan RM-EU, in particular, the measures related to the objective “Economic growth consolidation and ensuring its medium-term sustainability” in the field of „Functional market economy”, the EU Assistance to the Republic of Moldova is provided within the European Strategy of the Republic of Moldova and performed for the most part under European Neighbourhood and Partnership Instrument.

In 2008, the Republic of Moldova benefited from those two tranches that have remained in the total value of EUR 25.0 million in the frame of microfinance grant assistance (EUR 45.0 million) extended by the European Union.

In July 2008 the European Commission and the Government of the Republic of Moldova signed a new Financing Agreement with the view of sustaining the social sector budget. In this context, in September 2008 the European Commission disbursed EUR 5.0 million, this being the first portion in the total value of EUR 20.0 million extended to the Republic of Moldova with the purpose of sustaining the social sector budget and improving the social system.

As of September 17, 2008 the first Twinning project in Moldova was launched.

Twinning is an important component of the European Commission funded package of assistance to the Republic of Moldova and their aim is to create direct contacts between Moldovan national institutions and their equivalent in European Member States.

Black Sea Trade and Development Bank (BSTDB)

The Republic of Moldova is a founder-member of the Black Sea Trade and Development Bank that started its activity in 1999.

The strategy for the Republic of Moldova adopted by BSTDB for the period of 2007-2010 stipulated the following funding priority fields: trade funding for exports increase, promotion of regional trade, promotion of new financial instruments, such as mortgage, leasing, etc.

As of October 5, 2008, in Istanbul, the Republic of Moldova subscribed additionally to shares of the Black Sea Trade and Development Bank in the context of the statutory capital increase for maintaining the share held previously (1.0%). The authorized capital of the BSTDB increased by XDR 2.0 billion (from XDR 1.0 billion to XDR 3.0 billion).

Previously, the Republic of Moldova held 10000 shares of the bank's capital in an amount of XDR 1.0 billion. Following the capital increase of the BSTDT the Republic of Moldova holds 20000 shares, namely 20.0 million special drawing rights (SDR), which allowed for maintaining 1.0% of the bank's subscribed capital.

During 2008, a credit agreement in an amount of USD 5.0 million was signed with a bank of the Republic of Moldova for financing small and middle-sized enterprises.

Collaboration with other international organizations

As of July 13, 2008, the team of the Joint Project of the Council of Europe and European Commission against Corruption, Money Laundering and Terrorist Financing in the Republic of Moldova – MOLICO, in cooperation with the National Bank of and Centre for Combating of Economic Crimes and Corruption organized a conference on “Application of risk-related approach within banks' activities of anti-money laundering”. The participants to the conference were the representatives of the mentioned international organizations and of the local authorities, such as the National Bank of Moldova, the Centre for Combating of Economic Crimes and Corruption, the National Financial Market Commission, top management and specialists from commercial banks.

In the period of December 8-12, 2008, the 28th plenary meeting of the Committee of experts on money laundering prevention and combating - MONEYVAL took place at Strasbourg, France, with the participation of a delegation of the Republic of Moldova of representatives of the Centre for Combating of Economic Crimes and Corruption, the Ministry of Justice, the National Bank of Moldova and the National Financial Market Commission of the Republic of Moldova. Within the framework of the meeting, the progress report on the implementation of recommendations elaborated by the experts of MONEYVAL Committee was submitted, following the third evaluation round.

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

The National Bank of Moldova became the member of the Group of Banking Supervisors from the Central and Eastern Europe in June 1996 by signing the Agreement on the rules of the SBECE Group organization and management.

In its capacity of the member of the SBECE Group the National Bank of Moldova can participate in the exchange of experience between the members of the group members, in the process of continuous up-grading of the staff qualification, in the elaboration of new standards, as well as benefit from methodology assistance in the field of bank's prudential regulation.

All these issues facilitate the increase of the local banking sector competitiveness, its capacity to attract investment, including foreign investment, and, subsequently, the increase of banks' possibility to meet the need of the economy's various branches of banking services.

In 2008 the National Bank of Moldova signed the Agreement of the Group of Banking Supervisors from the Central and Eastern Europe and Secretariat Operational Statute

modified in the frame of the 21st Conference of the SBECE members with the purpose of joining the Austrian Financial Market Authority as SBECE Group member.

Collaboration with other central banks

In 2008 the National Bank of Moldova maintained an active collaboration with the central banks of other states.

Within the process of authorisation and supervision, the National Bank of Moldova collaborated with supervision authorities from other countries in order to exchange relevant information for confirming the banks' managers of the Republic of Moldova, as well as for issuing written permissions to hold substantial shares in the banks' capital of the Republic of Moldova by non-resident persons.

In 2008 the NBM employees participated in seminars and training courses organized by the following central banks: Deutsche Bundesbank, Banque de France, National Bank of Poland, Czech National Bank, Banca d'Italia, etc.



Supervision and regulation of banks' activity*

General information

As of December 31, 2008 on the territory of the Republic of Moldova there were operating 16 joint stock banks authorized by the National Bank of Moldova, including three subsidiaries of foreign banks. The total number of banking institutions amounted to 1164, of which 299 branches and 865 representative offices. In 2008, there were opened 44 branches, 106 representative offices and there were closed 30 representative offices.

The total number of the staff employed within the banking system accounted as of December 31, 2008 for 11319, or by 1468 more as compared to December 31, 2007. The assets within the banking sector amounted on average per each employee of the banking system to 3.5 million lei, which is by 9.4% more as compared to the end of 2007.

New prudential regulations

During 2008 the National Bank of Moldova achieved a series of actions aimed at consolidating the banking system's stability, improving banking supervision in order to protect depositors' interests, as well as at ameliorating prudential regulations to comply with the new provisions of the legislation in force.

Following the enforcement of the Law on modification and completion of some legislative acts no.109-XVI of 16.05.2008, by which the Law on financial institutions was modified, modifications and completions were operated on some normative acts of the National Bank of Moldova, related to the establishment of a single amount of capital for all banks; establishment of procedures of issuing the license's authorised copy for branches and its representative offices; establishment of procedures on the issuance of the re-concluded license and its duplicate, etc.

Modifications and completions were operated on the legislation in force on money laundering and terrorism financing prevention and combating. Thus, amendments for requirements related to information that should be stored by banks in the process of identification of individuals, businesses and their beneficiary, including while performing occasional transactions; verification requirements; specific issues requiring attention in the identification process; requirements on the continuous monitoring of accounts and transactions, as well as minimal requirements on the storage of information were introduced. Simultaneously, as the notion „effective beneficiary” was introduced, banks were required to introduce procedures related to the well known of both direct and indirect owners and of the effective beneficiaries. Requirements related to identification of subjects of legalization within the bank's activity related to the procedure of funds legalization were established.

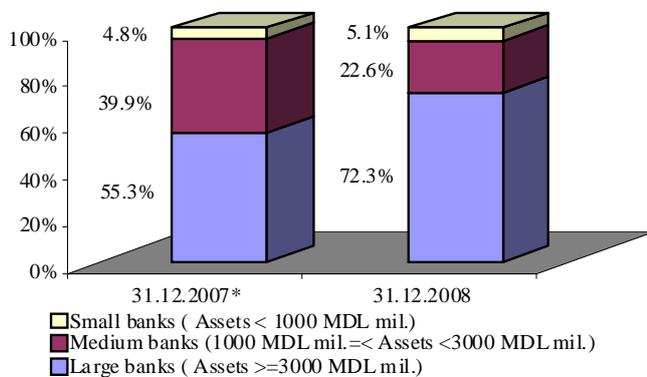
* According to credit and deposit accounts balances in the balance sheet worked out following the Instruction on Elaboration and Submission by banks of financial statements, approved by the Decision of the Council of administration no. 36 of August 8, 1997 (Official Monitor of the Republic of Moldova, 1997, no.64-65, Art.103), with further modifications and completions.

Assets of banks

In the course of 2008 the banking system of the Republic of Moldova displayed the following results. Total assets of the banking system equalled as of December 31, 2008 to 39122.7 million lei, increasing versus December 31, 2007 by 7120.7 million lei (22.3%). Their weight in GDP went up, as well, from 60.0% to 62.3% (chart no. 62). The growth of assets was due to the increase of banks' liabilities by 5631.0 million lei (21.3%) and of the share capital by 1489.7 million lei (26.9%).

During the analysed period the concentration of assets of the banking sector occurred as shown in chart no. 60.

Chart no. 60. Assets of the banking sector of the Republic of Moldova by groups of banks in the period of 31.12.2007- 31.12.2008 (%)



* Data as of 31.12.2007 in the text are adjusted according to the external audit results

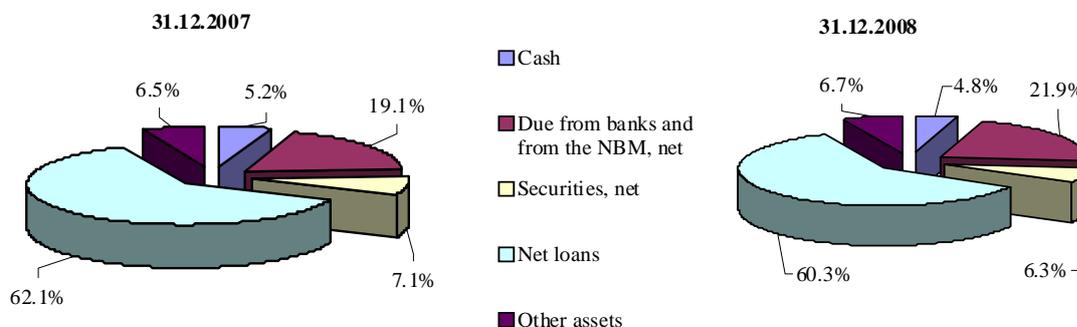
At the end of 2008 in the group of large banks there were 6 banks, in the group of medium-sized banks - 5 banks and in the group of small banks - 5 banks. In the course of the year 2 medium-sized banks passed in the group of large banks.

In 2008 growths were recorded within the assets' structure by all items: credit portfolio, net* advanced by 3690.5 million lei (18.6%), funds owed by banks and by the NBM, net - by 2481.2 million lei (40.6%), other assets, net - by 563.4 million lei (27.2%), securities, net - by

195.7 million lei (8.6%) and cash - by 189.9 million lei (11.3%).

Net credits held the highest weight in total assets - 60.3%, by 1.8 percentage points less as compared to the end of 2007. Funds owed by banks and by BNM, net held the weight of 21.9%, securities, net - 6.3%, cash - 4.8% and other assets, net - 6.7% of total assets (chart no. 61).

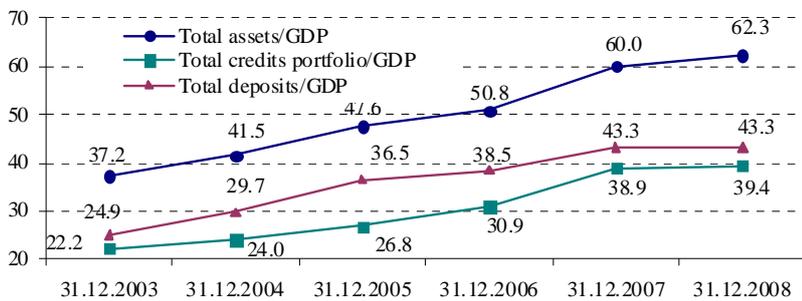
Chart no. 61. Structure of assets of the banking sector of the Republic of Moldova in the period of 31.12.2007 - 31.12.2008 (%)



* According to credit accounts balances in the balance sheet worked out following the Instruction on Elaboration and Submission by banks of financial statements, approved by the Decision of the Council of administration no. 36 of August 8, 1997 (Official Monitor of the Republic of Moldova, 1997, no.64-65, Art.103), with further modifications and completions.

The weight of extended credits in GDP went up from 38.9 as of December 31, 2007 to 39.4% as of December 31, 2008 (chart no. 62).

Chart no. 62. Dynamics of assets, credits and deposits to GDP (%)



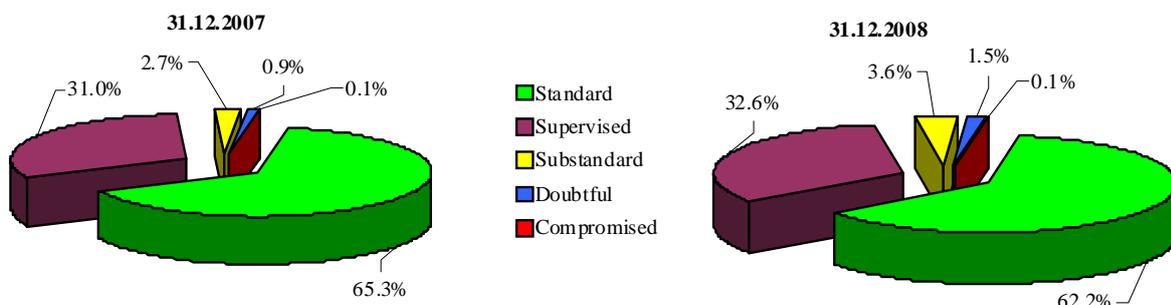
Within the context of the distribution of risks and of the destination of investment operations, credits to industry and trade held the highest weight in the total credit portfolio – 48.7%, being followed by credit for real estate, construction and development – 14.6%, credits to agriculture and food industry – 13.3% and consumer credits – 12.9%. Credits to banks held, on the contrary, the lowest weight in total credits – 0.1%, credits to the Government – 0.2%, credits to power and fuel industry - 2.0% and credits for road construction and transportation – 1.6%. The credit portfolio structure changed due to the increase of the weight of credits for real estate, construction and development by 1.8 percentage points. Thus, credits for real estate, construction and development were placed on the second position following the credits extended to industry and trade.

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In the course of 2008 credits extended to industry and trade displayed the highest growth – by 1987.1 million lei (19.7%), credits for real estate, construction and development - by 973.3 million lei (36.7%), credits to agriculture and food industry – 413.6 million lei (14.4%) and consumer credits – by 283.8 million lei (9.7%)

The risk related to credit operations is moderate. The weight of unfavourable credits (substandard, doubtful and compromise) (chart no. 63) in total credits accounted as of December 31, 2008 for 5.2% or by 1.5 percentage points more as compared to the end of 2007. Respectively, the weight of deductions for credit losses in the total credit increased by 0.6 percentage points, which as of December 31, 2008 constituted 4.8%.

Chart no. 63. Structure of credit portfolio and financial leasing of the banking sector of the Republic of Moldova according to the level of investment operations risk as of 31.12.2007 and 31.12.2008 (%)



The total value of compromised credits, which was cancelled in 2008 on the account of deductions for credit losses constituted 120.7 million lei, while credit returns – 53.3 million lei. Thus, credits returns accounted in total cancelled credits for 44.2%.

The total amount of banks' exposures to affiliates accounted as of December 31, 2008 for 1426.7 million lei, and held a weight in total credits of 5.8% and of 21.4% Tier I capital (maximal limit – 100.0% of Tier I capital).

