

Annual Report

2013

Note

The report was compiled using the latest statistical data held by the National Bank of Moldova, the National Bureau of Statistics, the Ministry of Economy and the Ministry of Finance.

Also, were used data provided by international organizations and central banks of neighboring countries.

Computation of some statistical data was conducted by the National Bank of Moldova.

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Foreword



The year of 2013 was a turning one for the world economy. The euro area economy emerged from recession, while the U.S. economy showed robust recovery signs. Gradual end of the Federal Reserve's monetary stimulus program has boosted capital outflows from some emerging countries, which put pressure on currencies in the countries affected. In these circumstances, some of our major trading partners have faced difficulties in ensuring macroeconomic stability.

The economy of the Republic of Moldova has quickly recovered from a decline in 2012 caused by a severe drought. Gross domestic product grew by 8.9 percent in 2013 as compared to the previous year. Agricultural recovery, slight depreciation of the national currency and the stabilization of domestic consumption have significantly contributed to the economic growth.

For the first time in the history of the Republic of Moldova, the annual rate of inflation, measured by the consumer price index, has fallen within the single-digit band during a period of four consecutive years. In the past two years, inflation stood near the target of 5.0 percent. Annual average inflation in 2012 and 2013 was 4.6 percent.

The conduct of monetary policy during 2013 was affected by the persistence of disinflationary risks, which could push inflation

over a long period under the lower limit of the variation of \pm 1.5 percentage points from 5.0 percent inflation target.

This disinflationary climate was based on the downward revision of economic growth forecast of major trading partners, reduction of international food prices and the significant decrease in oil prices. The risk of domestic demand slowdown generated additional challenges for the NBM.

Assessing risks and inflation forecasts, the NBM promoted a stimulating monetary policy in 2013. In April 2013, the NBM reduced the monetary policy rate by 1.0 percentage points, reaching a historical low of 3.5 percent. The base rate decrease influenced the average rate on new loans in national currency, which accounted for a level of 12.26 percent in 2013, by 1.08 percentage points lower than 2012.

In order to tackle the disinflationary pressures and to strengthen foreign exchange reserves, the NBM intervened in the foreign exchange market in the form of purchases of U.S. dollars. Official reserve assets increased by USD 305.6 million, or by 12.2 percent compared to the end of 2012.

At the end of 2013, the balance of official reserve assets amounted to USD 2820.6 million, covering about 4.8 months of imports. The increase of international reserves has strengthened Moldovan economy's resistance to potential external shocks.

During 2013, the NBM managed firmly the excess liquidity in the banking sector through sterilization operations, ensuring the proper functioning of the money market and maintaining the balance between price stability and national economic recovery.

In 2013, the volume of loans and deposits in the banking sector has grown at a sustainable pace, albeit unevenly. Capitalization and liquidity of banks remained at comfortable levels, while the share of non-performing loans in total loans decreased.

Lack of transparency in banks' ownership structure and weak corporate governance in the banking sector remain the main challenges for the NBM. In 2013, the legal framework for the identification of beneficial shareholders of banks has been improved, in order to eliminate non-transparent shareholders and intermediaries from the system. Close cooperation with other state institutions and the proper functioning of judiciary system are key factors in achieving this goal.

Finally, I would like to mention that keeping the inflation rate in the range of ± 1.5 percentage points from the target of 5.0 percent was also possible by anchoring inflation expectations, by intensifying the communication and financial literacy with different target groups.

Thank you for your support!

A handwritten signature in blue ink, appearing to read 'D. Drăguțanu', with a stylized, cursive script.

Dorin Drăguțanu

Governor

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List of abbreviations

AIPS	Automated Interbank Payment System
BES	Book-Entry System of Securities
CHIBID	Average interest rate at which the contributing banks are available to borrow 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
CIS	Commonwealth of Independent States
CPI	Consumer Prices Index
DNSS	Designated-Time Net Settlement System
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIB	European Investment Bank
EU	European Union
EUR	European Union Currency
FDI	Foreign direct investment
GDP	Gross Domestic Product
IBRD	International Bank of Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPPI	Industrial production price index
MDL	Moldovan leu
NAER	National Agency for Energy Regulation

NBC	National Bank Certificates
NBS	National Bureau of Statistics of the Republic of Moldova
REPO	State securities trading agreement with further redemption of the same state securities on a certain date or upon request at a certain price, fixed on the selling date
RTGS	Real-Time Gross Settlement System
SB	State Bonds
SS	State Securities
UAH	Ukraine Hryvnia
USD	U.S. dollar
VAT	Value added tax
WB	World Bank

Summary

External environment

The year 2013 was a turning one for the world economy, with many structural changes that have strengthened the new trends of development in accordance with the world macro financial situation. Euro area economy's exit from the recession, the gradual withdrawal of monetary stimulus program of the Federal Reserve System (Fed) and the Bank of Japan's policy on depreciation of the Japanese yen were among the most important events in the development process of the world economy in 2013. These events formed the basis of capital transfers from emerging markets to advanced ones, thus determining the depreciation of currencies in most emerging economies in the second half of the year. Slightly negative evolution of global prices generated some ambiguous circumstances, as in some emerging economies these were not enough to diminish the high rates of inflation, but enough to jeopardize exports of raw materials, leading to disinflation and sometimes to deflation in some advanced economies, which allowed the ongoing of stimulative monetary policy. High unemployment rates in some economies are another persistent problem in recent years, so that the production and consumption evolved below their potential levels.

Economic developments

The economy of the Republic of Moldova rebounded strongly in 2013 after a decline in 2012 due to drought. In 2013, GDP increased by 8.9 percent compared to 2012. Economic growth was more pronounced in the second half of the year, in the third and fourth quarters recorded rates of 12.9 and 11.2 percent respectively, development determined mostly by significant contribution of the agricultural sector. At the same time, economic growth was supported by depreciation of the national currency during 2013 against the currencies of major trading partners due to exports and domestic consumption. Increase in disposable income and the development of agriculture led to a promotion of household consumption by

6.5 percent in 2013. Gross fixed capital formation recorded a modest dynamics (3.3 percent), while public administration's consumption increased by 0.8 percent compared to 2012. Pronounced dynamics of agriculture had a considerable impact on net exports, export growth exceeding significantly the import growth. In 2013, economically active population increased while the unemployment rate decreased.

Inflation

In 2013, the National Bank of Moldova has created the conditions necessary to keep the inflation rate within the range of ± 1.5 percentage points from the 5.0 percent, the target set for the medium term according to its Monetary policy strategy. In the first four months of 2013, the annual rate of inflation reached the lower band of the variation range due to disinflationary pressures from aggregate demand, recording the average value of 4.4 percent. In May and June 2013, the annual inflation rate reached the upper band of the range, recording values of 5.7 and 5.5 percent respectively, with the intensification of inflationary pressures caused by food prices amid a low harvest in 2012 and by the changes in the record-keeping procedure of the products with strong seasonality by the National Bureau of Statistics. In the summer months, due to a good harvest of fruits and vegetables, annual inflation returned to the lower band of the range of ± 1.5 percentage points from the target of 5.0 percent, falling down in July to the minimum value of 3.7 percent. Subsequently, in the second half of the year, the annual inflation rate has outlined an upward trajectory, returning close to the inflation target and recording the value of 5.2 percent by the end of 2013 amid the depreciation of the national currency against the currencies of major trading partners. At the same time, core inflation remained during 2013 in the lower band of the range of ± 1.5 percentage points from the target of 5.0 percent, as a result of weak aggregate demand.

Monetary policy

The conduct of monetary policy during 2013 was affected by the complexity of the balance of risks with the prevalence of those disinflationary. The consolidation of disinflationary climate was based on reduction of economic growth expectations in major trading partners, the reduction in international food prices amid

favorable meteorological conditions for harvest in 2013 and the significant decrease in oil prices.

Thus, the NBM continued to promote a monetary policy aimed at preventing the intensification of disinflationary pressures and avoiding the risk of recording an inflation rate below the lower limit of the range of the target of 5.0 percent, reducing the interest rate of monetary policy in April by 1.0 percentage points, down to the level of 3.5 percent (last change being applied on March 2, 2012), respectively, modifying the interest rate on overnight loans from 7.5 percent to 6.5 percent and the interest rate on overnight deposits from 1.5 percent to 0.5 percent.

Within the sessions that followed, the NBM decided to maintain monetary policy interest rate until the end of 2013, in perspective of strengthening disinflationary risks along with the gradual recovery of the economy. Decision aimed anchoring inflation expectations in terms of strengthening the prospects of keeping inflation within the range of variation of ± 1.5 percentage points from the target of 5.0 percent.

The set of monetary policy instruments used by the National Bank of Moldova, commensurate with the existent operational framework, has proved to be still appropriate for implementation requirements of the inflation targeting regime.

Under the influence of increased liquidity excess, the liquidity injection activity of the NBM in 2013 may be characterized as a secondary activity, the liquidity sterilization operations from the market continued to hold the main role.

Standing facilities regime (overnight deposits and credits) of 2013 allowed banks to manage their liquidity efficiently and provided National Bank of Moldova with more flexibility to conduct the monetary policy.

In 2013, the required reserves mechanism continued to exercise the monetary control function, which is closely correlated with that of liquidity management by the NBM.

Maintaining the required reserves ratio at the level of 14.0 percent of the base was explained by the passivity of interbank money market, aiming at improving its quantitative and qualitative indicators and at improving the transmission mechanism.

Firm management of liquidity in the banking system aimed at ensuring proper functioning of the money market, maintaining the balance between price stability and national economic recovery.