Credits extended to banks' employees represented 118.3 million lei, or 0.5% of total credit portfolio and 1.8% of total regulatory capital of banks (maximal limit shall not exceed 10.0% of total regulatory capital).

The total value of "large" exposures constituted 6163.6 million lei, which is 24.9% of total credit portfolio and 92.5% of total regulatory capital of banks (maximal limit shall not exceed 500.0% of total regulatory capital). The amount of the top ten net debts on credits accounted for 31.1% of net credits within the system (maximal limit – 50.0% of total volume of net credits).

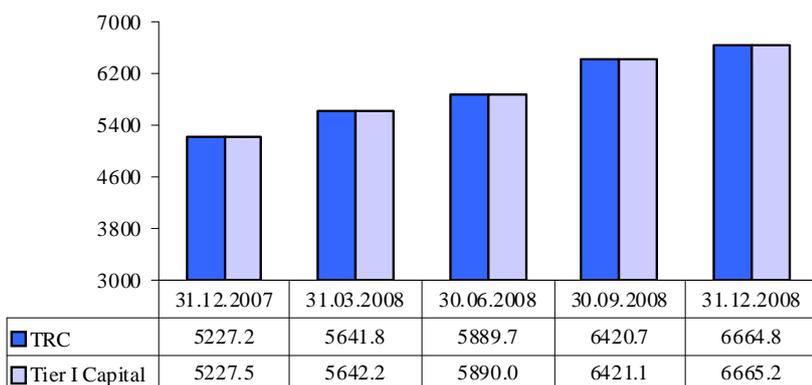
The weight of net assets in foreign currency in total assets registered 42.0%, the weight of net liabilities in foreign currency in total assets – 41.7%. The insignificant difference between the mentioned weights, which accounted for 0.3 percentage points, revealed that the foreign exchange risk was minimal and did not affect considerably the financial stability of the banking system. Compared to as of December 31, 2007, the weight of assets and the weight of liabilities in foreign currency diminished by 1.4 and 0.8 percentage points, respectively. Within the structure of net assets in foreign currency, credits in foreign currency held the highest weight – 62.5%.

Capital of banks

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

Tier I capital accounted as of December 31, 2008 for 6665.2 million lei, and registered an increase during 2008 by 1437.7 million lei (27.5%), confirming the consolidation of the system and its sound capacity to manage potential financial difficulties of domestic and external origin.

Chart no. 64. Dynamics of banking capital in 2007 - 2008
(MDL, million)



It should be mentioned that at the end of 2008, in all banks the size of Tier I capital complied with the minimum established level.

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

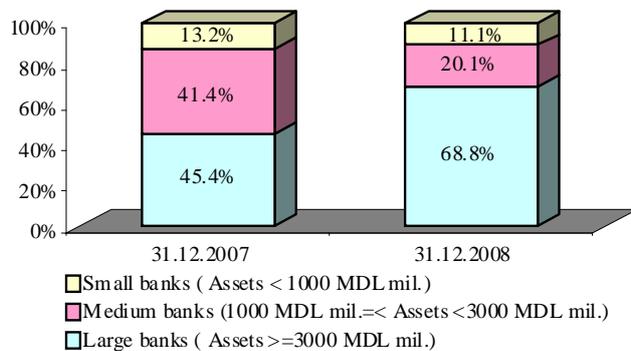
National Bank of Moldova.

The total regulatory capital increased in 2008 by 1437.6 million lei, or by 27.55 (chart no. 64).

The main source of increasing the Tier I Capital and TRC served the net income earned by banks and the closure of share issuance on the account of additional contributions in an amount of 143.9 million lei.

The average risk weighted capital adequacy (ratio of total regulatory capital to risk-weighted assets within the banking system) maintained at a high level – 32.2% (the minimum level in the Republic of Moldova is of 12.0%, while that recommended for banking supervision by Basel Committee indicates even a more reduced adequacy – 8.0%) and a high security degree of banks’ activity, on the background of a firm potential to conduct operations without prejudice to the capital.

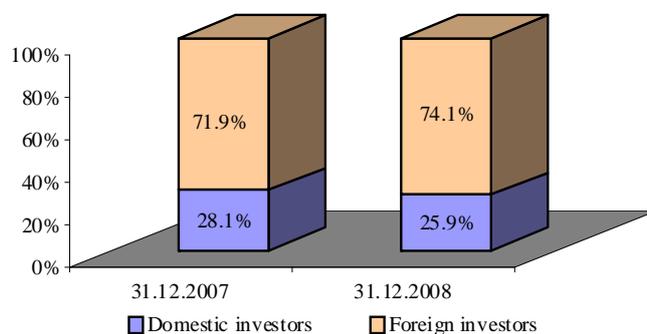
Chart no. 65. Total regulatory capital distribution by groups of banks as of 31.12.2007 and 31.12.2008 (%)



The share of the total regulatory capital of large banks in total regulatory capital of the banking system totalled 68.8%, increasing as compared to December 31, 2007 by 23.4 percentage points, while the share of total regulatory capital of small and medium-sized banks dipped by 21.3 and by 2.1 percentage points and amounted, respectively, to 20.1% and 11.1% (chart no. 65).

During the analyzed period foreign investors were attracted to the banking system, which is confirmed by the significant share of foreign investments in the banks’ capital, which accounted as of December 31, 2008 for 74.1%, by 2.2 percentage points more as compared to the end of 2007 (chart no. 66).

Chart no. 66. Structure of banking capital by investments source in the period of 31.12.2007 - 31.12.2008 (%)



Foreign investors’ participation in capital formation in the banks of the Republic of Moldova included as follows: European Bank for Reconstruction and Development, banks from Italy, France, Romania and Slovenia, as well as

corporate investors from Austria, Germany, USA, Russian Federation, Greece, the Netherlands, Great Britain, Czech Republic and other countries.

Out of total number of banks, 4 banks have a capital formed of foreign investments, 1 bank – a capital formed of local investments and 11 banks – a capital formed of foreign and local investments.

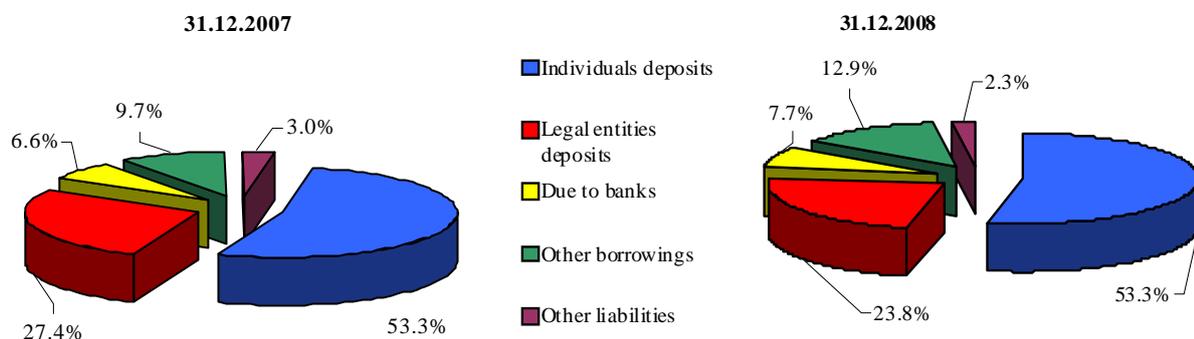
Liabilities of banks

As of December 31, 2008 the liabilities of banks accounted for 32088.0 million lei, or by 5631.0 million lei (21.3%) more as compared to the end of 2007. The increase of liabilities occurred mainly on the account of deposits' growth* by 4092.0 million lei, or by 17.7%, which denoted the credibility in the banking system.

In 2008 deposits of individuals advanced by 2990.8 million lei (21.2%), up to 17096.2 million lei, other loans - by 1593.4 million lei (62.5%), up to 4142.8 million lei, funds owed to banks - by 713.9 million lei (40.8%), up to 2462.7 million lei, deposits of businesses - by 387.2 million lei (5.3%), up to 7637.6 million lei. Simultaneously, other liabilities increased by 54.4 million lei (6.8%).

Within banks' liabilities, deposits held as of December 31, 2008 the highest weight – 84.8%, decreasing by 2.5 percentage points as compared to the end of 2007. Their weight in GDP maintained the same level versus December 31, 2007, and constituted 43.3% (chart no. 62). Deposits of individuals in total liabilities registered 53.3%, deposits of businesses – 23.8%, deposits of banks – 7.7%, other loans and other liabilities - 12.9% and 2.3%, respectively (chart no. 67).

Chart no. 67. Structure of liabilities of the banking sector of the Republic of Moldova from 31.12.2007 to 31.12.2008 (%)

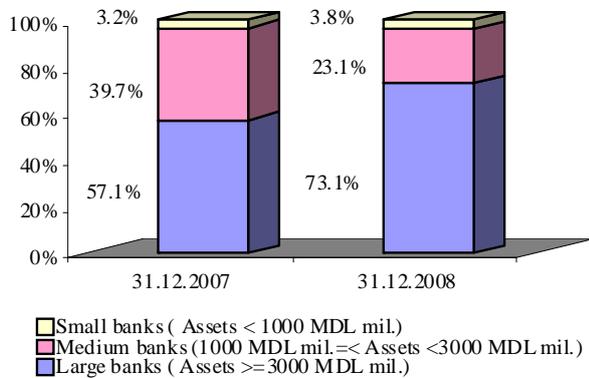


Deposits in foreign currency went up by 1392.6 million lei (12.4%), and reached the value of 12622.5 million lei, while deposits in MDL enlarged by 2699.5 million lei (22.7%) and as of December 31, 2008 constituted 14574.1 million lei.

During the analysed period the weight of deposits in foreign currency went down by 48.6% as of December 31, 2007 to 46.4% as of December 31, 2008. Respectively, the weight of deposits in MDL increased by 53.6%.

* According to deposit accounts balances in the balance sheet worked out following the Instruction on Elaboration and Submission by banks of financial statements, approved by the Decision of the Council of administration no. 36 of August 8, 1997 (Official Monitor of the Republic of Moldova, 1997, no.64-65, Art.103), with further modifications and completions.

Chart no.68. Distribution of banking liabilities by groups of banks from 31.12.2007 to 31.12.2008 (%)



The weight of large banks' liabilities in total liabilities of the banking system amounted as of December 31, 2008 to 73.1%, increasing as compared to December 31, 2007 by 16.0 percentage points. The weight of liabilities of small banks increased by 0.6 percentage points, to 3.8%, while the weight of liabilities of medium-sized banks reduced, respectively, by 16.6 percentage points, to 23.1% in total liabilities within the banking system (chart no. 68).

Liquidity of banks

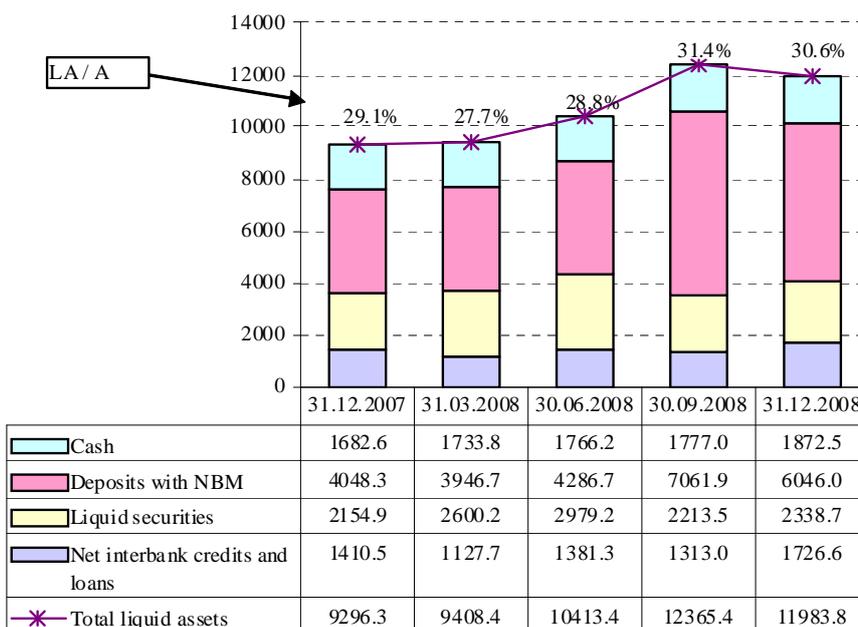
The observance by banks of liquidity indicators revealed the existence of sources for covering short-term and long-term potential needs.

Thus, the long-term liquidity (assets with the reimbursement term over 2 years/financial resources with the potential withdrawal term of over 2 years ≤ 1) accounted as of December 31, 2008 for 0.7.

The current liquidity (liquid assets expressed in cash, deposits with NBM, state securities, net interbank credits with the term of up to 1 month/total assets $\times 100\% \geq 20.0\%$) equalled at the end of 2008 to 30.6%.

Liquid assets totalled 11983.8 million lei, and increased as compared to the end of 2007 by

Chart no.69. Dynamics of liquid assets (MDL, million) and of the liquid assets' weight in total assets (%) in the period of 31.12.2007 – 31.12.2008



2687.5 million lei, or by 28.9%. This increase was due to the growth of deposits with the National Bank Moldova by 1997.7 million lei (49.3%), of net interbank credits and loans with the reimbursement term of up to 1 month - by 316.1 million lei (22.4%), of cash and precious metals - by 189.9 million lei (11.3%) and of liquid securities - by 183.8 million lei (8.5%), (chart no. 69). The continuous advancement of liquid assets will contribute to the maintenance by banks of

liquidity indicators.

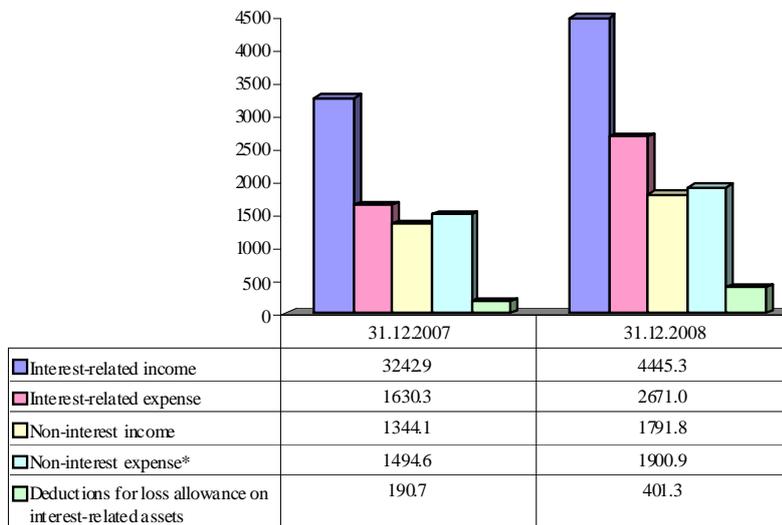
Deposits with NBM held as of December 31, 2008 the highest weight in liquid assets – 50.5%, followed by liquid securities – 19.55, cash and precious metals – 15.6%, net interbank credits and loans with reimbursement term due in less than 1 month – 14.4%.