The NBM intervened in the foreign exchange market during 2013 as a buyer of foreign currency in order to reduce the disinflationary pressures and to ensure the annual inflation rate will fall within the range of variation of ± 1.5 percentage points from the target of 5.0 percent, as well as to ensure foreign exchange reserves consolidation. Although the coverage of net sales of foreign currency to legal entities by the net supply of foreign currency from individuals was not uniform throughout the year, it should be mentioned that the domestic foreign exchange market in 2013 was saturated with liquidity in foreign currency. In addition to excess of foreign currency supply over the demand of foreign currency, the positive net flow of loans and investments was a factor generating surplus of foreign currency, compared to 2012.

In light of these developments, and within the limits of promoted monetary policy, the NBM has absorbed in 2013 the foreign currency excess by purchasing foreign currency from the interbank foreign exchange market in the amount of USD 304.6 million.

At the end of 2013, foreign exchange reserves amounted to USD 2820.6 million, increasing by 12.2 percent from the end of 2012, covering about 4.8 months of imports (in 2012 - covering 4.7 months of imports).

Banking system

Tier I capital in the banking sector amounted to MDL 7919.3 million, increasing by MDL 1008.0 million (14.6 percent) as compared to the end of 2012. As of December 31, 2013, Tier I capital of banks corresponded to the established minimum standard (\geq MDL 200.0 million), with the exception of one bank.

Tier I capital increase was due to the income obtained during 2013 in the amount of MDL 1020.2 million and by the shares issuances performed by 4 banks in the amount of MDL 568.7 at the expense of additional money contributions made by the underwriters of shares. The calculated but unformed yet amount of allowances for the impairment losses on assets and conditional commitments have also increased by MDL 386.2 million, or by 15.8 percent (which decrease the amount of Tier I capital). It should be mentioned that during 2013, five banks have paid dividends in the amount of MDL 191.3 million.

The average risk-weighted capital adequacy on December 31, 2013 is still maintained at a high level of 23.4 percent, indicating

a high degree of safety of banks. Compared to December 31, 2012, this indicator decreased by 0.9 percentage points due to increasing investments. As on December 31, 2013 this indicator was respected by all banks.

The assets amounted to MDL 76184.0 million, increasing by MDL 18015.5 million (31.0 percent) compared to the end of 2012. The asset growth was determined by the increase of debts by MDL 16597.3 million (34.5 percent) and by the capital increase (IFRS) by MDL 1418.2 million (14.2 percent).

The share of non-performing loans (substandard, doubtful and compromised) in total loans has decreased by 2.9 percentage points compared to the end of 2012, representing 11.6 percent on December 31, 2013.

For 2013, the return on assets and return on equity of licensed banks have recorded the value of 1.6 percent, and 9.4 percent, respectively, increasing compared to the end of 2012 by 0.8 percentage points and 5.1 percentage points, respectively.

Net interest margin was 3.9 percent on December 31, 2013, decreasing by 1.2 percentage points compared to the end of 2012.

Long-term liquidity in the banking sector was 0.7 as on December 31, 2012 and the current liquidity - 33.8 percent. Both indicators were respected by all banks.

Chapter 1

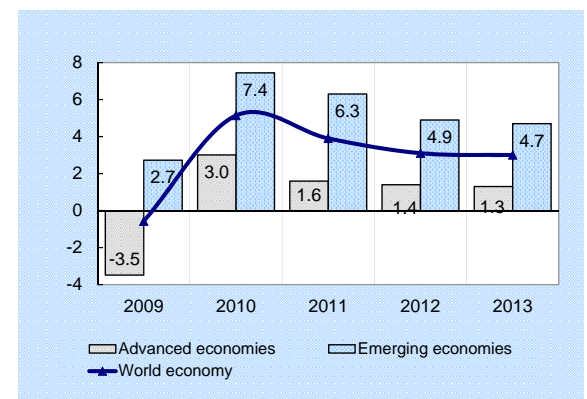
World economy in 2013

The year 2013 was one of conjecture for the world economy, with many structural changes that have strengthened the new trends of development in accordance with the world macro financial situation. Euro area economy's exit from the recession, the gradual withdrawal of monetary stimulus program of the Federal Reserve System (Fed) and the Bank of Japan's policy on depreciation of the Japanese yen were among the most important events in the development process of the world economy in 2013. These events formed the basis of capital transfers from emerging markets to advanced ones, thus determining the depreciation of currencies in most emerging economies in the second half of the year. Slightly negative evolution of global prices generated some ambiguous circumstances, as in some emerging economies these were not enough to diminish the high rates of inflation, but enough to jeopardize exports of raw materials, leading to disinflation and sometimes to deflation in some advanced economies, which allowed the ongoing of stimulative monetary policy. High unemployment rates in some economies are another persistent problem in recent years, so that the production and consumption evolved below their potential levels.

The IMF estimates a **world economic** growth in 2013 on average by 3.0 percent, while recording 3.1 percent in 2012. In 2013, advanced and emerging economies recorded an average annual growth rate of 1.3 and 4.7 percent respectively, registering lower values compared to 2012. Most advanced economies marked in 2013 the end of the decline, while some emerging economies registered the most significant economic slowdown after the crisis of 2008-2009 (Chart 1.1).

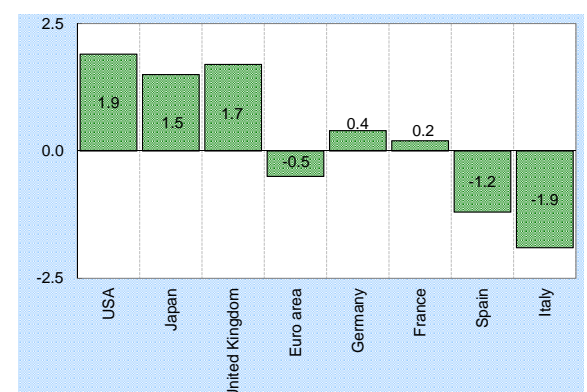
The United States of America recorded in 2013 an average GDP growth of 1.9 percent (Chart 1.2). Compared to the value recorded in 2012 (2.8 percent), the economic slowdown is visible and explained by the consequences of public spending diminution in the context of agreements on debt ceiling increase and the reduction of the current account amid the U.S. dollar appreciation. In 2013, the U.S. economy was marked by the initiation of the gradual withdrawal of the Fed from the

Chart 1.1: The average annual growth rate in world economy (%)



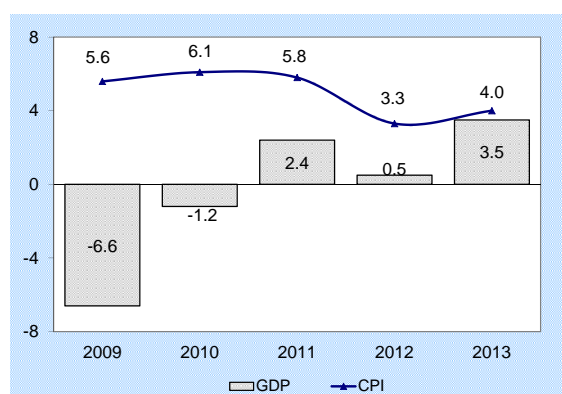
Source: IMF, World Economic Outlook Update – January 2014

Chart 1.2: Average annual growth rate in advanced economies in 2013 (%)



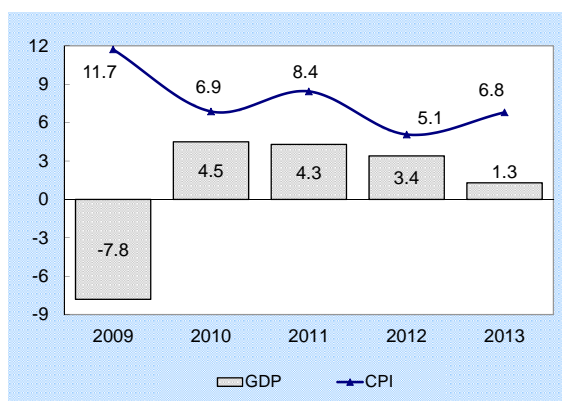
Source: Eurostat

Chart 1.3: Average annual growth rate of GDP and CPI in Romania (%)



Source: Romania National Institute of Statistics

Chart 1.4: Average annual growth rate of GDP and CPI in Russian Federation (%)



Source: Russian Federal Service of State Statistics

monetary stimulus program, by reducing the volume of purchased assets, while the annual inflation rate fluctuated from month to month below the level of 2.0 percent and unemployment rate decreased from 7.9 percent in January 2013 to 6.7 percent in December 2013. At the same time, the failure to approve the state budget by the U.S. Congress in October 2013 led to tax allowances blocking and unemployment in the budgetary sphere. After long discussions, on October 17, the U.S. Congress reached a consensus on reducing the budget spending, while the debt ceiling was increased again.

In 2013, the **euro area** economy evolved within the segment between the recession and recovery, recording an average GDP decrease of 0.5 percent (Chart 1.2). In 2013, the GDP in the **European Union** increased by 0.1 percent. In the second half of the year, the euro area economy began to recover slowly, but steadily, the progress being visible not only in Germany and France, but also in some countries facing sovereign debt crisis in recent years. The sustainability of the euro area recovery was based on the reforms in recent years, which were often criticized, but have demonstrated their efficiency over time. At the same time, exports contributed significantly to the economic advancement, while domestic demand was limited due to public and private debts and to financial system fragmentation. During 2013, euro area inflation was relatively low, which led the ECB to reduce in May and November the monetary policy rate by 0.25 percentage points, to the 0.25 percent level. At the same time, the **United Kingdom's** economy was supported by credit conditions easing, GDP increasing by 1.7 percent in 2013 (Chart 1.2).

The **Romanian** economy had an impressive performance in the second half of 2013, recording in the third and fourth quarters annual growth rates of GDP of 4.1 and 5.2 percent, respectively. Overall, Romania's economy increased by 3.5 percent in 2013 (Chart 1.3). In addition to the significant contribution of the agricultural sector based on the abundant harvest due to favorable meteorological conditions, the Romanian economy has excelled in exports and the industrial production increased significantly. Food prices diminution led to a relatively sharp decrease in inflation: in January 2013, the annual inflation rate was 6.0 percent, and in December 2013 it recorded 1.6 percent. Strong disinflationary pressures determined the NBR to reduce the monetary policy rate during 2013 from 5.25 to 4.0 percent, thus contributing to the stimulation of lending.

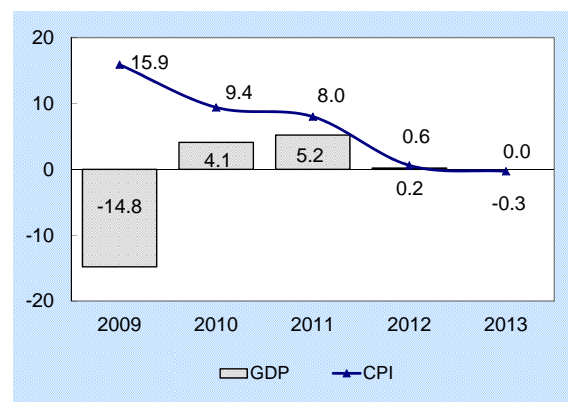
In 2013, the **Russian Federation** GDP increased by 1.3 percent, which was much more below the value of 3.4 percent recorded in 2012. The slowdown of the Russian economy is

explained by reduced demand caused by a combination of external and domestic factors of cyclical and structural nature. In this case, may be mentioned Russia's significant dependency on oil and gas exports and, given the exposure to price volatility, they were disfavored in 2013, when oil prices were relatively lower compared to the previous years. Another factor was the decrease of investments generated by the domestic macroeconomic situation and by the transfer of capital from emerging markets to advanced ones. Consumption, the main engine of growth in the past, increased at a much slower pace than in the previous years, while exports increased slightly. The high level of inflation was an impediment for the Russian Central Bank to use monetary instruments as to boost lending, the base rate level of 8.25 percent remaining unchanged from September 2012. In 2013, consumer prices in the Russian Federation increased on average by 6.8 percent compared to 2012, food and services prices contributing significantly (Chart 1.4).

Unfavorable conditions of the external environment and the postponement of internal reforms **Ukraine** led to a decline in economic activity in the first three quarters of 2013. Contrary, in the fourth quarter of 2013, GDP recorded a positive annual growth of 3.7 percent, due to a good harvest year, the year 2013 ending in stagnation (Chart 1.5). Reduced external demand for metals and engineering products caused a decline of industrial production of 4.3 percent in 2013 compared to 2012. Domestic demand was supported partially by domestic consumption, but its growth rate was relatively low compared to 2012. At the same time, except for the last two months of 2013, the Ukrainian economy was in deflation because of declining domestic food prices, the postponement of tariff adjustments and foreign exchange policy. National Bank of Ukraine (NBU) maintained during 2013 the official exchange rate of UAH against USD at the level of UAH 7.9930 per USD 1, so that at the end of 2013 the NBU foreign exchange reserves declined to USD 20416 million.

The year 2013 was characterized by strong volatility in the **foreign exchange market**, which has caused turbulence in some emerging countries. Improving statistics data on the evolution of the U.S. economy determined the Federal Reserve System to prepare and initiate the withdrawal process of the monetary stimulus program, thus the **U.S. dollar** has gradually appreciated since June 2013. At the same time, the **single European currency** appreciated significantly against other currencies, especially in the second half of 2013, the improving macroeconomic situation of the euro area and significant reduction of the negative effects of the sovereign debt crisis contributed to the appreciation of EUR. Although, the double

Chart 1.5: Average annual growth rate of GDP and CPI in Ukraine (%)



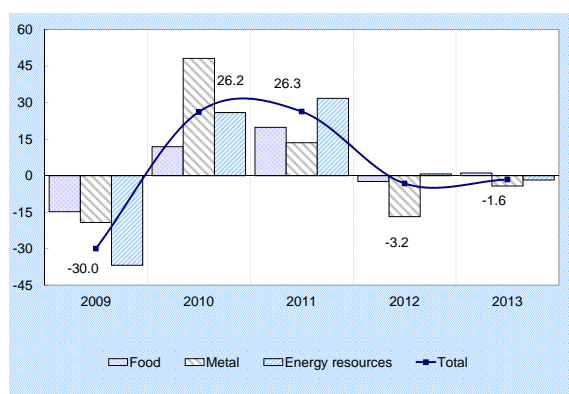
Source: State Statistics Committee of Ukraine

Table 1.1: Average appreciation (-) / depreciation (+) of foreign currencies in 2013

	EUR	USD
Advanced economies		
Euro	-	-3.3
U.S. dollar	3.3	-
Swiss franc	2.1	-1.2
Pound sterling	4.7	1.4
Japanese yen	26.5	22.3
Emerging and developing economies		
Moldovan leu	7.5	4.0
Russian ruble	6.0	2.4
Ukrainian hryvnia	3.3	0.0
Romanian leu	-0.9	-4.3
Belarussian ruble	10.0	6.5
Turkish lira	9.5	5.9
Polish zloty	0.3	-3.0
Chinese yuan	0.7	-2.5
Indian rupee	13.6	9.7
Argentine peso	24.6	20.3

Source: Eurostat, web pages of Central Banks, NBM calculus

Chart 1.6: Average annual growth rate of world price index (%)



Source: IMF

decrease of the base rate of the ECB during 2013 could be a depreciation source of the single European currency, the impact was apparently insignificant compared to other factors. In 2013, the single European currency has appreciated on average by 3.3 percent against the U.S. dollar. At the same time, the Japanese yen depreciation policies of the Bank of Japan to increase the attractiveness of exports generated an average increase of 26.5 and 22.3 percent of the parity of the Japanese yen against the euro and the U.S. dollar (Table no.1.1).

Significant changes in the foreign exchange markets of the major currencies of international circulation determined the capital movement from the emerging markets to those advanced and therefore the currencies depreciation of emerging economies. Currencies that recorded major depreciations in 2013 are the Argentine Peso (by 24.6 percent against the euro and by 20.3 percent against the U.S. dollar), Indian Rupee (by 13.6 percent against the euro and by 9.7 percent against the U.S. dollar) and Turkish Lira (by 9.5 percent against the euro and by 5.9 percent against the U.S. dollar). **The Russian ruble** was also affected by massive capital outflows, but the precarious situation of the Russian economy also influenced the depreciation of the Russian ruble. Thus, the Russian ruble depreciated on average by 6.0 percent against the euro and by 2.4 percent against the U.S. dollar. In 2013, the **Ukrainian hryvnia** depreciated on average by 3.3 percent against the euro and remained stable against the U.S. dollar, which caused a significant reduction in the foreign exchange reserves of the NBU. The positive development of Romanian exports in 2013 determined the appreciation of the **Romanian Leu** by 0.9 percent against the euro and by 4.3 percent against the U.S. dollar. At the same time, it should be mentioned that the depreciation process of the currencies of emerging economies continued in the first months of 2014 (Table 1.1).

The development of **international commodities prices** was mitigated by reduced world demand in combination with other conjuncture factors contributing downwardly, which caused disinflationary pressures and even deflationary pressures in some economies. Overall, international raw materials prices decreased in 2013 on average by 1.6 percent compared to 2012, a modest volatility compared to previous years (Chart 1.6). International food prices showed an increased volatility – the growth based on increased demand from emerging economies being offset by the diminution of agricultural products prices as a result of a rich harvest compared to 2012. In particular, in the second half of 2013, food prices recorded a strong negative trend, but as a result of their evolution in the first quarters of the year, the average annual increase in food prices was 1.1 percent compared to 2012. International metals prices decreased in

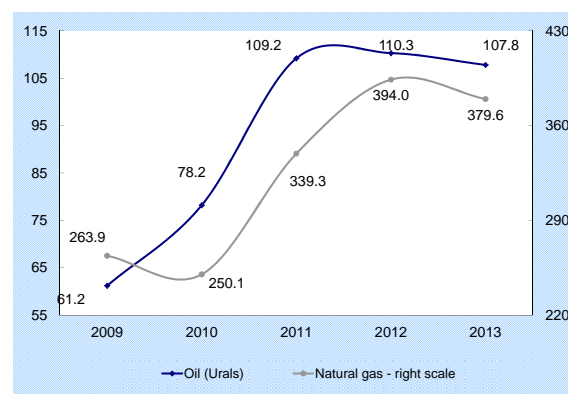
2013 on average by 4.2 percent compared to previous year, which significantly affected the budgets of emerging economies that are dependent on metal exports. Reduced demand for metals was caused by the decrease of industrial production in several major economies. Energy prices decreased in 2013 on average by 1.8 percent, mostly due to geopolitical risk reduction. The appreciation of the U.S. dollar was another factor that caused the decrease in energy prices and other assets that are traded in U.S. dollars, which reduced the attractiveness of assets traded in this currency.

Following the extension of the contract for the purchase of natural gas from the Russian Federation for 2013, the average purchase price of natural gas was U.S. dollar 379.6¹ per 1000 m³, by 3.7 percent less compared to the average price in 2012 (Chart 1.7).