Income and expense of banks

Net income of banks within the banking system in 2008 accounted for 1270.3 million lei, or by 183.6 million lei (16.9%) more as compared to 2007, and reflected a favourable evolution of the system.

Thus, the year of 2008, recorded an increase in interest-related income as compared to 2007 by 1202.4 million lei, or by 37.1% and in non-interest income by 447.7 million lei, or

Chart no. 70. Dynamics of banking income and expense in 2007-2008 (MDL, million)



*Non-interest expense include deductions for loss allowance on non-interest assets and deductions for loss provisions on conditional commitments.

33.3%. Interest-related expense and non-interest expense enlarged by, respectively, by 1040.7 million lei, or by 63.8% and 406.3 million lei, or by 27.2%, deductions for loss allowance on interest-related assets increased by 210.6 million lei, or by 110.4% (chart no. 70).

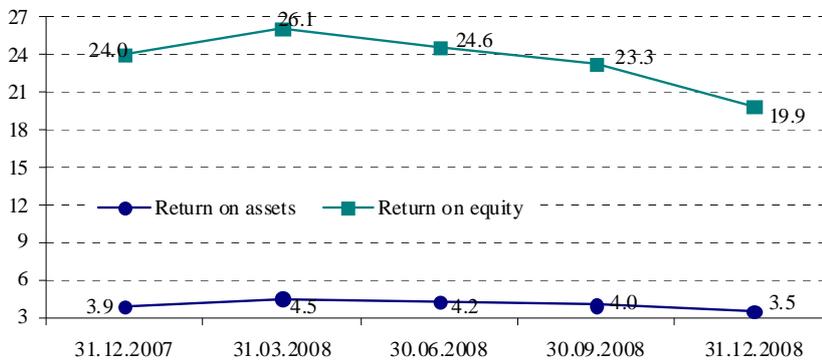
Banks' income during 2008 was steady and originated manly from the banks' basic activity (investments in interest-bearing assets). Respectively, interest-related income constituted 4445.3 million lei, or 71.3% of total income derived by banks. Within the structure of interest-related income, interest-related income

and loan commission held the highest share – 3882.8 million lei (87.3%).

Non-interest income constituted 1791.8 million lei, or 28.7% of total income. Commission-related income and income from foreign currency operations held the highest share in total non-interest income and constituted 792.7 million lei (12.7% of total income), and 786.4 million lei (12.6% of total income), accordingly.

The total amount of expense equalled to 4973.2 million lei, of which 2671.0 million lei, or 53.7% represented interest-related expense, 1900.9 million lei, or 38.2% - non-interest expense and 401.3 million lei, or 8.1% - deductions for loss allowance on interest-related assets.

Chart no.71. Dynamics of return on assets and equity in 2007-2008 (%)



Return on assets of the banking system, which represents the ratio of net income to average assets, in 2008 constituted 3.5%, by 0.4 percentage points lower as compared to the end of 2007. Return on equity within the banking system, which represents the ratio of net income to average equity capital, totalled 19.9%, decreasing as compared to

2007 by 4.1 percentage points. The reduction was determined by the higher growth rates of assets and, respectively, of equity capital as compared to the growth rates of the net income.

In the course of the reporting year, the growth of the basis of income deriving was revealed by the increase of interest-bearing assets by 5514.3 million lei, or 20.5%, and reached the value of 32406.1 million lei. The continuous growth of interest-bearing assets, as well as their significant weight in total assets of the banking system, which accounted for 82.8%, proves the banks' ability to generate income in the future.

Payment system

The National Bank of Moldova has the attribution established by Law to supervise the payment system of the Republic of Moldova and to facilitate the efficient functioning of the interbank payment system.

In order to mitigate the risk exposure of payment and settlement systems, whose complexity is continuously increasing due to the development of information technologies, the Council of administration of the National Bank of Moldova approved in November 2008 the Payment System Oversight Policy.

The mentioned policy establishes the oversight objective and principles, the systems that come under the law on supervision and the actions undertaken by the National Bank of Moldova in this field.

During 2008, the efficient and stable functioning of the automated interbank payment system (AIPS) was insured, which is the core of the payments system of the Republic of Moldova.

The automated interbank payment system (AIPS) is made up of the real-time gross settlement system (RTGS) and of the designated-time net settlement system (DNS).

At the end of 2008, the participants to AIPS were the National Bank of Moldova, 16 authorised banks, the Central Treasury by the Ministry of Finance and the Settlement Centre of Tiraspol.

In the course of the reporting year the volume and value of payments processed in AIPS recorded a positive evolution, and totalled 12.0 million payments in an amount of 351.1 billion lei, which constituted an increase by 15.7% of the quantity and by 24.0% of the value of payments as compared to the previous year. The weight of the payments processed within RTGS and DNS systems, from the numerical point of view, constituted 5.7% and 94.3%, respectively, from the value point of view, 89.4% and 10.6%.

Referring to the activity in card-based payment system, it should be mentioned that, at the end of 2008, 732.3 thousand bank cards issued by authorized banks were in circulation. Although the number of bank cards in circulation reduced by 5.2% as compared to the end of 2007, the quantity and the value of operations performed with bank cards increased significantly.

Thus, the holders of bank cards issued by authorized banks carried out on the territory of the Republic of Moldova 13.9 million transactions in the course of the reporting year (currency withdrawals and non-cash payments) in an amount of 11.8 billion lei, which represents an increase by 26.8% of the quantity and by 43.7% of the value of transactions versus the previous year.

In 2008 currency withdrawals prevailed from the point of view of both the quantity and the value of the respective operations (96.1% and 97.9%, respectively)

It should be mentioned that the weight of non-cash payments followed the ascendant trend of the previous years (versus 2007 its increase constituted 0.9 percentage points and 0.4 percentage points, respectively).

During the year of 2008, the holders of bank cards issued abroad carried out on the territory of the Republic of Moldova 615.0 thousand transactions in an amount of 1.3 billion, decreasing by 28.1% quantitatively, and, increasing by 13.2% by value as compared to 2007. It should be mentioned that, during the reporting year, the weight of the non-cash payments diminished quantitatively and by value of operations, and constituted 30.3% and 23.0%, respectively.

Information technology

The plans of activity for 2008 in the field of information technology were jointly elaborated with the plans of the basic activity of the NBM, which sustained and encouraged their achievement.

According to the plan of reorganization of the official web-page of the National Bank of Moldova (DCA of BNM no. 166 of July 12, 2007), in Quarter I, 2008, the new official webpage of the National Bank of Moldova was set to work under Internet (www.bnm.md).

The new official web page of the NBM is accessible in three languages (Moldovan language, Russian language and English language) and contains information on the results of the macroeconomic analysis, financial market evolution and statistical data, including with regard to money supply, extending of credits, balance of payments and foreign exchange market, the NBM activity, banking system, the legal and normative framework regarding the regulation by the NBM of banks' activity with the purpose of creating a correct image about NBM, as well as measures undertaken for achieving its aims.

Beginning with November 2008 the electronic forms reporting system was implemented at the National Bank of Moldova. Thus, on the basis of the new Instruction on the submission by banks of reports in electronic form to the NBM (approved by the DCA of the NBM no.132 of 17.07.2008, in force from 01.11.2008) and of Technical Norms on the submission of reports in electronic form to the NBM, the submission of reports of authorized banks (51 reports) to the NBM shall be performed only in electronic form by applying the digital signature. It should be mentioned that, the establishment of the report in electronic form improved significantly the promptness of information gathering and the efficacy of its processing.

In the course of 2008, the information technology of the NBM continued to improve due to the implementation and development of certain information systems that serve important processes and activities within NBM. Thus, during the reporting year a series of works related to the implementation of a new record system and of tangible assets management were achieved. In addition, program applications were modified and developed for the information systems: „Securities”, „Foreign exchange operations”, „Ledger”, „Balance of payments”, „Cash operations”, „Reciprocal commitments”, „Required reserves”, „Credits”, „Deposits”, „Statistics”.

In order to line up the strategic requirements of the BNM for promoting a competitive and stable sector, and for removing the excess risks within the financial and banking system, during 2008, there were emphasized the development of an administrative framework in the field of information technology, the consolidation of the information security management system within NBM, according to the best practices of the field (e.g. COBIT, ITIL, ISO/IEC 27001, etc.), as well as the promotion of these practices within the financial and banking system of the Republic of Moldova. The most important actions undertaken with that end in view during the year refer to the revision and development of the methodological and normative framework regarding the analysis and the management of information technology risks and of information security incidents, the implementation of security solutions that will ensure an adequate level of information security according to the established requirements, the development of a more transparent framework with regard to supervision requirements in the field of information technology and banking information security, etc.

Cash operations

As of December 31, 2008 cash in circulation* constituted 8802.8 million lei, including bank notes – 8744.7 million lei and coins – 58.8 million lei, increasing as compared to the end of 2007 by 16.0%.

During 2008 cash withdrawals from the National Bank of Moldova constituted 4481.8 million lei, increasing by 12.0% as compared to the previous year, of which bank notes in an amount of 4474.7 million lei, while coins in an amount of 7.1 million lei. At the same time, financial institutions placed cash to the National Bank of Moldova in an amount of 328.3 million lei.

In 2008 the National Bank of Moldova issued five commemorative and jubilee coins, as legal tender and for numismatic purpose.

The jubilee coins “Dimitrie Cantemir – 335 in Anniversary” and „Antioh Cantemir – 300 in Anniversary” were dedicated to the Cantemirești family, thus, completing the “Personalities series”.

A new “Monuments of Moldova” series was also inaugurated, with the purpose of promoting the historical, architectural, spiritual and natural patrimony of the Republic of Moldova. The series was opened with the coin “The Oak Tree of Ștefan cel Mare”.

The “Holidays, culture, traditions” series, was completed with a commemorative coin “Butnăritul”, which reflects the popular tradition related to manufacturing of casks, while the “Republic of Moldova Red Book” series was completed with a commemorative coin “White water lily”, which reflects the native country’s flora.

During 1996 – 2008, the National Bank of Moldova issued 55 commemorative and jubilee coins with different themes and nominal values.

* Bani în circulație și numerarul în lei în casele băncilor

NBM Personnel and Professional Training

The staff of the National Bank of Moldova was made up as of December 31, 2008 at the level of 98.2% (452 employees out of 460 according to the staff). Seven doctors of economy and technical sciences are currently working within the National Bank of Moldova.

In 2008, 64 bank's employees were promoted. The bank's staff is mainly made up of the persons aged below 40: 254 employees or 56.2%.

During the reporting year, 94 employees of the National Bank of Moldova participated in training courses, which contributed to the improvement and the modernisation of the activity of the National Bank of Moldova.

Internal audit

Internal Audit Department activates according to law, methodological and legal framework harmonized with the performance standards and the good practice of the field. Annual and strategic planning of audit missions is based on the evaluation of the activity's risks. In 2008, besides the operational activity, the Internal Audit Department (IAD) carried out audit missions and Follow-up missions, performed special investigations, endorsed the Financial Situations and the budget execution of the National Bank of Moldova, provided consultancy. Following the missions, 17 reports were worked out endorsing the NBM activity – financial, of conformity, operational and of information technologies.

In order to minimize the risk exposure, the internal audit activity aims at obtaining reasonable insurance regarding the correctness, efficiency and efficacy of banks' activity.

During 2008, IAD consolidated the methodological framework by establishing a Program of quality insurance, which determines the succession of stages, procedures and the way of informing, monitoring and reporting of audit activities. New policies and procedures necessary for the guidance of internal audit activity in the National Bank of Moldova were also approved.

Besides the competence activities, IAD continued to concentrate on the professional development. During the reporting period, the personnel of department participated in trainings, carried out individual studies, collaborated with competent audit organizations and structures, benefited of membership of the Internal Audit Institute (USA).

Activity of the Council of administration

During 2008, 67 meetings of the Council of administration of the National Bank of Moldova were convened, where 273 decisions were put into discussion and were adopted with regard to the activity of the financial and banking system, and acts were approved and modified in the fields, as follows:

- monetary and foreign exchange activity;
- payment system oversight policy;



- accounting policy of the National Bank of Moldova;
- banking regulation and supervision;
- accounting record;

In the course of 2008, 45 general decisions of the Council of administration of the National Bank of Moldova were submitted for publication in the Official Monitor of the Republic of Moldova.



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INDEPENDENT AUDITOR'S REPORT

To the National Bank of Moldova

We have audited the accompanying financial statements of the National Bank of Moldova ("the Bank"), which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in capital and reserves and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Managements' Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the National Bank of Moldova as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

20 March 2009

Ernst & Young SRL
Chisinau, Republic of Moldova

NATIONAL BANK OF MOLDOVA
BALANCE SHEET
As at 31 December 2008

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
		MDL'000	MDL'000
ASSETS			
Cash and short term placements with banks	5	10,545,899	11,038,139
Due from International Financial Institutions	6	1,975,126	2,202,960
Due from the Moldovan Government	7	-	1,972,560
Securities issued by the Moldovan Government	8	2,304,220	408,537
Loans granted to banks and individuals	9	32,059	38,839
Investment securities	10	6,845,824	4,056,392
Tangible assets	11	22,599	26,574
Intangible assets	11	8,881	12,963
Other assets	12	3,293	7,325
TOTAL ASSETS		<u>21,737,901</u>	<u>19,764,289</u>
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
National currency issued into circulation	13	8,732,080	7,603,347
Due to the Moldovan Government	14	2,789,251	2,506,809
Due to banks	15	6,048,623	4,054,556
Certificates issued by the National Bank of Moldova	16	1,061,580	812,928
Due to International Financial Institutions	6	3,711,103	4,014,172
Other liabilities	17	64,126	144,044
Total liabilities		<u>22,406,763</u>	<u>19,135,856</u>
Capital and reserves			
Authorized capital	18	288,923	288,923
General Reserve fund	18	(1,110,927)	320,277
Total statutory capital		<u>(822,004)</u>	<u>609,200</u>
Reserve of unrealized gains on revaluation of investment securities	18	147,060	17,643
Other reserves	18	6,082	1,590
Total capital and reserves		<u>(668,862)</u>	<u>628,433</u>
TOTAL LIABILITIES, CAPITAL AND RESERVES		<u>21,737,901</u>	<u>19,764,289</u>

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

The financial statements were authorized for issue on 20 March 2009:

Leonid Talmaci
Governor

Natalia Zabolotnii
Director of the Budget, Finance and Accounting Department
Chief Accountant