The average price of Urals brand oil in 2013 was U.S. dollar 107.8 per barrel, which represents a decrease by 2.3 percent compared to the average price in 2012 (Chart 1.7). Compared to the previous years, the volatility of oil prices in international markets was relatively modest as a result of a significant decrease in risks, which allowed the reduction of the risk premium, and the price stabilization according to the world oil supply and demand counterbalance. Satisfactory statistics on development of advanced economies and maintaining the import of oil at high levels in China were the positive factors in oil price formation in 2013. The depreciation of the U.S. dollar has been one of the main factors of oil price reduction. At the same time, compared to the previous years, geopolitical tensions in the Middle East and North Africa have reduced, while Iran resumed the dialogue with the major powers on resuming oil exports.

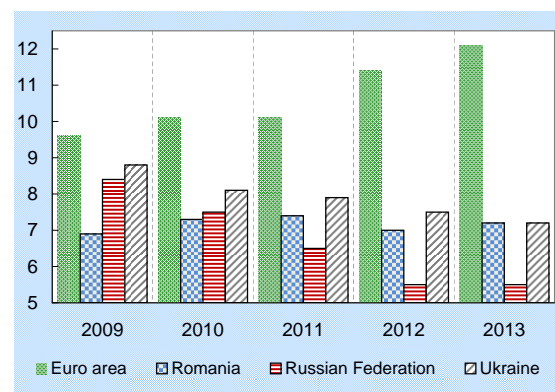
High rates of unemployment in advanced economies remain an impediment to the advancement of the world economy. During 2013, the unemployment rate in the euro area fluctuated on average around the value of 12.1² percent, the situation in member countries changing insignificantly. In 2012, the average unemployment rate in the euro area was 11.4 percent. In the economies of major trading partners, labor market situation has not changed significantly, recording in Romania an average unemployment rate of 7.2 percent, in the Russian Federation - 5.5 percent and in Ukraine - 7.2 percent (Chart 1.8).

Chart 1.7: Evolution of natural gas (USD/1000m³) and oil prices (USD/barrel)



Source: Bloomberg, NAER, NBM calculus

Chart 1.8: Average unemployment rate in euro area and neighboring economies (%)



Source: Eurostat, State Statistics Committee of Ukraine, Russian Federal Service of State Statistics

¹Moldovagaz

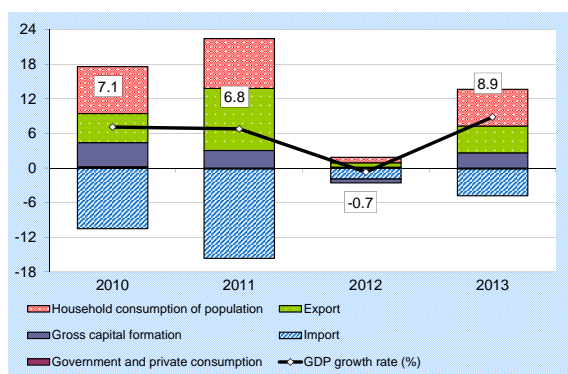
²Eurostat, seasonally adjusted series

Chapter 2

The economic situation of the Republic of Moldova in 2013

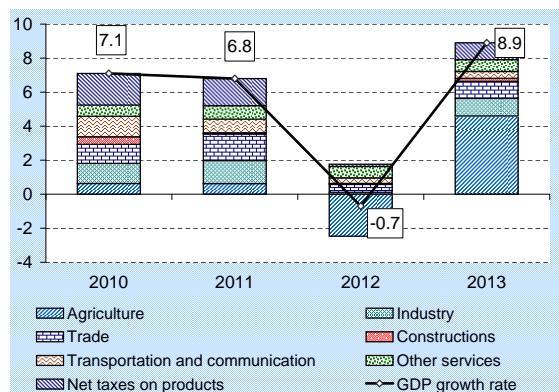
2.1 Real sector

Chart 2.1: Contribution of demand components to the GDP growth (p.p.)



Source: NBS, NBM calculus

Chart 2.2: Contribution of economic sectors to the GDP growth (p.p.)



Source: NBS, NBM calculus

Gross Domestic Product

The Republic of Moldova's economy rebounded strongly in 2013 after the decline in 2012 due to drought. According to operational data of the National Bureau of Statistics in 2013 GDP increased by 8.9 percent compared to 2012, the largest annual increase in the history of the Republic of Moldova. In the first half of the year, the economic growth was relatively modest, recording in the first and second quarter values of 3.5 and 6.1 percent, respectively. The materialization of positive effects in the agricultural sector determined a stronger economic activity in the second half of the year, registering in the third and fourth quarter annual growth rates of 12.9 and 11.2 percent, respectively. The positive trend in economic activity during 2013 was favored to some degree by the national currency's depreciation against the currencies of major trading partners through the exports and domestic consumption channels.

In terms of uses (Chart 2.1) the evolution of economic activity during 2013 was determined mostly by the revival of domestic demand as a result of higher household disposable income and the positive evolution of the agricultural sector. The Moldovan Leu depreciation in annual terms against the currencies of major trading partners, overlapping with a record volume of remittances, has significantly contributed to the increase in household disposable income. At the same time, the agriculture's revival after the drought in 2012 has spurred the consumption of goods and services, thus recording in 2013 an increase of 10.8 percent. Therefore, these factors have contributed to the increase of final consumption of household in 2013 by 6.5 percent, generating a 6.2 percentage points

contribution to the GDP growth. At the same time, final consumption of public administration decreased by 0.8 percent, its contribution to GDP growth was insignificant. The impact of the investments on GDP growth was noticeable (2.7 percentage points), although significantly lower than that of private consumption and was mainly due to the positive evolution of the changes in inventories component. Gross fixed capital formation recorded a lower increase (3.3 percent), generating a contribution of 0.8 percentage points. Net exports had a neutral impact on GDP growth in 2013, compared to the previous years when their contribution was strongly negative. In this sense, the exports of goods and services recorded an increase of 10.7 percent, generating a positive contribution of 4.7 percentage points, which basically offset the negative contribution due to the 5.5 percent increase of imports.

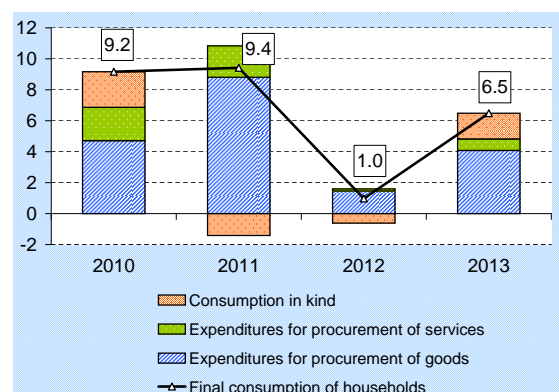
By categories of resources (Chart 2.2), the positive development of all sectors of the economy was basically overshadowed by the sharp growth of agriculture. Thus, in January – December 2013, the gross value added in agriculture increased by 41.0 percent, resulting in a contribution to GDP growth of 4.5 percentage points. At the same time, the revival of agriculture contributed to the creation of favorable conditions for the development of industry. In this regard, the gross value added of industry increased by 7.4 percent, contributing to GDP growth by 1.0 percentage points. Gross value added growth in the industry sector was driven mainly by the increase of production volume in manufacturing and mining by 8.8 and 24.3 percent, respectively. At the same time, the energy sector decreased by 3.0 percent. As a result, the value added of the goods sector increased by 22.1 percent, resulting in a contribution to GDP growth of 5.5 percentage points, while the gross value added of services recorded a lower increase by 0.4 percent, mostly due to the evolution of “trade” and “transport and communications”, which increased by 7.3 and 3.8 percent, respectively. Constructions had a lower contribution to GDP growth (0.2 percentage points) after an increase of only 5.1 percent. At the same time, net taxes on products increased by 6.0 percent in 2013 compared to 2012, thus generating a contribution of 1.0 percentage points to GDP growth.

Household consumption

In 2013, the annual rate of household final consumption accelerated up to the value of 6.5 percent, after an insignificant increase of 1.0 percent in 2012. Still, its annual development is significantly lower than in 2010 and 2011.

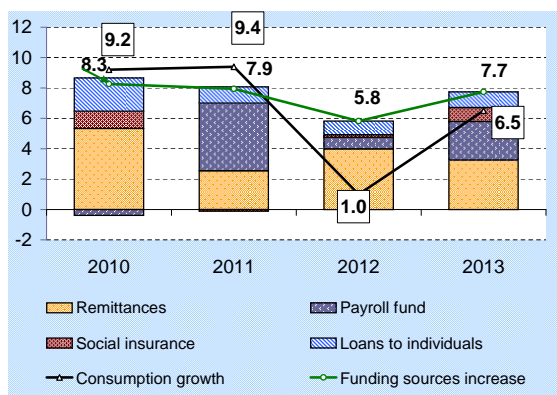
Primarily increased expenses for goods' procurement drove upwardly the trend of the annual rate of households' final

Chart 2.3: Contribution of components (p.p.) to the household final consumption growth (%)



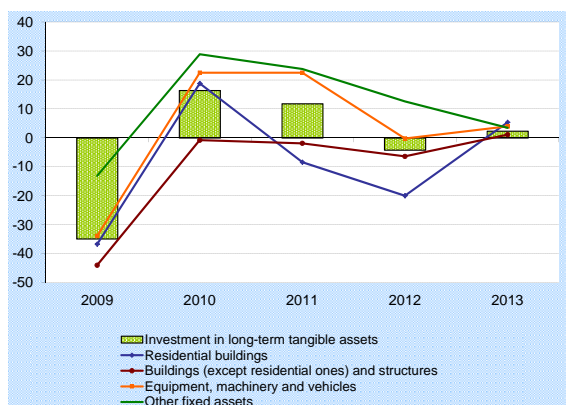
Source: NBS, NBM calculus

Chart 2.4: Contribution of funding sources (p.p.) to the real growth of household consumption (%)



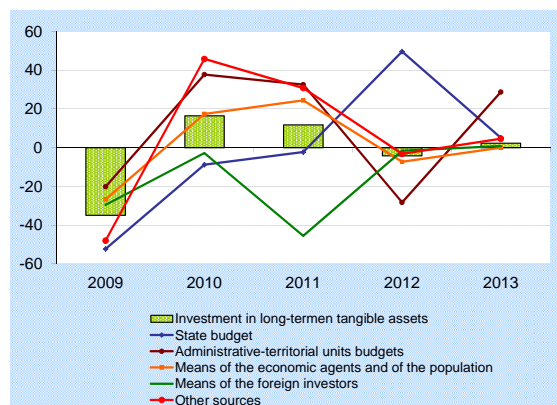
Source: NBS, NBM calculus

Chart 2.5: Investments in long-term tangible assets by types of fixed assets (% versus the same period of the previous year)



Source: NBS, NBM calculus

Chart 2.6: Investments in long-term tangible assets by funding sources (% versus the same period of the previous year)



Source: NBS, NBM calculus

consumption in 2013. These increased by 7.4 percent, thus contributing to the formation of the annual rate of final consumption of households by 4.1 percentage points, representing a higher impact than that generated by other subcomponents (Chart 2.3). In 2011 and 2012, the consumption in kind had negative contributions to the dynamics of the annual rate of household consumption, while in 2013, the contribution of this subcomponent was positive. In 2013, the annual growth rate of consumption in kind was 10.8 percent, generating a contribution of 1.7 percentage points to the annual growth formation of the final consumption of households. This development was mainly due to volume growth of global agricultural production. At the same time, expenditures for the purchase of services recorded an annual growth higher than in 2012, but significantly lower than in 2010 and 2011, increasing by 2.8 percent, with a contribution of 0.7 percentage points.

The annual growth acceleration of household consumption was supported, as aforementioned, by the impact of a significant harvest in 2013 and by the increase in the disposable income of the population. In this regard, financing sources of household consumption registered a pronounced positive trend during 2013 (Chart 2.4), increasing by 7.7 percent (by 1.9 percentage points more than in 2012). These positive developments have been driven primarily by increased remittances and wage bill. Increased remittances denominated in MDL were amplified by the exchange rate depreciation of MDL against USD by 4.0 percent in 2013 compared with 2012. The evolution of new granted loans and social insurance payments generated positive contributions to the dynamics of consumption funding sources, but these were significantly lower than those generated by the wage bill and remittances growth.

Investments

In 2013, gross fixed capital formation increased by 3.3 percent compared to 2012. This rate of growth was supported by higher construction spending by 6.4 percent, while spending on machinery and equipment, and the component "others" contracted by 1.8 and 2.6 percent, respectively.

The volume of investments in long-term tangible assets increased in 2013 by 2.3 percent compared to 2012 (Chart 2.5). By types of fixed assets, investments in residential buildings and the component "equipment, machinery and transport means" increased by 5.4 and 4.0 percent, respectively. Investments in non-residential buildings recorded a lower growth rate (1.1 percent).

In terms of funding sources to ensure investment needs (Chart 2.6), expenditures on the account of administrative-territorial units budgets and state budget increased by 28.7 and 5.1 percent compared to 2012. However, the most important financing source of investments (67.2 percent) is the means of economic agents and population, which registered a void growth versus 2012. Foreign sources recorded an increase of 0.8 percent, while other sources increased by 4.6 percent.

Agricultural production

In 2013, gross agricultural production increased by 38.2 percent compared to 2012, when it pronouncedly decreased (Chart 2.7). This development was driven by the increase of the vegetable production volume by 61.8 percent, due to favorable meteorological conditions. At the same time, the volume of livestock production recorded a much lower increase of 0.7 percent.

The increase of vegetable production volume in the reporting period was mainly influenced by the increase in harvest of corn for grains (2.5 times), wheat (2.0 times), sunflower (66.6 percent), sugar beet (59.5 percent), as well as soybean (34.4 percent). At the same time, the modest increase in the volume of livestock production took place due to low rates of growth in milk production (1.4 percent), cattle and poultry (0.9 percent), which were mitigated by lower egg production by 0.8 percent.

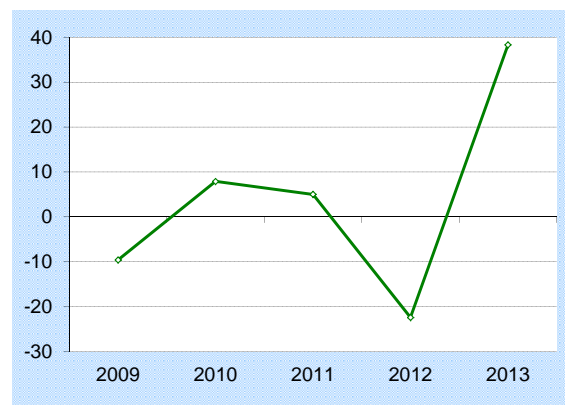
Industrial production

Industrial production volume recorded a revival in 2013 after a decrease in 2012. The annual growth of industrial output increased in real terms by 6.8 percent. Increasing volume of industrial production was mainly driven by the increase of the production volume in extractive industry and manufacturing by 22.2 and 7.9 percent, respectively. At the same time, the energy sector recorded a decrease in industrial production volume by 4.3 percent. The most significant increases in manufacturing were recorded in the following industrial activities: “machinery and equipment production” (31.1 percent), “metallurgy” (29.9 percent), “production of other non-metallic mineral products” (21.9 percent) and “chemical industry” (19.0 percent).

Transport of goods

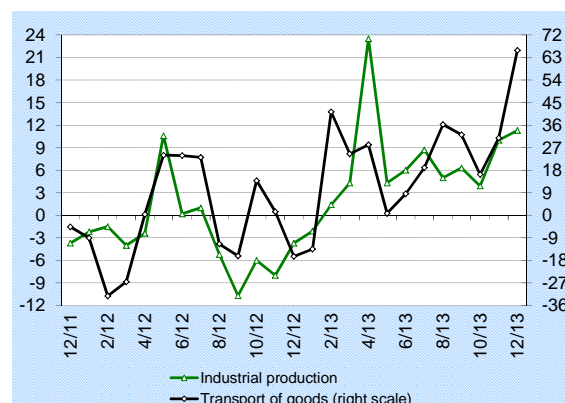
In 2013, the enterprises of railway, road, river and air transport have carried by 26.2 percent more goods compared to 2012, due to increased volume of goods transported by all means of transport, except air transport. It should be mentioned that in the fourth quarter of 2013, the annual growth rate of goods

Chart 2.7: Global agricultural production (% , versus the same period of the previous year)



Source: NBS

Chart 2.8: Evolution of industrial production and transport of goods in real terms (% , versus the same period of previous year)



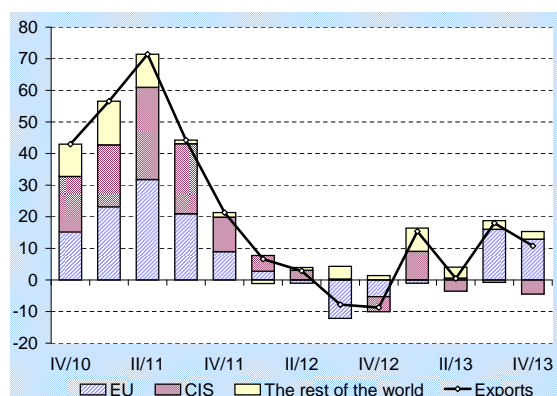
Source: NBS

Chart 2.9: Evolution of internal trade (%), versus the same period of previous year)



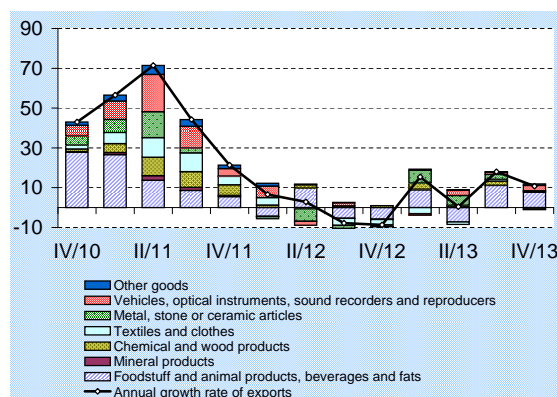
Source: NBS, NBM calculus

Chart 2.10: Evolution of exports annual rate (%) and contribution by categories of countries (p.p.)



Source: NBS, NBM calculus

Chart 2.11: Evolution of exports annual rate (%) and subcomponents contribution by groups of goods (p.p.)



Source: NBS

transport recorded an increase of 37.7 percent (Chart 2.8), by 8.5 percentage points more than in the third quarter of 2013. At the same time, the pronounced annual growth rates of transport of goods recorded in the last six months were mainly driven by the revival of agriculture after the drought in 2012, which contributed to the growth of transported volume of grains and bakery products.

Internal trade

In 2013, the turnover of enterprises, whose main activity is retail trade, increased by 3.1 percent compared to 2012. At the same time, trade in services recorded a more pronounced increase in annual terms, by 10.7 percent.

It should be mentioned that in the first nine months of 2013, the annual rate of the volume of turnover of retail trade oscillated around zero, accelerating essentially in the last three months of the year (Chart 2.9), so that recording an average annual rate of 8.1 percent in the fourth quarter of 2013. This acceleration of the annual rate was mainly influenced by increased retail trade of motor vehicles, food in specialized stores, pharmaceuticals and perfumery. At the same time, the annual growth trade volume in services registered a particular development compared to that of trade in goods. Thus, the annual growth rate of trade in services recorded higher rates than those of trade in goods almost during the entire year.