NATIONAL BANK OF MOLDOVA
INCOME STATEMENT
For the year ended 31 December 2008

	Notes	2008 MDL '000	2007 MDL '000
Interest income from deposits and current accounts	20	442,086	372,827
Interest income from securities	20	520,355	228,028
Interest income from loans	20	37,970	244,835
		<u>1,000,411</u>	<u>845,690</u>
Interest expenses arising from loans received	21	(13,618)	(24,805)
Interest expenses arising from deposits and obligatory reserves	21	(182,561)	(98,918)
Interest expenses arising from transactions with securities and Repo agreements	21	(210,772)	(198,406)
		<u>(406,951)</u>	<u>(322,129)</u>
Net Interest Income		<u>593,460</u>	<u>523,561</u>
Gains/(losses) from foreign exchange transactions and foreign exchange rates differences	22	(1,971,088)	(880,913)
Gains/(losses) from the revaluation of securities	23	126,499	24,504
Release from loan loss provision		(2)	46
Other income	24	42,732	24,234
Operating expenses	25	(94,035)	(65,103)
Operating Gains/(Losses)		<u>(1,895,894)</u>	<u>(897,232)</u>
NET LOSSES FOR THE YEAR	19	<u>(1,302,434)</u>	<u>(373,671)</u>
Release of realized gains from fixed assets revaluation		647	647
Allocation of unrealized gains on revaluation of investment securities		(129,417)	(17,643)
Release of unrealized losses on exchange rate differences from foreign currency stocks revaluation		-	133,099
TOTAL LOSSES		<u>(1,431,204)</u>	<u>(257,568)</u>
Differences from revaluation of investment securities issued by the Government of Republic of Moldova		5,139	2,127
COMPREHENSIVE RESULT	19	<u>(1,426,065)</u>	<u>(255,441)</u>

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

The financial statements were authorized for issue on 20 March 2009:

Leonid Talmaci
Governor

Natalia Zabolotnî
Director of the Budget, Finance and Accounting Department
Chief Accountant

NATIONAL BANK OF MOLDOVA
CASH FLOW STATEMENT
For the year ended 31 December 2008

	Notes	<u>2008</u>	<u>2007</u>
		MDL '000	MDL '000
Cash flow from operating activities			
Interest receipts		1,066,228	835,936
Interest payments		(417,076)	(328,692)
Gains from foreign exchange transactions		126,499	24,504
Other receipts		42,717	24,223
Staff and suppliers costs paid		(75,003)	(55,063)
Cash flow before changes in assets and liabilities		<u>743,365</u>	<u>500,908</u>
<i>(Increase) / Decrease in operating assets</i>			
Decrease/(increase) in amounts due from International Financial Institutions		(853)	209
Increase in investment securities		(3,437,759)	(394,851)
(Increase)/decrease in value of the securities issued by the Moldovan Government		(2,365,309)	-
Decrease in amounts due from Moldovan Government		1,932,242	160,000
Decrease in loans granted to banks and individuals		6,778	7,193
		<u>(3,864,901)</u>	<u>(227,449)</u>
<i>Increase / (Decrease) in operating liabilities</i>			
Increase in the national currency issued into circulation		1,128,734	1,786,156
Increase in due to Government		281,512	1,635,613
Increase / (decrease) in due to banks		2,243,527	2,300,955
(Decrease) / increase in certificates issued by the National Bank of Moldova		250,973	(130,160)
Increase in due to International Financial Institutions		110,097	133,137
Increase/(decrease) in other liabilities		(80,674)	121,766
		<u>3,934,169</u>	<u>5,847,467</u>
Net cash from operating activities		<u>812,633</u>	<u>6,120,926</u>
Tangible and intangible fixed assets acquisitions		(2,129)	(4,406)
Net cash flow from investing activities		<u>(2,129)</u>	<u>(4,406)</u>
Payments to the State		-	(313,498)
Net cash flow from financing activities		<u>-</u>	<u>(313,498)</u>
Revaluation differences		(1,711,281)	(742,171)
Increase in cash and cash equivalents		<u>(900,777)</u>	<u>5,060,851</u>
Cash and Cash equivalents at 1 January		<u>11,446,676</u>	<u>6,385,825</u>
Cash and Cash equivalents at 31 December		<u><u>10,545,899</u></u>	<u><u>11,446,676</u></u>
Analysis of Cash and Cash equivalents			
Cash on hand in foreign currency	5	1,418	1,362
Nostro accounts in foreign currency	5	602,296	678,630
Term deposits in foreign currency	5	9,942,185	10,358,147
Securities issued by the Moldovan Government	8	-	408,537
Cash and Cash equivalents, gross		<u><u>10,545,899</u></u>	<u><u>11,446,676</u></u>

NATIONAL BANK OF MOLDOVA
STATEMENT OF CHANGES IN CAPITAL AND RESERVES
For the year ended 31 December 2008

	Authorized capital	General reserve fund	Reserve of unrealized foreign exchange gains from foreign currency stocks revaluation	Reserve of unrealized gains on revaluation of investment securities	Other reserves	Total losses	Total Capital and Reserves
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Balance as at 1 January 2007	288,923	577,845	133,099	-	110	-	999,977
Comprehensive result	-	-	-	-	2,127	(257,568)	(255,441)
Transfer of surplus from indexation reserve of fixed assets	-	-	-	-	(647)	-	(647)
Release of unrealized gains on exchange rate differences from foreign currency stocks revaluation	-	-	(133,099)	-	-	-	(133,099)
Allocation of unrealized gains from revaluation of investment securities	-	-	-	17,643	-	-	17,643
Release of general reserve fund	-	(257,568)	-	-	-	257,568	-
Balance as at 31 December 2007	288,923	320,277	-	17,643	1,590	-	628,433
Balance as at 1 January 2008	288,923	320,277	-	17,643	1,590	-	628,433
Comprehensive result	-	-	-	-	5,139	(1,431,204)	(1,426,065)
Transfer of surplus from indexation reserve of fixed assets	-	-	-	-	(647)	-	(647)
Release of unrealized gains on exchange rate differences from foreign currency stocks revaluation	-	-	-	-	-	-	-
Allocation of unrealized gains from revaluation of investment securities	-	-	-	129,417	-	-	129,417
Release of general reserve fund	-	(320,277)	-	-	-	320,277	-
Registration of debtor balance of general reserve fund	-	(1,110,927)	-	-	-	1,110,927	-
Balance as at 31 December 2008	288,923	(1,110,927)	-	147,060	6,082	-	(668,862)

1. General information

The National Bank of Moldova (the Bank or NBM) was established in 1991. The activity of the Bank is regulated by the *Law no.548-XIII* on the National Bank of Moldova approved by the Parliament of RM on 21 July 1995. In accordance with the Law on the National Bank of Moldova, it is an autonomous public legal entity that is responsible to the Parliament. The primary objective of the National Bank is to achieve and maintain price stability. The Bank in consultation with the economical and financial bodies of the Government formulates and implements the monetary and foreign exchange policy. The activities of the Bank are as follows:

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

As at 31 December 2008 the number of positions available at the Bank, including vacancies, was 460, out of which the number of employees was 452 persons (31 December 2007 the number of positions available at the Bank was 461, out of which the number of employees was 445 persons).

The inflation rate for the year 2008 was 7.30 % (2007: 13.10%).

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

2. Basis of preparation

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

The financial statements are presented in Moldovan lei (“MDL”), the currency of the country in which the Bank operates. The Bank maintains its books and records in accordance with the International Financial Reporting Standards and the *Law on the National Bank* and prepares its financial statements in accordance with them. The financial statements have been prepared on a historic cost basis, except for financial assets held at fair value through profit and loss and financial assets available for sale that have been measured at fair value.

NBM is the Central Bank of Moldova. Due to this fact, the categories of financial assets shown on the face of the Balance Sheet were presented using other names than the categories indicated by IAS 39. This presentation provides a better understanding of the financial assets and liabilities of the Bank. At the same time, each position of financial assets and liabilities in the balance sheet correspond to a certain category classified in accordance with IAS 39, these being presented in the Note 3.

3. Significant accounting policies

a. Revaluation of foreign exchange stocks and transactions

Foreign currency transactions are recorded at the exchange rate on the date of the transaction and are revalued daily using official foreign exchange rate. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. The exchange rates of the reference currencies for the year 2008 were as follows:

	2008		2007	
	Average for the period	Year end	Average for the period	Year end
USD/MDL	10.3895	10.4002	12.1362	11.3192
EUR/MDL	15.2916	14.7408	16.5986	16.6437
GBP/MDL	19.2929	15.0760	24.2728	22.6361
CHF/MDL	9.6243	9.8552	10.1068	10.0281
XDR/MDL	16.4315	16.0975	18.5624	17.8671

Exchange rate differences arising on the settlement of transactions at exchange rates different from those at initial recognition are recognized in the income statement.

b. Comparative figures

In cases when the financial statements presentation has changed for some items, the comparatives have been amended to reflect the changes in presentation.

The Bank early adopted the IAS 1 “Presentation of Financial Statements”, revised in 2007 and effective for financial years beginning on or after 1 January 2009. The main amendment to IAS 1 requires the replacement of the Income Statement with a Statement of Comprehensive Income, which will include changes in equity, such as the revaluation of available for sale financial assets.

The adoption of this standard implies a new format of presentation of the Income Statement and the Statement of Changes in Equity which were applied in current Financial Statements.

c. Significant accounting judgments and estimates

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input of these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The judgments include considerations of liquidity and model inputs accepted by the Management of NBM.

Impairment losses on loans and receivables

The Bank reviews its loans and advances at each reporting date or when it is considered necessary in order to assess whether an allowance for impairment should be recorded in the income statement.

3. Significant accounting policies (continued)

d. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand in foreign currency, current accounts and short-term placements at other banks, securities issued by the Moldovan Government with less than 3 months maturity from the date of acquisition.

In the Balance Sheet cash and short term placements with banks are presented on net basis (cash on hand in local currency is offset with the National currency issued into circulation).

e. Due from International Financial Institutions

The amounts recorded in the balance sheet as “Due from International Financial Institutions” represent mainly the quota of the Republic of Moldova in the International Monetary Fund (“IMF”). This amount is established in Special Drawing Rights (“XDR”) but it is presented in MDL.

f. Financial assets

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

Financial assets at fair value through profit and loss account

Financial assets at fair value through profit and loss account represent securities, which were either acquired for generating a profit from short term fluctuations in price, or are securities included in a portfolio in which a pattern of short term profit taking exists. After initial recognition at fair value, these securities are remeasured at fair value based on quoted bid prices. Interest income on securities is included in interest income.

This category of financial assets includes securities issued by non-residents with coupon or discount and purchased from the foreign markets which are presented in the balance sheet under category “Investment securities”.

Loans and receivables

Loans and receivables represent financial instruments where money is provided directly to the borrower and are recognized when the cash is advanced to borrowers. They are initially recorded at cost, which is the fair value of the cash disbursed, and are subsequently measured at amortized cost.

Loans granted to banks and individuals are stated at amortized cost, less impaired amounts and any provisions for impairment.

The Bank includes in this category balances due from IFIs, loans reconcluded with Government, loans granted to licensed banks and employees.

Held to maturity investments (HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and have fixed maturities that the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment.

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

3. Significant accounting policies (continued)

f. Financial assets (continued)

Available for sale financial assets

All the financial assets, which are not classified at fair value through profit and loss account or as held to maturity, are included in available for sale securities.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognized at settlement date. Available for sale assets are recognized initially at fair value (including transaction costs). Subsequent to initial recognition, they are remeasured at their fair value which is based on quoted bid prices or amounts derived from cash flow models and ratios which reflect the specific circumstances of the issuer.

Unrealized gains and losses related to this category of financial assets are recognized directly in equity in "Other reserves". When the securities available for sale are disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

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

The Bank includes in this category Securities issued by the Moldovan Government that are included in the line "Securities issued by the Moldovan Government" in the balance sheet.

g. Fair value of financial instruments

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

The loans and receivables of the Bank are reported at amortized cost less an estimate for impairment, which approximates their fair value.

The securities of non-residents are classified as "financial assets at fair value through profit or loss account", the gain or loss from their revaluation to market value is reported in the income statement.

The estimated fair values of financial instruments available for sale have been determined by the Bank using available market information and appropriate valuation methodologies, such as discounted cash flows techniques.

State securities are classified as "available for sale" and are reported at fair value.

Where discounted cash flows techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date with similar terms and conditions. However, professional judgment is required to interpret market data to determine the estimated fair value.

The fair value of the state securities held in the portfolio (for maturity which were not performed on the secondary market recently) is estimated by obtaining the new interest rates (on current market) at the reporting date per each maturity of state securities retained in the NBM portfolio from the curve of the current interest rates. The curve is constructed for the appropriate day based on the recent results of the auctions for state securities on the primary market as well as on the secondary market for the last 5 working days.

3. Significant accounting policies (continued)

h. Provisions for impairment of the loans and other assets

The loan loss provision is created in case if there are objective evidences (financial situation of the bank, reimbursement of principal, current debt service, renegotiation or prolongation of the payment terms of principal and interest) that the Bank will not be able to collect all amounts due (principal and interest).

The amount of the impairment loss is the difference between the carrying value and estimated recoverable value, calculated as updated value of cash flows estimated for recovery including the amounts recoverable from collaterals, updated based on initial interest of the instrument. The loan loss provision is decreased or increased in case if the provision calculated at the reporting date is respectively less or greater than previously established provision.

Provision for impairment of the loans is used to cover the non-performing loans, in cases of bankruptcy of the licensed bank and/or the insufficiency of own funds to settle the debt to the NBM. These loans are written off against provisions established previously.

Recoveries of loans written off in earlier periods are included in income.

In order to cover the potential objective risks and losses, a provision for doubtful debts is created. The provision represents expenses, which occur at the moment of its creation or increase, and, respectively, is reflected as an income at the moment of its cancellation or decrease. The provisions for bad debts are not used to cover the losses resulted from the bad debts written off as unrecoverable debts. The doubtful receivable is considered unrecoverable in cases when there is confirmation from the appropriate authorities that the receivable lost its value and can not be recovered. The write off of bad debts is recorded as expense, and the created provision is release to income.

i. Sale and repurchase agreements

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

The Bank has not entered in such transactions during the current reporting period.

j. Tangible assets

Tangible assets are stated at cost less accumulated depreciation.

In 1996 the Bank performed indexation of the items of property and equipment that were acquired prior to 1 January 1996 by applying the set of indices elaborated by the Moldovan Government. These indices were applied to the net book value of assets in order to reflect changes in prices. The indices varied according to asset type and acquisition date.

Expenses for repairs and maintenance are charged to operating expenses as incurred. Subsequent expenditure on tangible assets is only recognized as an asset when the expenditures improve the condition of the asset beyond the originally assessed standard of performance.

3. Significant accounting policies (continued)

j. Tangible assets (continued)

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

	<u>rate per annum</u>
Buildings	5%
Motor vehicles – heavy vehicles	10%
Wooden buildings	20%
Motor vehicles – cars, buses	20%
Special equipment	20%
General and administration equipment	20%
Other equipment	30%

k. Intangible assets

Intangibles represent costs incurred for acquisition of computer software, amortized using the straight-line method over their estimated useful lives, by applying an annual amortization rate determined based on the estimated useful live of each asset . The useful life of the asset is determined when it is put into use, on the basis of the period that the asset is estimated to be used or the duration of the license. As at 31 December 2007 the estimated useful life of intangible assets varied between 1 and 5 years.