External trade³

After a negative evolution in 2012, the annual rate of both exports and imports returned in 2013 on the positive band and recorded significant values, but lower than in 2010 and 2011. Evolution of goods exports was mainly supported by the agricultural revival, after the pronounced drought in 2012 and that of imports – by the revival of domestic demand as a result of higher disposable income of population.

The annual growth rate of exports (expressed in U.S. dollars) in 2013 was 11.0 percent, by 13.5 percentage points higher than the level in 2012. Following the analysis of the quarterly distribution of exports by category of countries, it is noted that in the first quarter of 2013, the shift of the annual growth rate of exports from the negative territory was mainly driven by increasing exports to countries included in the group the Rest of the world⁴ and the CIS. At the same time, the structure of exports has changed in the second half of the year. Thus,

³It was used the quarterly data on the evolution of external trade of the Republic of Moldova, expressed in thousands of U.S. dollars.

⁴Rest of the world - countries that are not part of the EU and CIS.

exports to EU countries represented the acceleration engine of the annual growth, generating an average contribution of 14.4 percentage points (Chart 2.10). On the other hand, in the last nine months of the year, the exports to CIS countries recorded negative growth rates. Thus, this dynamic was mainly due to the decrease in annual terms of the volume of exports to the Russian Federation and the Republic of Kazakhstan.

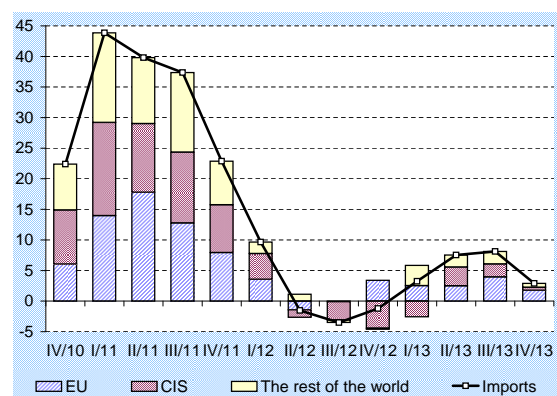
Following the analysis of the annual growth of exports by groups of commodities (Chart 2.11), it may be noted that the upward trend in the annual rate of exports in 2013 was primarily due to the increase in exports of “food products, animal products, beverages and fats” as a result of the recovery in agriculture after a pronounced drought in 2012. At the same time, positive contribution to the evolution of the annual rate of exports were also generated by the groups „articles of metal, stone or ceramics”, „chemical and wood processing products” and „vehicles, optical and sound recorders or reproducers” (Chart 2.12).

In 2013, the volume of imported goods increased by 5.4 percent compared to 2012. Similarly to the annual growth rate of exports, that of imports turned positive in the first quarter of 2013, recording an upward trend until the third quarter, but declining in the last quarter to the level of 2.9 percent (Chart 2.12).

At the same time, during the reporting period, the annual growth rate of imports was mainly influenced by the increase in imports from EU countries and those from the Rest of the world group. Imports from CIS countries recorded an inhomogeneous evolution, generating both negative and positive contributions to the annual growth rate of imports.

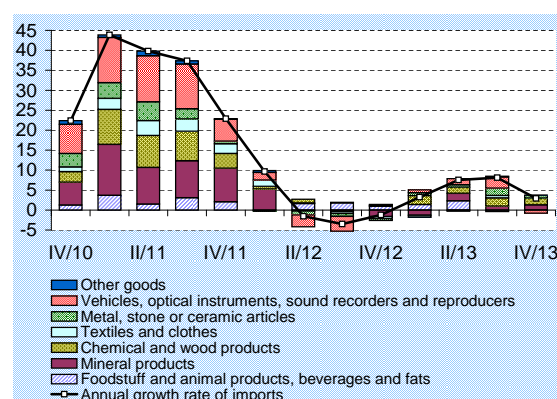
By groups of commodities (Chart 2.13), the upward trend of the annual rate of imports was mainly influenced by the increase in imports of “chemical and wood processing products”, “vehicles, optical and sound recorders or reproducers” and “articles of metal, stone or ceramics”. At the same time, a significant increase in the agricultural production volume in the second half of 2013 contributed to lower demand for foreign food products. As a result, the imports of “food products, animal products, beverages and fats” have generated a negative contribution to the annual rate dynamics in the reporting period, unlike the first half of 2013 when its contribution was positioned in the positive band.

Chart 2.12: Evolution of imports annual rate (%) and contribution by categories of countries (p.p.)



Source: NBS, NBM calculus

Chart 2.13: Evolution of imports annual rate (%) and subcomponents contribution by groups of goods (p.p)

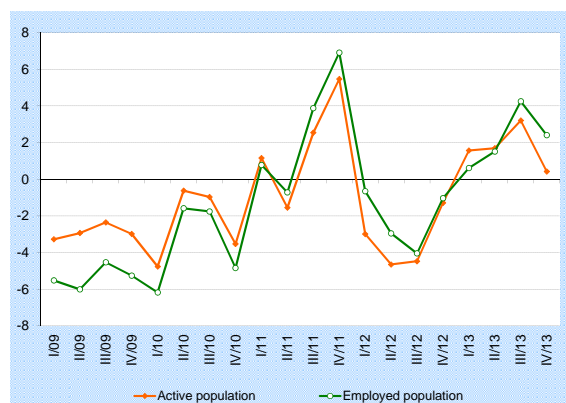


Source: NBS

Labor market

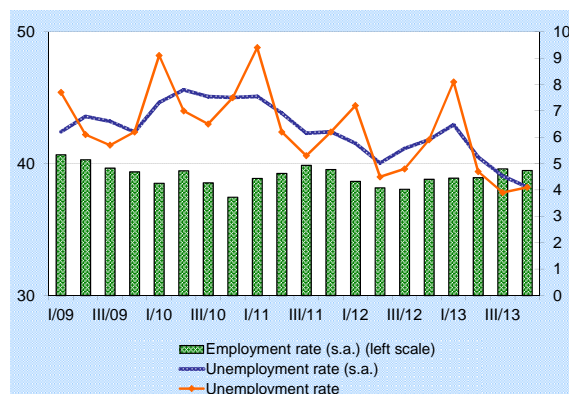
Work force

Chart 2.14: Economically active population and employment (% , versus the same period of previous year)



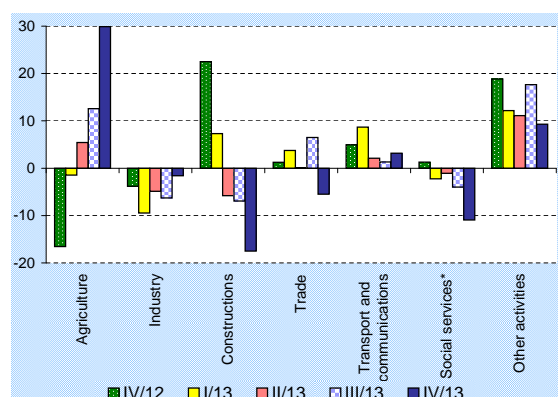
Source: NBS, NBM calculus

Chart 2.15: Evolution of unemployment and employment (%)



Source: NBS, NBM calculus

Chart 2.16: Distribution of persons employed by the activities of national economy (% , versus previous year)



Source: NBS, NBM calculus

* except „other activities with collective, social and personal services“

Labor market conditions have developed positively in 2013, the climate being improved by the indicators provided by the NBS. During 2013, the annual growth rate of employed population recorded an upward trend with a slight slowdown in the fourth quarter of 2013. Thus, on the one hand, the annual growth rate of the number of employed persons increased from 0.6 percent in the first quarter of 2013, up to 4.3 percent in the third quarter of 2013, recording in the fourth quarter of 2013 a growth rate of 2.4 percent (Chart 2.14). On the other hand, the number of unemployed persons has followed the downward trend during 2013, recording in the fourth quarter of 2013 a level by 22.1 thousand of persons lower than in the fourth quarter of 2012. As a result, the unemployment rate was 4.1 percent, by 1.8 percentage points lower than in the same period of 2012 (Chart 2.15). In 2013, the average unemployment rate was 5.1 percent, by 0.5 percentage points lower compared to 2012. All these led in 2013 to the increase of the economically active population by an average of 1.8 percent (in annual terms). At the same time, another positive sign on the labor market in 2013 was the reduction in the number of discouraged persons to find a job down to 19.3 thousand from 27.4 thousand in 2012.

According to the data provided by ANOFM⁵, the number of people laid off in 2013 decreased by 29.0 percent compared to the average of the similar period of 2012, while the number of identified vacancies increased by 16.3 percent.

Seasonally adjusted data represent a continuous decrease in unemployment rate and a continuous increase in employment rate during 2013. Thus, the unemployment rate decreased from 6.1 percent in the first quarter of 2013 to 4.1 percent in the fourth quarter of 2013 and the employment rate increased from 38.9 percent to 39.5 percent in the fourth quarter of 2013 (Chart 2.15).

In 2013, according to the distribution by activity in the national economy, the largest concentration of employment was in the agricultural sector, whose share was 28.8 percent. The number of employees in this sector increased by 11.4 percent compared to 2012 (Chart 2.16). The number of persons employed in 2013 has also increased in the following sectors: “other activities” by 12.3 percent, “transport and communications” by 3.8 percent and “trade” by 1.0 percent. The most noticeable decreases compared to 2012 were recorded in the following sectors: “constructions”, “industry” and “social services

⁵National Agency for Employment

(excluding other activities of collective, social and personal services)". At the same time, the "constructions" sector attested the lowest concentration of population employed (5.5 percent).

Wages

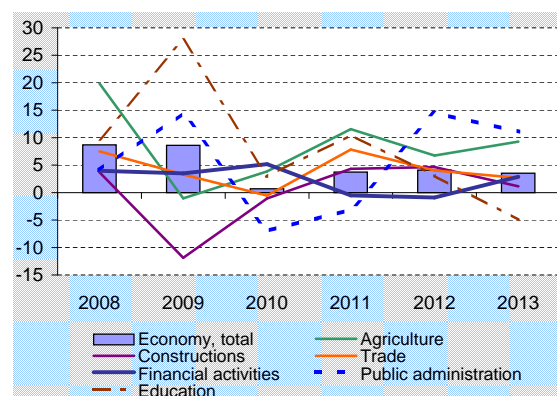
In 2013, the average wage of a worker in the national economy amounted to MDL 3765.1, increasing by 8.3 percent as compared to 2012. The increase in real terms was 3.5 percent compared to 2012. The annual growth rate of the average real wage in economy in 2013 was due to positive contributions of the sectors: "real estate transactions", "public administration", "trade", "constructions" and "other activities of collective services". On the other hand, these contributions were mitigated by the negative contribution of the education sector.

During the reporting period, the annual average real wage growth in public administration has been positive for the second consecutive year, but lower compared to 2012 (by 3.4 percentage points), reaching the value of 11.1 percent. Its annual growth rate was boosted by several decisions of the Government of the Republic of Moldova made during 2013 to increase the wages of employees in public administration. The annual growth rate of the average real wage in trade sector was 2.7 percent, lower by 1.3 percentage points compared to 2012, while the annual growth rate of the average real wage in agricultural sector was 9.3 percent compared to 2012, amid increasing agricultural production. The construction sector has outlined a favorable perspective, determined by the acceleration of construction activity in 2013, which has increased the number of employees with a lower share than the wage bill increase, determining an annual growth rate of average real wage of 1.1 percent.

Wages in real terms received by employees of educational institutions recorded a decrease of 5.0 percent in annual terms, which is determined by reducing wages in technical and vocational secondary education. It should be mentioned that since January 1, 2013 higher education institutions switched to self-financing mode. Thus, this change has contributed to the reclassification of employees of higher education institutions from the public sector to the real one. Therefore, this change has contributed to the slowdown of the annual average real wage growth rate in the public sector compared to 2012.

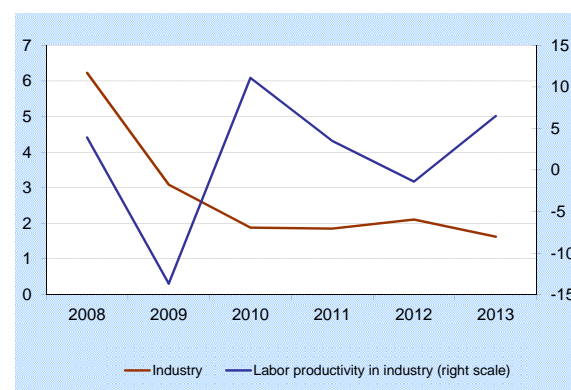
It should be noted that the education sector holds the most employees (18.0 percent). The nominal wage in the financial activities sector is the largest in the economy, its growth rate in real terms was 2.9 percent in 2013. During the reporting period, the average annual growth rate of real wages in the

Chart 2.17: Real average wage * (% , versus previous year)



Source: NBS, NBM calculus
*deflated by CPI

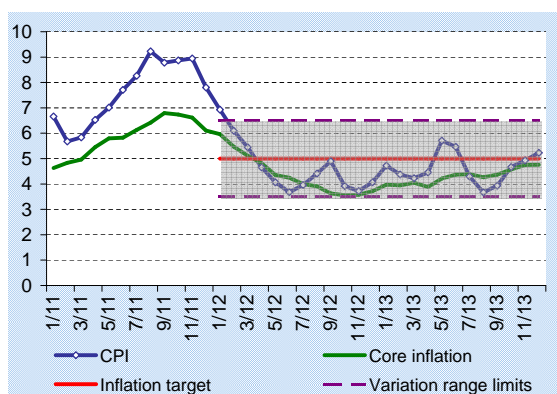
Chart 2.18: Real average wage in industry (% , versus previous year)



Source: NBS, NBM calculus

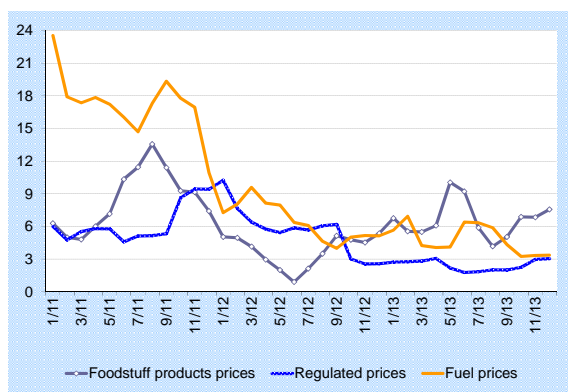
industrial sector fell slightly below the average of 2.0 percent over the last three years, representing 1.6 percent. At the same time, the labor productivity in industry has a positive trend, recording the value of 6.5 percent (in annual terms), which was determined by the increase of industrial production by 6.8 percent compared to 2012.

Chart 2.19: Annual rate of CPI and core inflation (%)



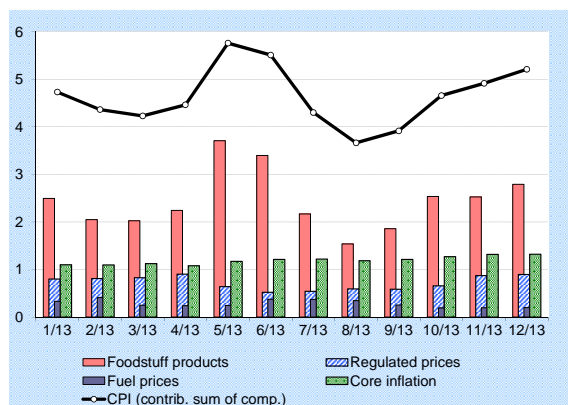
Source: NBS, NBM calculus

Chart 2.20: Annual rate of inflation subcomponents (%)



Source: NBS, NBM calculus

Chart 2.21: Evolution of annual inflation and subcomponents contribution (p.p.)



Source: NBS, NBM calculus

2.2 Inflation

Consumer price index

In 2013, the National Bank of Moldova has created the conditions necessary to keep the inflation rate within the range of ± 1.5 percentage points from the 5.0 percent target, the target set for the medium term according to its Monetary policy strategy. It should be mentioned that inflation has remained in the corridor since February 2012. Thus, during the first fourth months of 2013, the annual rate of inflation reached the lower band of the variation range due to disinflationary pressures from aggregate demand, recording the average value of 4.4 percent. In May and June 2013, the annual inflation rate reached the upper band of the range, recording values of 5.7 and 5.5 percent respectively, with the intensification of inflationary pressures caused by food prices amid a low harvest in 2012 and by the changes in the record-keeping procedure of the products with strong seasonality by the National Bureau of Statistics.

Due to a good harvest of fruits and vegetables, annual inflation returned in summer to the lower band of the range of ± 1.5 percentage points from the target of 5.0 percent, falling down in July to the minimum value of 3.7 percent, only by 0.2 percentage points higher the lower limit of the above-mentioned range. Subsequently, in the second half of the year, the annual inflation rate has outlined an upward trajectory, returning close to the inflation target and recording the value of 5.2 percent by the end of 2013 amid the depreciation of the national currency against the currencies of major trading partners.

At the same time, core inflation remained during 2013 in the lower band of the range of ± 1.5 percentage points from the target of 5.0 percent, as a result of weak aggregate demand. However, it recorded a slight upward trajectory, driven mostly by the depreciation of the national currency against currencies of major trading partners.

Within the components structure, food prices (7.6 percent) recorded the largest increase in December 2013 compared to

December 2012, followed by non-food products (4.6 percent) and services (by 2.9 percent).

The food prices (on average by 2.4 percentage points) contributed the most to the annual inflation rate formation in 2013 (Chart 2.21). Prices for goods and services related to core inflation have made a contribution of 1.2 percentage points, while prices for regulated services had a contribution of 0.7 percentage points. Fuel prices have generated the lowest contribution (0.3 percent) to the annual average inflation dynamics in 2013.

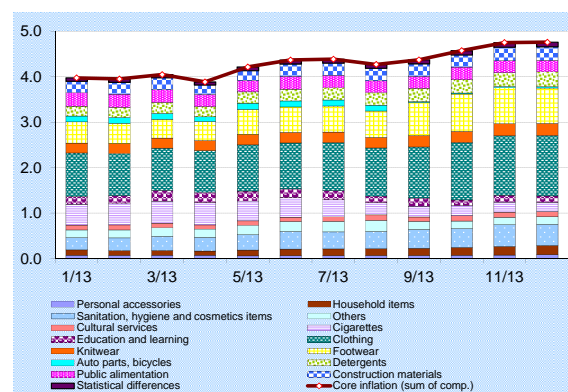
Core inflation index

During 2013, the annual rate of core inflation has seen an upward trend, increasing from 4.0 percent in January to 4.8 percent in December, mainly due to the gradual increase of the positive contributions of the components, such as footwear, clothing, building materials, articles of sanitary, hygiene and cosmetics. The increase was mostly due to the depreciation in annual terms of the national currency against the currencies of major trading partners, which was more pronounced during the second half of 2013. Thus, in December 2013, compared to December 2012, the average official exchange rate of the Moldovan Leu against the U.S. dollar depreciated by 7.0 percent and 11.6 percent against the single European currency. The effect of this depreciation was mitigated by the aggregate demand, which in 2013 did not exert significant inflationary pressures.