The costs related to the development or maintenance of the software elements are recognized through the income statement at the moment they occur.

1. National currency issued into circulation

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

m. Due to banks

Due to banks include LORO accounts and current accounts of the banks residents/non-residents, deposits accepted from banks and the interests on deposits.

Due to banks include among other the obligatory reserves required to be maintained on the accounts opened in the NBM, in compliance with its prudential requirement.

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

In the Balance Sheet due to banks are presented at nominal value, and in cases of term deposits they are subsequently remeasured at amortized cost. Due to their short-term nature, their carrying amount approximates fair value.

3. Significant accounting policies (continued)

n. Due to Moldovan Government

Due to Moldovan Government include accounts of the State Budget held in the Unique Treasury Account, term deposits of the Ministry of Finance and amounts of the Directorate of Credit Line of the Ministry of Finance and are presented in the Balance Sheet at nominal value. The deposits of the Ministry of Finance are subsequently measured at amortized cost, which due to their short-term nature, approximates the fair value of such instruments.

o. Certificates issued by the NBM

Certificates issued by the NBM represent discount securities and are reflected in the Balance Sheet at the settlement date at sale price. After initial recognition, the certificates are remeasured at amortized cost based on the effective interest rate, with the calculation and recognition of the amortized discount in the last day of each month and at the maturity date of the NBM certificates. Due to their short-term nature, their carrying amount approximates fair value.

p. Due to International Financial Institutions

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

q. Capital and reserves

The Bank maintains the statutory capital on the level required to accomplish the objective established by the *Law nr.548 – XIII of 21 July 1995 on the National Bank of Moldova*.

The capital structure of the NBM includes the following:

- statutory capital:
 - authorized capital
 - general reserve fund
- reserve of unrealized gains;
- other reserves, in accordance with IFRS.

The statutory capital is dynamic and it is created from the annual profit available for distribution and/or from the Government contributions until the capital reaches the value of 10% of the total monetary liabilities of the NBM (except liabilities due to Government and International Monetary Fund).

The authorized capital shall be subscribed and shall be held exclusively by the state; the capital shall not be transferable or subject to encumbrance. A reduction of the level of monetary liabilities, both during the year, and at year end, does not result in a decrease of statutory capital previously accumulated.

The general reserve fund is used exclusively to cover the net losses registered by the Bank at the financial year end. In case when at year the general reserve fund has a debit balance, the Government, in the person of the Ministry of Finance, during a period of 60 days from the date when the external audit opinion on the financial statements of NBM is presented, transfers to NBM a capital contribution in state securities at the market interest rate, in the amount necessary to cover the debit balance.

3. Significant accounting policies (continued)

q. Capital and reserves (continued)

As the allocation of unrealized profits may affect the achievement of the objectives of the NBM, the Bank retains unrealized profits, resulted from the foreign exchange rates fluctuation and from revaluation of the securities in foreign currency at their fair value in the corresponding reserve account of unrealized gains, which, consequently, are used to cover the unrealized losses generated by respective sources.

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

r. Income tax

In compliance with the art. 24 par. (15) lit. f) of the *Law nr 1164-XIII dated 24 April 1997 on applying the titles I and II of the Tax Code*, the National Bank of Moldova is exempted from the income tax on its activities.

s. Interest income and expenses

Interest income and expense are recorded in the income statement for financial instruments valued at amortized cost based on the linear method and those valued at amortized cost using the effective interest rate method.

t. Revaluation of foreign currency assets and liabilities

Unrealized foreign exchange gains and/or losses are created as a result of the daily revaluations of the foreign currency stocks representing the difference between the official exchange rates of the national currency towards the foreign currencies which create the relevant foreign exchange stocks, the revaluation of the IMF related accounts during the financial year, as well as monthly revaluation of foreign securities at fair value which are held in the NBM portfolio.

By virtue of its activities as a central bank and for currency market intervention purposes, NBM maintains open currency positions at the reporting dates.

In accordance with the art. 20 of the *Law on the National Bank of Moldova* at the end of the financial year, the net unrealized foreign exchange gains from revaluation of the foreign currency stocks and securities in foreign currency available in the NBM portfolio are transferred to the correspondent reserve accounts of unrealized gains.

The amount of net unrealized losses, after recognition in the income statement is covered using the sources of corresponding reserve accounts of unrealized gains, until their balance equals to zero.

u. Fiduciary activities

The National Bank of Moldova acts in some cases as fiscal agent of the State. Assets and income arising from these activities are not included in these financial statements.

v. Contingencies

Contingent liabilities are not recognized in the financial statements but they are disclosed in the notes, unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. Significant accounting policies (continued)

w. Provisions

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

x. Pension costs and employees' benefits

During its normal activity, the Bank makes contributions to the social state insurance budget and to the mandatory medical insurance fund of the Republic of Moldova, including the contributions made on the name of its employees, according to the acting legislation. Social insurance contributions and medical insurance contributions of the NBM are recognized to expenses at the moment when salaries are accrued. The Bank does not operate any other retirement schemes and has no obligation to provide further benefits to current or former employees.

y. Standards issued but not yet effective

New standards and interpretations, that were issued, but will be effective starting with 1 January 2009 or for consecutive periods are as follows:

IFRS 3, Revisions to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective on 1 July 2009). IFRS 3R introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. The financial statements of the Bank will not be impacted by the application of the revision.

IFRS 8, Operating Segments (effective on 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Bank does not have different operating segments and therefore the Standard will not be applied to the Bank's financial statements.

IAS 23, Borrowing Costs (effective on 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. Due to the specifics of the Bank, it is not expected that circumstances for the application of this Standard will appear.

2008 Annual Improvements to IFRS: In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard (effective on 1 January 2009). Among the standards that are covering the activity of the Bank are: IFRS 7 Financial instruments: Disclosures, IAS 1 Presentation of Financial Statements, IAS 8 Accounting Policies, Change in Accounting Estimates and Errors, IAS 16 Property, Plant and Equipment, IAS 39 Financial Instruments: Recognition and Measurement. It is necessary to mention that due to the specifics of the Bank, the amendments mentioned will not have an impact on the financial statements of the Bank.

3. Significant accounting policies (continued)

y. Standards issued but not yet effective (continued)

IFRIC 15: Agreement for the Construction of Real Estate (effective on 1 July 2009). The interpretation is to be applied to revenues and related expenses of entities engaged in construction of real estate directly or through intermediaries. Due to the specifics of the Bank, the interpretation will not have an impact on the financial statements of the Bank..

4. Financial risk management

Through its normal operations, the National Bank of Moldova is exposed to a number of risks of an operational and financial nature.

Operational risk

The operational risk involves the risk of both financial and non-financial losses resulted from human errors, breakdown or inadequate functioning of the internal control system. The Bank operational risk management is an integral part of daily operations and management. The operational risk management includes corporative policies, which provide for behavior standards applicable to involved persons and specific internal control systems, specific for each subdivision elaborated, taking into account the characteristics of their basic activity.

Hence, for the monitoring and adequate management of the related risks the sub-divisions of the NBM elaborate their own internal control procedures.

The National Bank of Moldova manages this risk through its Internal Audit Department, which tests and expresses the opinion on the effective functioning of the internal controls system of the Bank. Segregation of duties among different departments of the National Bank of Moldova (front-office, middle-office and back-office) is also considered as one of the mechanisms of managing operating risk.

Financial risk

The main categories of financial risk to which the Bank is exposed are: credit risk, liquidity risk, market risk, which includes interest rate risk and currency risk. The structure of the assets and liabilities is primarily determined by the nature of the National Bank of Moldova's statutory functions, rather than commercial considerations. At the same time NBM continually manages its exposure to risk, through a variety of risk management techniques.

Risk management of the National Bank of Moldova is regulated by its internal instructions, and procedures, and is monitored by the management of the Bank, that analyzes issues related to the monetary, investment and foreign exchange policy of the National Bank of Moldova, and sets limits for volumes of transactions.

4. Financial risk management

4.1 Credit risk

Credit risk is the risk that the Bank will incur a loss because its counterparties failed to discharge their contractual obligations.

Maximum exposure of the NBM to credit risk, excluding the value of any guarantees, is reflected in the accounting value of its financial assets.

The credit risk relating to operational credit in national currency is monitored and controlled.

In order to control credit risk exposure, the Bank implemented the following risk monitoring elements:

- settling the transaction insurance percentage (haircut) – when securities are acquired at a higher interest rate than established on the market at that specific moment, the National Bank protects against the eventual non repayment by the counterpart bank;
- requesting an additional pledge for maintaining the initial transaction insurance percentage, settled by the Bank.

In order to decrease the credit risk exposure related to loans granted to licensed banks for loans to housing construction cooperatives, the Bank monitors on a permanent basis the quality of credit portfolio and debtors financial situation, and, periodically, evaluates the impairment provisions, and adjusts them to reflect best current estimates. The credit risk related to such loans diminishes as the balances of the loans granted are decreasing.

The credit risk related to intraday/overnight/credits as well as to pawnshop facilities is daily monitored using the limits of monetary policy and are secured by the highly liquid collateral such as state securities and certificates issued by NBM.

In order to decrease the credit risk exposure related to loans granted to the Bank's personnel, the Bank accepts as a collateral either the properties acquired with the loans or the salaries.

The credit risk related to transactions, with the purpose of managing the foreign currency reserves is monitored via selecting the investment instruments with high liquidity and low level of risk, setting investment limits and their daily control.

Furthermore, an essential element of credit risk management is the investment of the NBM with the purpose of foreign currency reserves management with reliable counterparties having high long-term credit rating, established by the international rating agencies (Standard & Poor's, Moody's and Fitch IBCA), and authorized by the NBM for foreign currency transactions.

4. Financial risk management (continued)

4.1 Credit risk (continued)

The table below represents the Bank's financial assets based on long-term rating:

Financial Assets	Long-term rating	31 December 2008	31 December 2007
		MDL '000	MDL '000
	AAA	2,101,732	3,593,441
	AA+	-	-
	AA	773,742	5,608,128
	AA-	2,363,800	1,836,238
Cash and short-term placements with banks (in foreign currency)	A+	4,127,953	-
	A	307,134	319
	A-	4	-
	BBB	871,524	-
	BBB-	-	13
	BB+	10	-
Due from International Financial Organizations	AAA	1,975,126	2,202,960
Due from the Government	N/A	-	1,972,560
Securities issued by the Moldovan Government	N/A	2,304,220	408,537
Loans granted to banks and individuals	N/A	32,059	38,839
Investment securities	AAA	6,845,824	4,056,392
Other financial assets	N/A	1,388	5,232
Total Financial Assets		21,704,516	19,722,659

To quantify the credit risk related to investments in foreign currency, the value of credit risk associated to the investment portfolio is calculated based on default coefficients set by the Standard & Poor's agency per each rating category, the investments being classified in five categories, with annual maturity of up to and including five years.

As at 31 December 2008 the credit risk of the investment portfolio in foreign currency is valued at MDL'000 5,885 (equivalent to USD'000 566) (as at 31 December 2007 about MDL'000 574 (equivalent to USD'000 51)).

4. Financial risk management (continued)

4.1 Credit risk (continued)

In order to evaluate the diversification of assets portfolio as well as to properly assess the credit risk subject to different geographical areas the classification of Bank's financial assets per investment country, except for cash on hand, which is classified by country of origin of issuer, is as follows:

Country	31 December 2008	31 December 2007
	MDL '000	MDL '000
International Financial Organizations	4,693,215	2,653,637
USA	3,709,936	4,752,215
France	2,830,115	1,600,271
The Netherlands	2,289,724	1,321,354
Great Britain	2,223,975	9,484
Germany	1,225,113	2,556,550
Switzerland	909,305	2,446,482
Ireland	871,521	-
Sweden	312,168	562,942
Belgium	301,588	1,394,328
Other countries	189	228
Moldova	2,337,667	2,425,168
Total Financial Assets	21,704,516	19,722,659

The biggest share of the assets held with "International Financial Organizations" represents the quota of the Republic of Moldova held with the IMF. Simultaneously, the major share of the financial assets, by a foreign country, belongs to the USA (17.09% of the total assets), France (13.04%) and The Netherlands (10.55%) (as at 31 December 2007: USA (24.10% from total assets), Germany (12.96%), Switzerland (12.40%)).

4.2 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under circumstances different from normal ones. 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.

The liquidity risk is constantly monitored by the NBM, limiting the maximum maturity term of the investment portfolio, which restricts the investment into long-term maturity instruments, consequently the remaining maturity of the NBM portfolio being diversified.

Liquidity is one of the basic criteria in defining the composition of assets in foreign currency. This reflects the potential need to liquefy the currency reserves for intervention purposes in case such needs arise.

Securities in foreign currency held in NBM portfolio are high liquidity instruments meaning that they could be sold at any moment before the maturity date.

Securities issued by Moldovan Government and held by the National Bank of Moldova have a contractual maturity not longer than 182 days. However, at maturity, those securities are repurchased by the Government and new securities are issued by the Government and purchased by the National Bank of Moldova.

Analysis of assets and liabilities as at 31 December 2008 according to their contractual maturity date is as follows:

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4. Financial risk management (continued)

4.2 Liquidity risk (continued)

	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Undefined maturity	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
31 December 2008							
Assets							
Cash and short-term placements with banks	10,233,893	312,006	-	-	-	-	10,545,899
Due from International Financial Institutions	1,570	-	-	-	-	1,973,556	1,975,126
Securities issued by the Moldovan Government	1,943,209	361,011	-	-	-	-	2,304,220
Loans granted to banks and individuals	1,703	1,704	3,402	6,774	18,476	-	32,059
Investment securities	32,734	635,097	3,083,663	1,838,746	1,255,584	-	6,845,824
Tangible assets	-	-	-	-	-	22,599	22,599
Intangible assets	-	-	-	-	-	8,881	8,881
Other assets	3,293	-	-	-	-	-	3,293
Total assets	12,216,402	1,309,818	3,087,065	1,845,520	1,274,060	2,005,036	21,737,901
Liabilities							
National currency issued into circulation	8,732,080	-	-	-	-	-	8,732,080
Due to the Moldovan Government	2,472,251	157,000	160,000	-	-	-	2,789,251
Due to banks	6,048,623	-	-	-	-	-	6,048,623
Certificates issued by the NBM	1,061,580	-	-	-	-	-	1,061,580
Due to International Financial Institutions	63,513	14,874	63,121	89,244	1,505,825	1,974,526	3,711,103
Other liabilities	64,126	-	-	-	-	-	64,126
Total liabilities	18,442,173	171,874	223,121	89,244	1,505,825	1,974,526	22,406,763
Net liquidity gap	(6,225,771)	1,137,944	2,863,944	1,756,276	(231,765)	30,510	(668,862)
31 December 2007							
Total assets	10,851,669	4,184,217	1,185,820	1,045,080	256,736	2,240,767	19,764,289
Total liabilities	14,964,340	138,509	252,465	210,725	1,361,616	2,208,201	19,135,856
Net liquidity gap	(4,112,671)	4,045,708	933,355	834,355	(1,104,880)	32,566	628,433

4.2 Liquidity risk (continued)

The table below presents the analysis of total financial liabilities, including future interests according to their contractual maturity as at 31 December 2008.

The amounts of future liabilities were calculated taking into consideration the data as at 31 December 2008 (exchange rates, interest rates on monetary-credit instruments, etc.)

	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Undefined maturity	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
31 December 2008							
Liabilities							
National currency issued into circulation	8,732,080	-	-	-	-	-	8,732,080
Due to the Moldovan Government	2,484,500	166,251	174,539	-	-	-	2,825,290
Due to banks	6,049,782	-	-	-	-	-	6,049,782
Certificates issued by the NBM	1,066,861	-	-	-	-	-	1,066,861
Due to International Financial Institutions	65,769	17,071	67,223	96,912	1,535,554	1,974,526	3,757,055
Other liabilities	64,126	-	-	-	-	-	64,126
Total liabilities	18,463,118	183,322	241,762	96,912	1,535,554	1,974,526	22,495,194
31 December 2007							
Liabilities							
National currency issued into circulation	7,603,347	-	-	-	-	-	7,603,347
Due to the Moldovan Government	2,240,282	127,666	156,610	-	-	-	2,524,558
Due to banks	4,055,230	-	-	-	-	-	4,055,230
Certificates issued by the NBM	816,276	-	-	-	-	-	816,276
Due to International Financial Institutions	113,957	20,593	114,024	218,981	1,390,546	2,208,201	4,066,302
Other liabilities	144,044	-	-	-	-	-	144,044
Total liabilities	14,973,136	148,259	270,634	218,981	1,390,546	2,208,201	19,209,757

4. Financial risk management (continued)

4.3 Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables, even though such changes are caused at times by specific factors related to individual securities or issuers of securities, or factors that affect all the securities traded on the market.

The State securities are valued quarterly at their fair value determined based on recent auction interest rate on the primary market.

The market risk for the portfolio of securities in foreign currency is managed and monitored based on a value at risk methodology (VaR) which reflects the interdependency between risk variables. The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic losses based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. For VaR calculation the Bank uses the historical volatility method.

The exposure to the market risk of the securities portfolio held in foreign currency is quantified also by calculation of value-at-risk, which represents the maximum possible losses related to securities in foreign currency for a 12 months future period with a probability, usually, of 5%, considering the historical volatilities for a similar period.

As of 31 December 2008, the value of exposure to risk of securities portfolio in foreign currency is estimated at approximately USD'000 62,558 or approximately MDL'000 650,618 (2007: USD'000 16,387, or approximately MDL'000 185,488).

4.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of a financial instrument.

The Bank does not apply the value-at-risk method to analyze the sensitivity of its portfolio of state securities. In the same time, based on personal professional judgment, it is possible to presume that +/- 1p.p. fluctuations of interest rate compared to initial portfolio interest rate for securities held in portfolio implies an impact of approximately MDL'000 +/-1,936 on the Bank capital.

As a result of its activity related to monetary policy, the Bank is exposed to the internal market interest rate risk resulted from granting and extending loans to the licensed banks at a fixed rate, holding the state securities in its own portfolio in amounts and for terms different from those of the deposits placed with NBM, NBM Certificates issued and other borrowed funds.

Due to the fact that the interest bearing assets and liabilities mature or modify their interest rate in different periods or for different amounts – the correlation between current market interest rates is permanently monitored.

Consequently, due to the fact that the level of the abovementioned assets and liabilities is provided for by the objectives of the monetary policy, it is not always possible to obtain a positive margin.

In case of the long term borrowings received from the IMF the Bank is exposed to interest rate risk as a result of the interest rate fluctuation.

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.1 Interest rate risk (continued)

The fluctuation of interest rates on external market may affect the value of the investment portfolio in foreign currency as well as future cash flows. On external markets, the most vulnerable instruments to interest rate fluctuations are securities in foreign currency as the fluctuation of interest rates indirectly affects these assets price.

Consequently, due to fluctuations of interest rates on external markets negative divergences may occur between the interest rates of the investment portfolio in foreign currency and interest rates of the Bank's liabilities in foreign currency.

To determine the value of interest rate risk for short and long-term deposits in foreign currency, the possible losses are calculated considering a decrease of 0.5 p.p. of the interest rate for these instruments for the next 12 months. According to the average balance of the short and long term deposits for the year 2008, the value of potential losses resulted from the decrease of interest rate with 0.5 p.p. is valued at approximately USD'000 5,604 or approximately MDL'000 58,285 (2007: USD'000 3,086 or approximately MDL'000 34,927).

While managing the interest rates risk influenced by changes on the external markets, special attention is paid to the principal of diversification of investment portfolio by maturity and currency.

Average rates applicable to the major components of the balance sheet have been disclosed within the notes relating to these components. Analysis of assets and liabilities as at 31 December 2008 according to their contractual re-pricing or maturity date is as follows:

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4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.1 Interest rate risk (continued)

	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Non-interest bearing	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
31 December 2008							
Assets							
Cash and short-term placements with banks	10,124,030	312,006	-	-	-	109,863	10,545,899
Due from International Financial Institutions	1,566	-	-	-	-	1,973,560	1,975,126
Securities issued by the Moldovan Government	1,943,209	361,011	-	-	-	-	2,304,220
Loans granted to banks and individuals	1,703	1,704	3,402	6,774	18,476	-	32,059
Investment securities	9,361	614,433	3,073,616	1,838,746	1,255,584	54,084	6,845,824
Tangible assets	-	-	-	-	-	22,599	22,599
Intangible assets	-	-	-	-	-	8,881	8,881
Other assets	-	-	-	-	-	3,293	3,293
Total assets	12,079,869	1,289,154	3,077,018	1,845,520	1,274,060	2,172,280	21,737,901
Liabilities							
National currency issued into circulation	-	-	-	-	-	8,732,080	8,732,080
Due to the Moldovan Government	2,190,446	157,000	160,000	-	-	281,805	2,789,251
Due to banks	4,497,374	-	-	-	-	1,551,249	6,048,623
Certificates issued by the NBM	1,061,175	-	-	-	-	405	1,061,580
Due to International Financial Institutions	96,495	14,874	29,748	89,244	1,505,825	1,974,917	3,711,103
Other liabilities	-	-	-	-	-	64,126	64,126
Total liabilities	7,845,490	171,874	189,748	89,244	1,505,825	12,604,582	22,406,763
Interest rate gap	4,234,379	1,117,280	2,887,270	1,756,276	(231,765)	(10,432,302)	(668,862)
31 December 2007							
Total assets	10,698,548	4,171,569	1,176,062	1,045,056	256,736	2,416,318	19,764,289
Total liabilities	6,011,291	138,509	178,019	99,055	1,361,616	11,347,366	19,135,856
Interest rate gap	4,687,257	4,033,060	998,043	946,001	(1,104,880)	(8,931,048)	628,433

The interest bearing assets and liabilities of the Bank, mainly comprise cash and cash equivalents in foreign currency, securities, accepted deposits and certificates issued by the Bank, as well as loans granted by the International Financial Institutions. They bear fixed interest rates, except for the current account with the IMF and loan granted by the IMF (EFF), which bear floating interest rates set on a weekly basis by the IMF. The same is for the loans granted to the banks for crediting the construction cooperatives for which the interest rate is floating depending on the modifications of the long-term basic interest rate set by the Bank.

NATIONAL BANK OF MOLDOVA
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4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.2 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 2008, NBM held the following foreign exchange positions:

	MDL	USD	EUR	GBP	CHF	XDR	Other	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
31 December 2008								
Active								
Cash and short-term placements with banks	-	4,316,193	4,250,528	1,681,630	297,373	-	175	10,545,899
Due from International Financial Institutions	1,973,556	-	-	-	-	1,570	-	1,975,126
Securities issued by the Moldovan Government	2,304,220	-	-	-	-	-	-	2,304,220
Loans granted to banks and individuals	32,059	-	-	-	-	-	-	32,059
Investment securities	-	3,987,660	1,579,124	1,279,040	-	-	-	6,845,824
Tangible assets	22,599	-	-	-	-	-	-	22,599
Intangible assets	8,881	-	-	-	-	-	-	8,881
Other assets	3,257	31	5	-	-	-	-	3,293
Total assets	4,344,572	8,303,884	5,829,657	2,960,670	297,373	1,570	175	21,737,901
Liabilities								
National currency issued into circulation	8,732,080	-	-	-	-	-	-	8,732,080
Due to the Moldovan Government	2,526,062	90,530	172,659	-	-	-	-	2,789,251
Due to banks	3,094,602	1,148,691	1,805,330	-	-	-	-	6,048,623
Certificates issued by the NBM	1,061,580	-	-	-	-	-	-	1,061,580
Due to International Financial Institutions	1,974,199	-	-	-	-	1,736,904	-	3,711,103
Other liabilities	64,098	10	18	-	-	-	-	64,126
Total liabilities	17,452,621	1,239,231	1,978,007	-	-	1,736,904	-	22,406,763
Net position	(13,108,049)	7,064,653	3,851,650	2,960,670	297,373	(1,735,334)	175	(668,862)
31 December 2007								
Total assets	4,663,873	8,011,665	4,077,817	3,008,956	48	1,730	200	19,764,289
Total liabilities	15,178,951	774,658	1,376,276	-	-	1,805,971	-	19,135,856
Net position	(10,515,078)	7,237,007	2,701,541	3,008,956	48	(1,804,241)	200	628,433

Other currencies include mainly balances in Japanese yen, equivalent of MDL'000 84, Romanian leu – MDL'000 34, Canadian Dollars – MDL'000 33, Norwegian krone – MDL'000 16, Estonian kroon – MDL'000 4 and Russian rubles – MDL'000 2.

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.2 Currency risk (continued)

In order to estimate the currency risk related to assets and liabilities denominated in foreign currency, possible unrealized gains/losses have been computed by assuming a variation of +/- 5% during the next 12 months of the exchange rates of MDL against the currencies in which these assets and liabilities are denominated. As at 31 December 2008 and 31 December 2007, respectively, the amount of the possible impact on the profit and equity of the NBM is as follows:

	31 December 2008		31 December 2007	
	MDL '000	MDL '000	MDL '000	MDL '000
	Profit	Equity	Profit	Equity
MDL against USD	+/- 353,233	+/- 353,233	+/- 361,850	+/- 361,850
MDL against EUR	+/- 192,583	+/- 192,583	+/- 135,077	+/- 135,077
MDL against GBP	+/- 148,034	+/- 148,034	+/- 150,448	+/- 150,448
MDL against CHF	+/- 14,869	+/- 14,869	+/- 2	+/- 2
MDL against XDR	+/- 86,767	+/- 86,767	+/- 90,212	+/- 90,212
MDL against other currencies	+/- 9	+/- 9	+/- 10	+/- 10

Note: In case the MDL appreciates against the respective foreign currencies, unrealized losses will be generated, and vice-versa, in case the MDL depreciates against the respective foreign currencies, unrealized gains will be generated, with the exception of XDR, where the appreciation of MDL against XDR generates unrealized gains, while the depreciation generates unrealized losses.

5. Cash and short-term placements with banks

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Cash on hand in foreign currency	1,418	1,362
Nostro accounts	602,296	678,630
Term deposits in foreign currency	9,942,185	10,358,147
	10,545,899	11,038,139

Cash and short-term placements with banks does not include local currency balances held at the central treasury of NBM, which decreases with the respective amount the liability side "National currency into circulation" (Note 13). The net value presentation is adequate since the NBM is the sole issuer of the national currency.

As at 31 December 2008 the term deposits in foreign currency hold the significant portion within this line (about 94.28%). As at period end the term deposits in foreign currency were placed at counterparties with rating: „AAA” – 15.31%, „AA” – 7.82%, „AA-” – 23.73%, „A+” – 41.48%, „A” – 3.0%, „BBB” – 8.67% (the classification of investments in “BBB” rating category has been performed following the revision by the rating agencies of one counterparty rating, after the investments were made) (as at 31 December 2007: „AAA” – 28.35%, „AA” – 53.90%, „AA-” – 17.75%).

The average interest rate of the term deposits in foreign currency placed during the year 2008 is 4.51% (in 2007 – 5.14%) and it is above the compound benchmark related to the investment portfolio calculated for the same period, which represents 3.24% (in 2007 – 4.64%).

6. Due from /Liabilities to International Financial Institutions

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Assets		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	1,973,556	2,201,230
Current account with IMF	1,570	1,730
	1,975,126	2,202,960
Liabilities		
Account No.1	1,973,475	2,201,141
Account No.2	81	90
Total liabilities of the IMF	1,973,556	2,201,231
Other international organizations	970	6,970
Loans granted by IMF	1,736,577	1,805,971
	3,711,103	4,014,172

The Republic of Moldova joined the IMF on August 12, 1992. The National Bank of Moldova acts as the agent for the conduct of the financial transactions with the IMF and as a depository for maintaining of the IMF's accounts. Membership in the IMF is quota based. A member's quota is determined upon its admission to the membership and is increased periodically under General Quota Reviews. The quota forms the basis for the member's financial and

6. Due from/ Liabilities to International Financial Institutions (continued)

organizational relationship with the IMF and determines, inter alia, a member's relative voting power, the maximum access to the IMF financing and the share of the member in any allocation of XDR.

The IMF Quota Account reflects initial and subsequent quota payments and is an asset of the member. Up to 25% is payable by each member to the IMF in reserve assets specified by the IMF and the remainder is due in the member's own currency.

The local currency portion of the quota payment is deposited in the IMF No.1 Account and IMF No. 2 Account . The IMF No 1 account is used for the IMF's operational transactions (purchases, repurchases), whereas the IMF No 2 account is used for the payment of expenses incurred by the Fund in the member's currency.

The amounts included in the NBM balance sheet as Due to International Financial Institutions also include the loans received by the NBM from the IMF. The loans are denominated in Special Drawing Rights ("XDR"), but disclosed in the balance sheet at the Moldovan Lei equivalent at the end of the reporting period.

As at 31 December 2008 the Bank's outstanding balance of loans due to the IMF is as follows:

- Poverty Reduction and Growth Facility – XDR'000 103,708 (as at 31 December 2007 – XDR'000 86,372)
- Extended Fund Facility – XDR'000 4,167 (as at 31 December 2007 – XDR'000 14,583)

Poverty Reduction and Growth Facility (PRGF) represents loans granted to poor countries with the GDP less than USD 895 per person. The IMF has granted loans within PRGF for a period of 10 years with a grace period of 5.5 years. The loan bears an interest rate of 0.5% per annum.

During the year 2008 NBM has received two loan instalments in amount of XDR'000 11,440 each within PRGF loan (2007: one loan instalment of XDR'000 21,710).

Extended Fund Facility (EFF) represents loans granted for economic growth support and are granted to economies suffering balance of payments deficits. The granted loans within this facility are for a period of 10 years with a grace period of 4.5 years and a floating interest rate set on a weekly basis by the IMF.

The loans received by NBM from the IMF from the General Resources Account are secured by a bill of exchange issued by the National Bank of Moldova.

Other international organizations represent the accounts of the International Bank for Reconstruction and Development and the Multilateral Investment Guarantee Agency

7. Due from the Moldovan Government

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Loans reconcluded with the Moldovan Government	-	1,932,242
Interest accrued on loan reconcluded with the Moldovan Government	-	40,318
	<u>-</u>	<u>1,972,560</u>

7. Due from the Moldovan Government (continued)

As at 31 December 2008 the balance of the State debt towards NBM (loans granted and accrued interest) is nil, as a result of the conversion of loans to State securities during the 1st quarter of 2008, in accordance with the Decision of the College of the Ministry of Finance (no. 14/1 dated 10 September 2007) and the Decision of the Administration Council of the National Bank (no. 234 dated 12 September 2007).

8. Securities issued by the Moldovan Government

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Securities issued by the Moldovan Government	2,364,923	415,502
Discount on securities issued by the Moldovan Government	(66,228)	(7,352)
Revaluation of securities issued by the Moldovan Government	5,525	387
	<u>2,304,220</u>	<u>408,537</u>

As at 31 December 2008 the balance of state securities held in the Bank portfolio comprises state securities issued by the Moldovan Government and remitted to the Bank as a result of reemission and conversion into state securities of internal state debts purchased from the Bank during the previous years. These securities are classified as available for sale and are recorded at their fair value.

As at 31 December 2008 this account increased by MDL'000 1,895,683 as compared to 31 December 2007 which was mainly due to the conversion, in the first quarter of 2008, in state securities of previously contracted borrowings from the National Bank in the amount of MDL'000 1,813,442 according to the conversion Plan mentioned in note 7.

The increase of interest rates on state securities, starting with the second half of 2008, determined the increase of the return on the NBM securities portfolio comparing with 2007: the average interest rate for state securities portfolio held by NBM as of 31 December 2008 constituted 16.91% per annum (as of 31 December 2007 – 14.19% per annum).

The table below presents a reconciliation of the reserve from revaluation of securities issued by the Moldovan Government:

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Balance 1 January	387	(1,740)
Changes in the reserve from revaluation of securities issued by the Moldovan Government	5,139	2,127
Balance 31 December	<u>5,525</u>	<u>387</u>

9. Loans granted to banks and individuals

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Loans granted to banks	26,386	33,461
Loan granted to other individuals	5,675	5,378
Subtotal	32,061	38,839
Less: Impairment Provision	(2)	-
	32,059	38,839

Loans granted to banks and individuals include loans granted to licensed banks during the years 1993-2000 for loans to housing construction cooperatives and loans granted to the Bank's employees adjusted with loan loss provision.

The decrease in the balance of loans granted to banks and individuals by MDL'000 6,780 or by 17.46% resulted mainly due to reimbursements by banks of the loans granted.

Hence, the balance of loans granted to banks decreased by MDL'000 7,075 from MDL'000 33,461 to MDL'000 26,386, and the balance of loans granted to employees of NBM increased by MDL'000 297, from MDL'000 5,378 to 5,675. The provision at the end of the year amounted to MDL'000 2.

The loans granted by the National Bank of Moldova to licensed banks are guaranteed by the balances of the Loro accounts in MDL of licensed banks. As at 31 December 2008 the value of collateral placed by banks to guarantee the reimbursement of loans granted and related accrued interest constituted MDL'000 199,010 (as at 31 December 2007: MDL'000 199,010).

As at 31 December 2008 the value of the collateral placed by employees to guarantee the reimbursement of loans granted and related accrued interest constituted MDL'000 9,031 (as at 31 December 2007: MDL'000 8,930).

The movement in the provision for loan losses during the year is as follows:

	31 December 2008	31 December 2007
	MDL '000	MDL '000
As at 1 January	-	-
Release of provisions during the year	-	(5)
Additions during the year	(2)	5
As at 31 December	(2)	-

As at 31 December 2008 NBM did not have any significant past due loans.

10. Investment securities

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Investment securities in foreign currency with coupon, including	5,811,003	4,056,392
Investment securities in foreign currency with coupon (nominal value)	5,572,683	4,002,772
Premium / (discount) on investment securities in foreign currency with coupon	34,465	(9,049)
Interest purchased on investment securities in foreign currency with coupon	15,808	6,221
Interest accrued on investment securities in foreign currency with coupon	54,084	44,406
Revaluation of investment securities with coupon	133,963	12,042
Investment securities in foreign currency with discount, including	1,034,821	-
Investment securities in foreign currency with discount (nominal value)	1,040,020	-
Discount on investment securities in foreign currency with discount	(7,829)	-
Revaluation of investment securities with discount	2,630	-
Total investment securities in foreign currency	6,845,824	4,056,392

The securities in foreign currency issued by non-residents held by the National Bank of Moldova represent mainly securities issued by entities from the United States of America, European Union and supranational investment securities.

As at 31 December 2008, all securities issued by non-residents held in the Bank's portfolio have the highest rating - „AAA” (as at 31 December 2007: “AAA”- 100 %).

These securities are low risk assets and are classified as held for trading financial assets at fair value through profit or loss account.

During 2008 the securities issued by non-residents increased in MDL equivalent by 68.77%, (in 2007 increased by 0.92%), due to increase of currency reserves and, consequently, of the portfolio of foreign currency securities.

During the reported period, the total amount of securities sold or matured denominated in foreign currency represented the total nominal value of USD'000 124,000; EUR'000 60,000 and GBP'000 19,000 (in 2007 – USD'000 130,000; EUR'000 63,000 and GBP'000 16,500). Consequently, during the reported period there were purchased securities denominated in foreign currency in the total nominal value of USD'000 309,000; EUR'000 83,000 and GBP'000 75,600 (in 2007: USD'000 164,000; EUR'000 65,000 and GBP'000 14,000).

The table below presents a reconciliation of the change in fair value for investment securities:

	2008	2007
	MDL '000	MDL '000
As at 1 January	12,042	(12,615)
Realised gains/(losses) from revaluation of investments securities	(2,918)	6,643
Unrealised gains/(losses) from revaluation of investments securities	129,417	17,643
Foreign currency differences	(1,948)	371
As at 31 December	136,593	12,042

11. Tangible and intangible assets

	Buildings	Equipment	Tangible assets under execution	Intangible assets	Intangible assets under execution	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Cost						
At as 1 January 2008	36,420	77,871	15	25,704	120	140,130
Additions	-	1,831	-	298	-	2,129
Transfers	-	-	-	120	(120)	-
Exploitation	-	12	-	-	-	12
Disposals	-	(1,761)	-	(275)	-	(2,036)
As at 31 December 2008	36,420	77,953	15	25,847	-	140,235
Accumulated depreciation						
As at 1 January 2008	19,380	68,352	-	12,861	-	100,593
Charge for the year	985	4,833	-	4,380	-	10,198
Charge for disposals	-	(1,761)	-	(275)	-	(2,036)
As at 31 December 2008	20,365	71,424	-	16,966	-	108,755
Carrying value						
As at 1 January 2008	17,040	9,519	15	12,843	120	39,537
As at 31 December 2008	16,055	6,529	15	8,881	-	31,480

	Buildings	Equipment	Tangible assets under execution	Intangible assets	Intangible assets under execution	Total
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Cost						
At as 1 January 2007	36,627	76,111	15	26,269	-	139,022
Additions	-	3,675	-	636	120	4,431
Disposals	(207)	(1,915)	-	(1,201)	-	(3,323)
As at 31 December 2007	36,420	77,871	15	25,704	120	140,130
Accumulated depreciation						
As at 1 January 2007	18,478	63,230	-	9,539	-	91,247
Charge for the year	992	7,037	-	4,523	-	12,552
Charge for disposals	(90)	(1,915)	-	(1,201)	-	(3,206)
As at 31 December 2007	19,380	68,352	-	12,861	-	100,593
Carrying value						
As at 1 January 2007	18,149	12,881	15	16,730	-	47,775
As at 31 December 2007	17,040	9,519	15	12,843	120	39,537

12. Other assets

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Prepayments	107	41
Other receivables	1,281	5,191
Inventories	1,300	1,423
Goods and materials administered	786	839
Subtotal	3,474	7,494
Less: Provisions for slow moving inventory and doubtful debts	(181)	(169)
	3,293	7,325

The movement in the provisions for slow moving inventory and doubtful debts during the year is as follows:

	2008	2007
	MDL '000	MDL '000
As at 1 January	169	212
Charge for the year	19	7
Release for the year	(7)	(50)
As at 31 December	181	169

13. National currency issued into circulation

	31 December 2008	31 December 2007
	MDL '000	MDL '000
National currency issued into circulation	8,802,838	7,603,355
Less: Cash on hand in national currency in circulation cash desk	(70,758)	(8)
	8,732,080	7,603,347

14. Due to the Moldovan Government

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Term deposits of the Ministry of Finance	837,727	371,415
Current deposits of the Ministry of Finance	1,683,919	1,882,761
Other accounts of the Government of RM	267,605	252,633
	<u>2,789,251</u>	<u>2,506,809</u>

As at 31 December 2008 the Due to the Moldovan Government represent 12.45 % of the total liabilities of NBM (as at 31 December 2007: 13.10%).

NBM pays an interest rate on the term deposits accepted from the Ministry of Finance, based on the average interest rate from the banking system available for the last three months, for deposits with a similar maturity in MDL. The weighted average interest rate on term deposits accepted from the Ministry of Finance as at 31 December 2008 constituted 18.16% (as at 31 December 2007: 15.00%).

NBM pays an interest rate on the current deposits accepted from the Ministry of Finance, based on the average interest rate from the banking system available for the last three months, for current deposits in MDL. The weighted average interest rate on current deposits accepted from the Ministry of Finance as at 31 December 2008 constituted 1.19% (as at 31 December 2007: 2.97%).

15. Due to banks

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Current accounts of licensed banks, including obligatory reserves	5,854,612	3,741,505
Deposits from licensed banks in national currency	194,011	313,051
	<u>6,048,623</u>	<u>4,054,556</u>

As at 31 December 2008 due to banks represent 26.99% of the total liabilities of NBM (as at 31 December 2007: 21.19%).

16. Certificates issued by the National Bank of Moldova

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Certificates issued by NBM	1,061,175	810,201
Discount on certificates issued by NBM	405	2,727
	1,061,580	812,928

NBM certificates represent securities sold to licensed banks through auctions in order to absorb the excess of liquidity on the monetary market. They are issued at a discount and repurchased upon maturity at nominal value. The maturity of NBM certificates (NBC) issued during 2008 was 7, 14 and 28 days.

The weighted average rate on NBC in circulation as at 31 December 2008 registered a decrease representing 13.97% per annum, comparing to 15.86% as at 2007.

17. Other liabilities

	31 December 2008	December 2007
	MDL '000	MDL '000
Due to the State Budget	-	-
Due to other entities	57,043	137,293
Due to personnel	5,384	5,061
Other liabilities	1,699	1,690
	64,126	144,044

18. Capital and reserves

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Authorized capital	288,923	288,923
General reserve fund	(1,110,927)	320,277
Total statutory capital	(822,004)	609,200
Reserve of unrealized gains on revaluation of investment securities	147,060	17,643
Reserve of gains from revaluation of state securities	5,525	387
Gains from indexation of fixed assets	557	1,203
	(668,862)	628,433

The statutory capital of the Bank as at 31 December 2008 decreased by MDL'000 320,277 as a result of the total release of the general reserve fund to cover total losses of MDL'000 1,431,204 for the year 2008. Uncovered losses, in accordance with provisions of the Law on National Bank of Moldova, conducted to the recognition of a debit balance of the general reserve fund in amount of MDL'000 1,110,927.

18. Capital and reserves (continued)

In accordance with article 19 of the Law on National Bank of Moldova, the Government, in the person of the Ministry of Finance, during a period of 60 days from the date when the external audit opinion on the financial statements of NBM is presented, transfers to NBM a capital contribution in state securities at the market interest rate, in the amount necessary to cover the debit balance.

As at 31 December 2008 the revaluation of state securities registered a positive result of MDL'000 5,525 (as at 31 December 2007: MDL'000 387).

19. Release of the net losses of the year

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Net losses for the year	(1,302,434)	(373,671)
Allocation of unrealized gains from revaluation of investment securities	(129,417)	(17,643)
Release of unrealized gains on exchange rate differences from foreign currency stocks revaluation	-	133,099
Transfer from indexation reserve of fixed assets	647	647
Total losses	(1,431,204)	(257,568)
Release of general reserve fund	320,277	257,568
Registration of debtor balance of the general reserve fund	1,110,927	-

As at 31 December 2008 the National Bank registered a total loss in the amount of MDL'000 1,431,204, this being mainly as a result of the recognition of unrealized losses from revaluation of foreign currency stocks in the amount of MDL'000 1,865,107 (as at 31 December 2007: MDL'000 885,438).

20. Interest income

	31 December	31 December
	2008	2007
	MDL '000	MDL '000
Interest income from deposits and current accounts:		
Interest from term deposits in foreign banks	357,392	281,671
Interest from deposits overnight	83,824	89,373
Interest income from current accounts	870	1,783
	442,086	372,827
Interest income from securities:		
Interest from securities with coupon and discount	168,654	179,720
Interest from amortized discount on state securities	351,701	48,308
	520,355	228,028
Interest income from loans:		
Interest from loans to the Moldovan Government	33,947	240,556
Interest from loans to banks and employees	4,023	4,279
	37,970	244,835
	1,000,411	845,690

21. Interest expenses

	<u>31 December 2008</u>	<u>31 December 2007</u>
	MDL '000	MDL '000
Interest expenses arising from loans received:		
Interest from loans received from the IMF	13,618	24,805
	13,618	24,805
Interest expenses arising from deposits and obligatory reserves:		
Interest on obligatory reserves	49,051	16,444
Interest on deposits accepted from Banks	1,039	29,299
Interest on deposits accepted from the Ministry of Finance	132,471	53,175
	182,561	98,918
Interest expenses arising from transactions with securities and Repo agreements:		
Interest on certificates of the Bank	210,772	198,406
	210,772	198,406
	406,951	322,129

22. Gains/(losses) from foreign exchange transactions and foreign exchange rates differences

	<u>31 December 2008</u>	<u>31 December 2007</u>
	MDL '000	MDL '000
Net realized gains/(losses) from foreign exchange transactions	(105,981)	4,525
Unrealized gains/(losses) from foreign exchange rate difference	(1,865,107)	(885,438)
	(1,971,088)	(880,913)

23. Gains/(losses) from revaluation of securities

	<u>31 December 2008</u>	<u>31 December 2007</u>
	MDL '000	MDL '000
Net realized gains/(losses) from investment securities	(2,918)	6,861
Net unrealized gains from investment securities	129,417	17,643
	126,499	24,504

24. Other income

	<u>31 December 2008</u>	<u>31 December 2007</u>
	MDL '000	MDL '000
Income related to cash transactions	14,263	11,374
Non-interest income of NBM current account with IMF	11,594	-
Income related to settlements in SAPI	10,645	9,213
Other income	6,230	3,647
	42,732	24,234

25. Operating expenses

	31 December 2008	31 December 2007
	MDL '000	MDL '000
Expenses related to the production of the national currency	33,164	4,053
Staff costs	37,147	35,636
Depreciation of tangible assets and amortization of intangible assets	10,198	12,551
Communication expenses	6,492	5,728
Repair of property and equipment	518	273
Maintenance of the equipment	486	445
Other operating expenses	6,030	6,417
	94,035	65,103

Staff costs include mandatory state social contribution in the amount of MDL'000 6,717 and mandatory medical insurance in the amount of MDL'000 873 (31 December 2007: MDL'000 6,681 and 699 respectively).

26. Related parties

During the year ended at 31 December 2008 the remuneration paid to the Bank management, including middle level management, was MDL'000 4,120 (31 December 2007: MDL'000 3,877).

During the year ended at 31 December 2008 expenses related to the mandatory state social contributions and mandatory medical insurance paid by the Bank which related to the management of the Bank, including the middle level management, was MDL'000 950 and MDL'000 119 respectively (2007: MDL'000 924 and MDL'000 92 respectively).

The Bank grants loans to its employees. The following disclosure represents the movement for loans granted and remaining balances of the loans granted to the management of the Bank, including the middle level management:

	Balance as at 1st of January	Loans granted	Reimbursements	Balance as at 31st of December
	MDL '000	MDL '000	MDL '000	MDL '000
2007	633	-	78	555
2008	555	432	92	895

The loans are granted to the management of the Bank at the same interest rates charged for all NBM employees according to the NBM internal regulation. Outstanding balances at the year-end are secured by collateral placed by each individual, which as at 31 December 2008 amounted to MDL'000 1,216 (as at 31 December 2007: MDL'000 984). For the year ended 31 December 2008 these loans were classified as performing loans for which the provision is not created.

27. Commitments and contingencies

Litigations

As at 31 December 2008 the Bank was involved in 4 (four) litigations against the Bank. As at 31 December 2008 the Bank did not book any provisions for litigations, due to the fact that at that moment it did not have a legal or constructive obligation as a result of a past event, and there was no probability of future significant outflow of resources embodying economic benefits to settle the obligations.

Commitments

As at 31 December 2008 there were no outstanding credit related commitments.

As at 31 December 2008 there were no outstanding debt with overdue terms of prescription.

Annexes

Table no. 1. DYNAMICS OF MACROECONOMIC INDICATORS

	2006	2007	2008
Nominal gross domestic product (MDL, million)	44754.4	53429.6	62840.3
– % change over the previous year in real terms	104.8	103.0	107.2
GDP deflator, %	113.4	115.9	109.7
Industrial production (MDL, million)	22370.7	26173.5	29654.6
– % change over the previous year in real terms	95.2	98.7	100.7
Industrial production prices index (average value)	112.2	126.5	110.4
Agricultural production (MDL, million)	13734.0	12825.0	16410.0
– % change over the previous year in real terms	98.9	76.9	131.9
Fixed capital investments (MDL, million)	11012.3	15180.5	17710.3
– % change over the previous year in real terms	123.0	120.7	100.4
Deficit (-), surplus (+) of the public budget (MDL, million)	-146.7	-123.6	-630.9
-to GDP, (%)	-0.3	-0.2	-1.0
Consumer prices index (average value)	112.7	112.3	112.7
Consumer prices index (as at end period)	114.1	113.1	107.3
Average number of employed persons at period-end (persons, thou)	648.7	621.6	618.1
Officially registered unemployed persons at period-end (persons, thou)	20.4	18.9	17.8
Unemployment rate, according to ILO	7.4	5.1	4.0
Average wage (lei)	1697.1	2065.0	2529.7
– % change over the previous year in real terms	114.2	108.4	108.7
Wage arrears at period-end (MDL, million)	114.7	72.5	102.0
External public and publicly guaranteed debt (USD, million)¹	876.4	944.0	957.1
Total external debt (USD, million)	2528.1	3326.0	4125.5
Domestic debt (MDL, million)	3790.2	3748.7	3509.9
– loans from NBM under SS collateral	2092.2	1932.2	-
– state securities in circulation	1697.9	1816.4	3509.9
including SS in the NBM portfolio	400.0	400.0	2213.4

¹ Balance at period-end; for 2008 – estimative data

Source: National Bureau of Statistics, Ministry of Finance, National Bank of Moldova

Table no. 2. INFLATION DINAMICS

	% change over the previous month			% change over December of the previous year			% change over the similar month of the previous year		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
January	1.9	0.8	1.4	1.9	0.8	1.4	10.9	12.9	13.9
February	1.4	0.6	1.5	3.3	1.4	2.9	10.1	12.0	14.9
March	1.5	0.6	1.1	4.8	2.0	4.1	10.8	11.1	15.4
April	1.0	1.0	1.6	5.9	3.0	5.8	10.4	11.0	16.2
May	1.2	0.9	1.5	7.2	3.9	7.4	11.7	10.6	16.9
June	0.2	0.0	-1.1	7.4	3.9	6.2	12.8	10.4	15.6
July	-0.4	1.1	-0.9	7.0	5.0	5.3	13.7	12.0	13.4
August	0.8	2.2	0.7	7.9	7.3	6.0	14.5	13.5	11.7
September	1.1	1.6	0.6	9.1	9.0	6.7	14.4	14.0	10.7
October	1.6	1.6	0.8	10.8	10.7	7.5	14.4	14.0	9.8
November	1.7	1.3	0.0	12.7	12.1	7.5	14.3	13.5	8.5
December	1.2	0.9	-0.2	14.1	13.1	7.3	14.1	13.1	7.3

Source: National Bureau of Statistics

Table no. 3. GROSS DOMESTIC PRODUCT

	MDL, million, current prices		Real growth, %		Weight, %	
	2007	2008	2007	2008	2007	2008
<i>Breakdown by resource categories</i>						
Gross domestic product	53429.6	62840.3	3.0	7.2	100	100
Gross added value, total	44412.9	51754.3	2.3	6.3	83.1	82.4
Goods	12949.8	14696.1	-17.8	14.7	24.2	23.4
Agricultural sector	5333.9	5617.0	-35.0	35.2	10.0	8.9
Industrial sector	7615.9	9079.1	-0.8	0.3	14.2	14.5
Services	32678.9	38516.8	14.0	3.8	61.2	61.3
Construction	2585.9	3162.0	21.2	1.1	4.8	5.0
Wholesale trade	6713.8	8223.4	16.5	9.5	12.6	13.1
Transport and communications	6582.0	7652.3	18.8	4.5	12.3	12.2
Other services	16797.2	19479.1	10.2	1.7	31.5	31.0
Financial intermediation services indirectly measured	-1215.8	1458.6	35.2	27.4	-2.3	-2.3
Net taxes on products and imports	9016.7	11086.0	6.7	11.4	16.9	17.6
<i>Breakdown by use categories</i>						
Final consumption	60618.1	71534.4	3.9	4.6	113.5	113.8
Households	49178.3	57944.4	3.6	4.5	92.1	92.2
Public and private	11439.8	13590.0	5.3	5.0	21.4	21.6
Gross capital formation	20359.8	23221.9	22.0	-0.9	38.1	37.0
Gross fixed capital formation	18221.7	21413.3	25.5	1.8	34.1	34.1
Change in inventories	2138.1	1808.6	-0.6	-23.9	4.0	2.9
Net export	-27548.3	-31916.0	18.5	-4.6	-51.6	-50.8
Exports	24353.6	25602.7	10.5	-7.8	45.6	40.7
Imports	51901.9	57518.7	14.6	-6.1	97.2	91.5

Source: National Bureau of Statistics, National Bank of Moldova

Table no. 4. MONETARY INDICATORS (MDL, million, end-period)

	2006	2007	2008
Monetary aggregates			
Reserve money	6512.3	9537.2	11633.6
M0 (currency in circulation)	5145.8	6664.9	7578.7
Sight deposits	3122.4	4258.6	4030.5
M1	8268.2	10923.5	11609.2
Term deposits	4202.0	7455.9	10148.0
Money market instruments	15.0	17.3	16.9
M2	12485.2	18396.7	21774.1
Deposits in foreign currency	7072.8	8947.4	9906.7
M3	19558.0	27344.1	31680.7
Velocity (M2)	3.58	2.90	2.89
Multiplier (M2)	1.92	1.93	1.87
Deposits (total)	14397.2	20661.9	24085.2
Deposits of businesses	5033.3	6447.9	6843.2
including in foreign currency	1915.6	1992.1	2062.1
Deposits of individuals	9363.9	14214.0	17242.0
including in foreign currency	5157.2	6955.3	7844.6
Credits			
NBM claims to banks	40.7	33.5	26.4
Claims to non-governmental sector, total	13767.8	20883.8	25122.6
in national currency to:	8509.0	11768.9	14779.9
– state entities	339.7	334.6	246.8
– private sector	5380.9	6395.6	8887.0
– households	2072.2	4662.0	4648.1
– other financial institutions	716.2	376.7	998.0
in foreign currency	5258.8	9114.9	10342.7

Source: National Bank of Moldova

Table no. 5. AVERAGE INTEREST RATE ON TERM DEPOSITS

	Deposits				
	total	in MDL		in foreign currency	
		value MDL, million	interest %	value MDL, million	interest %
January 2007	1442.3	657.2	14.03	785.1	5.86
February	1309.0	538.9	13.94	770.1	5.58
March	1557.7	664.1	13.90	893.6	5.45
April	1405.8	689.4	15.45	716.4	5.85
May	1729.7	886.5	15.40	843.2	5.91
June	1865.5	1010.8	15.49	854.7	5.96
July	1811.4	972.5	15.50	838.9	6.05
August	1850.0	787.1	14.99	1062.9	6.16
September	1721.9	799.0	14.87	922.9	6.10
October	1867.4	866.6	15.47	1000.8	6.12
November	2101.3	1059.1	15.37	1042.2	6.22
December 2007	2391.5	1223.3	15.71	1168.2	6.49
Total 2007	21053.5	10154.6	15.13	10899.0	6.01
January 2008	2440.1	1382.1	16.10	1058.0	6.62
February	2261.2	1256.6	15.61	1004.6	6.58
March	2272.1	1233.2	15.94	1038.9	6.58
April	2512.1	1384.2	16.41	1127.9	7.26
May	2986.3	1607.2	17.18	1379.1	8.96
June	2903.2	1508.5	18.41	1394.7	10.24
July	3090.7	1672.7	18.69	1418.0	10.32
August	3153.4	1633.6	18.84	1519.8	10.81
September	2764.5	1323.9	18.99	1440.6	10.93
October	2776.2	1500.6	19.38	1275.6	10.69
November	2783.6	1536.0	19.91	1247.6	11.44
December 2008	3822.9	2181.1	19.75	1641.8	12.09
Total 2008	33766.3	18219.7	18.09	15546.6	9.64

Source: National Bank of Moldova

Table no. 6. AVERAGE INTEREST RATE ON CREDITS

	Credits				
	total	in MDL		in foreign currency	
		value MDL, million	interest %	value MDL, million	interest %
January 2007	1245.3	770.3	18.70	475.0	11.12
February	1656.8	1023.0	18.32	633.8	11.02
March	2122.0	1276.0	18.69	846.0	11.06
April	1799.8	1084.4	18.62	715.4	10.91
May	2122.6	1110.6	18.81	1012.0	11.01
June	2059.7	1111.2	18.98	948.5	11.01
July	2389.2	1186.5	18.82	1202.7	10.81
August	2338.7	1130.7	19.06	1208.0	10.80
September	2459.4	1283.7	18.87	1175.7	10.90
October	2294.5	1320.6	18.87	973.9	10.81
November	2681.6	1436.2	19.16	1245.4	10.80
December 2007	3317.2	1782.0	19.00	1535.2	10.66
Total 2007	26486.8	14515.2	18.85	11971.8	10.88
January 2008	1615.8	885.3	19.18	730.5	10.77
February	2732.2	1771.4	18.93	960.8	10.75
March	2937.8	1920.6	19.07	1017.2	11.04
April	2627.8	1666.9	19.53	960.9	11.08
May	2220.6	1409.6	20.12	811.0	11.39
June	2399.8	1452.6	21.11	947.2	11.72
July	2469.4	1355.5	21.45	1113.9	12.27
August	2375.4	1424.2	22.76	951.2	12.39
September	2677.6	1536.2	22.99	1141.4	12.95
October	2035.0	1179.5	22.31	855.5	13.03
November	1502.6	904.8	22.77	597.8	13.34
December 2008	2217.8	1620.6	22.55	597.2	14.56
Total 2008	27811.8	17127.2	20.96	10684.6	12.02

Source: National Bank of Moldova

Table no. 7. YIELDS OF SS ISSUED IN THE PRIMARY MARKET (%)

	Average weighted monthly yield by types of SS			Average weighted nominal yield
	91days	182 days	364 days	
January 2007	14.83	15.47	16.35	15.33
February	13.32	13.49	13.92	13.52
March	11.24	11.60	12.01	11.48
April	11.31	11.99	12.25	11.70
May	11.36	11.95	12.22	11.71
June	11.18	11.83	12.10	11.55
July	11.08	11.80	12.06	11.49
August	10.84	11.56	11.94	11.29
September	10.55	11.31	11.78	11.03
October	15.15	16.37	16.15	15.68
November	15.63	16.54	16.92	16.16
December 2007	15.54	16.41	16.86	16.06
Annual nominal average weighted yield – 2007	12.66	13.32	13.65	13.02
January 2008	15.40	16.10	16.58	15.92
February	15.00	15.63	15.79	15.35
March	15.32	15.42	15.55	15.42
April	16.90	17.13	17.26	17.08
May	16.65	16.49	16.82	16.72
June	18.41	19.33	19.48	18.88
July	20.24	20.93	21.12	20.61
August	20.13	21.20	21.63	20.70
September	18.30	19.90	20.67	19.27
October	17.26	17.71	18.30	17.67
November	19.84	20.09	20.84	20.14
December 2008	18.81	19.18	19.78	19.12
Annual average weighted yield – 2008	17.70	18.10	18.39	17.95

Source: National Bank of Moldova

Table no. 8. OFFICIAL EXCHANGE RATE (MDL)

	2006		2007		2008	
	Period-end	Annual average	Period-end	Annual average	Period-end	Annual average
USD (1\$)	12.9050	13.1319	11.3192	12.1362	10.4002	10.3895
EUR (1€)	16.9740	16.4918	16.6437	16.5986	14.7408	15.2916
RUB (1)	0.4894	0.4834	0.4619	0.4742	0.3548	0.4196
RON (1)*	4.9869	4.6800	4.6187	4.9807	3.6673	4.1571

* As of July 1, 2005 the Romanian national currency, leu, was named differently. Thus, 1 new leu (RON) equals to 10 000 old lei (ROL). The old lei (ROL) were in circulation until December 31, 2006.

Source: National Bank of Moldova