By the end of 2013 (December), the annual rate of core inflation was determined mostly by increasing prices for “clothing”, “footwear”, “building materials” and “cigarettes” by 6.1, 5.6, 4.7 and 7.6 percent, respectively (Chart 2.22). Significant contributions, but of lower intensities, were determined by the increase of 4.6, 3.9 and 3.4 percent compared to December 2012 of components prices “detergents”, “articles of sanitary, hygiene and cosmetics”, and “public alimentation”.

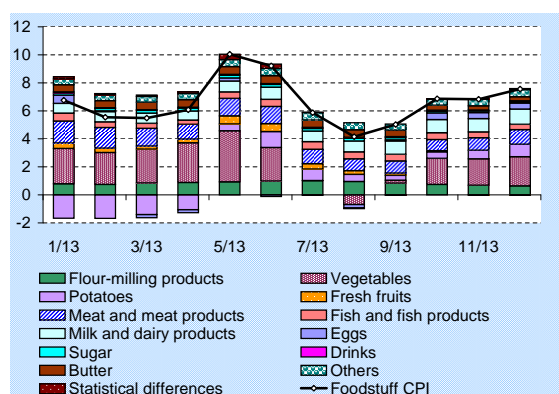
The increase in tobacco prices was the consequence of the increase and the changes in excise duty on tobacco (in January and August), their effect was dispersed throughout the year. The increase in prices of other groups of goods and services was due to increased costs, as effect of national currency depreciation against the currencies of major trading partners and the side effects of higher prices for fuel and food.

Chart 2.22: Components contribution to annual growth rate of core inflation (p.p.)



Source: NBS, NBM calculus

Chart 2.23: Components contribution to annual growth of food prices (p.p.)



Source: NBS, NBM calculus

Food prices

The evolution of the annual rate of food prices during 2013 was characterized by pronounced oscillations in both directions: increase and vice versa. Thus, in the first four months of 2013, it fluctuated around 6.0 percent and in May it accelerated markedly up to 10.0 percent. This evolution was due mainly to the changes in the record-keeping procedure of prices of the products with strong seasonality⁶. It should be mentioned that the acceleration of annual rate increase in food prices was not an intensification of inflationary pressures, but a statistical effect.

In the third quarter, the annual rate of food prices recorded a pronounced slowdown, after a pronounced acceleration in the last months of the second quarter, registering an average of 5.0 percent. The downward trend recorded during the third quarter was mainly due to lower prices of fresh vegetables (Chart 2.23), after recording an oversupply of these products on the market. At the same time, in the third quarter of 2013, disinflationary pressures generated by international food prices have intensified.

After a pronounced slowdown in the third quarter of 2013, the annual rate of food prices accelerated in the fourth quarter of 2013, recording a level of 7.1 percent, by 2.1 percentage points higher than in the third quarter of 2013. This development was primarily due to the pronounced growth rates in the prices of fresh vegetables, potatoes, milk and dairy products.

Although meteorological conditions during 2013 were generally favorable for the cultivation of agricultural products, vegetables and potato production recorded a low development. According to the NBS, potatoes production recorded an increase of 31.5 percent in 2013 compared to 2012 (droughty year), and vegetables by 28.8 percent, but these increases were not sufficient to return at least to the level of 2011⁷. Thus, potatoes harvest in 2013 was lower by 31.9 percent than that of 2011 and the fresh vegetables harvest was lower by 19.3 percent. The increase in food prices were influenced by atypical weather conditions in the last days of September and the first half of October, which disfavored the process of collecting, storage and marketing of fresh vegetables and potatoes. At the same time, in the fourth quarter of 2013, the contribution of the following groups has decreased: mill and bakery products, fresh fruits, fats and sugar (Chart 2.23). This dynamic was due to the rich harvest of cereals and fruits in 2013.

⁶Typically, products with strong seasonality are the products that are not available for purchase in certain seasons of the year (potatoes, cherries, strawberries, berries, melons and water melons etc.).

⁷<http://www.statistica.md/newsview.php?l=ro&idc=168&id=4304&parent=0>

Global food prices decreased by 1.6 percent in 2013 compared to 2012, mitigating to some extent the increase in domestic food prices. On the other hand, the disinflationary pressures generated by the dynamic of international food prices were mitigated by the official average exchange rate depreciation of the national currency against the U.S. dollar by 4.0 percent in 2013 compared to 2012.

Regulated prices

The annual rate of regulated prices had a slightly upward trajectory in the first months of 2013, increasing from 2.7 percent in January to 3.1 percent in April. This development was mainly due to the revision of urban transport tariffs in Bălți in April 2013. Subsequently, in May and June, their annual rate recorded a sharp decrease down to the value of 1.8 percent, due to the gradual disappearance from the annual measure of the effect of increasing electricity tariff in May 2012. After this episode, regulated prices have evolved relatively stable until October, their annual rate oscillating around 2.0 percent (Chart 2.24).

Towards the end of 2013, the increase in regulated prices accelerated in annual terms to the value of 3.0 percent due to higher tariffs for public transport in Comrat and Orhei and the positive contribution of the growth in medicines prices amid the depreciation of the national currency in the second half of 2013.

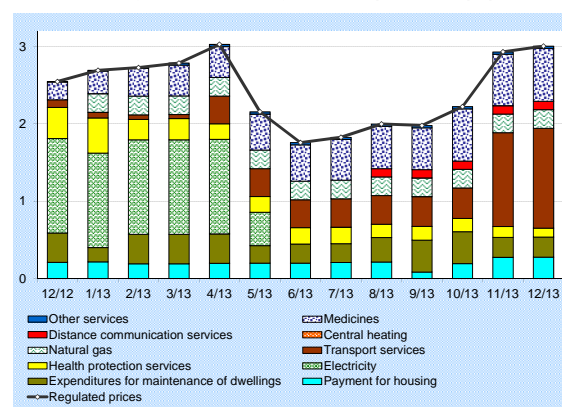
In addition to these factors, the positive dynamic of regulated prices during 2013 was supported by the contribution of the network gas component due to higher VAT rate for natural gas in January 2013 from 6.0 percent to 8.0 percent.

In December 2013, the annual rate of regulated prices was mostly determined by positive contributions from the prices of transport services, utilities and medicines, which increased by 15.8, 1.5 and 4.2 percent, respectively, compared to December 2012. The increase of spending on utilities was driven by increased payments for housing by 3.7 percent, water and sewerage tariff by 6.9 percent and network gas by 1.8 percent.

Fuel prices

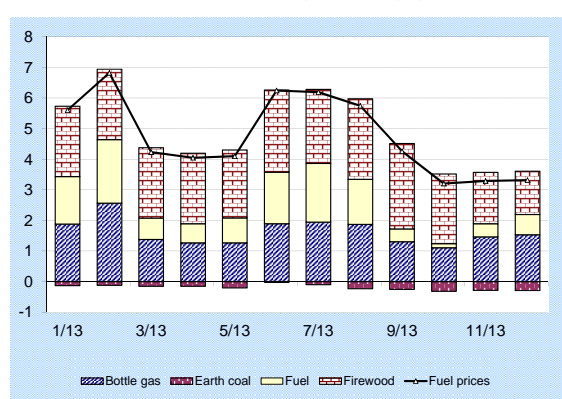
The evolution of the annual rate of fuel prices in the first half of 2013 was characterized by increased volatility. In the first two months of 2013, it accelerated up to 6.9 percent, while decreasing in March to the level of 4.2 percent (Chart 2.25). The upward trend in the annual rate of fuel prices was mainly due to the increase in pump fuel prices and bottled gas, and to

Chart 2.24: Components contribution to annual growth of regulated prices (p.p.)



Source: NBS, NBM calculus

Chart 2.25: Components contribution to annual growth of fuel prices (p.p.)



Source: NBS, NBM calculus

the increase of the rate of exercise duty on oil products by 11.0 percent and the VAT rate from 6.0 percent to 8.0 percent for bottled gas. At the same time, the sharp slowdown in March 2013 and the marked acceleration in the annual rate of fuel prices in June were influenced by the impact of the base effect.

The evolution of fuel prices in the second half of 2013 recorded a decreasing trend, thus recording an annual rate of 3.4 percent in December, by 3.0 percentage points lower than in June. This slowdown was mostly driven by the disappearance of fuel prices pressures. At the same time, during the fourth quarter of 2013, the contribution of the subgroup “firewood” has continuously decreased due to warmer weather conditions in November – December 2013 compared to the similar period of 2012, which contributed to maintaining a low demand for these resources.

Industrial production price index

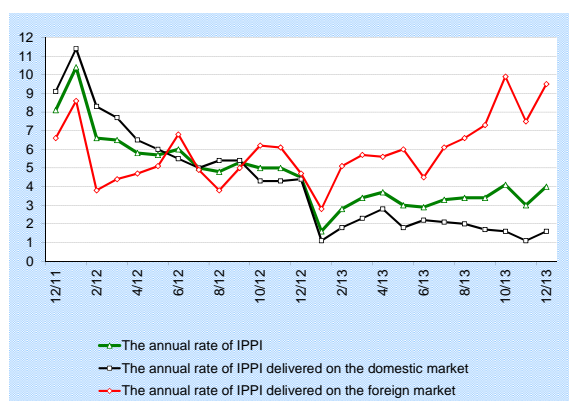
In 2013, the annual rate of industrial production price index recorded an upward trend, increasing from 2.6 percent in the first quarter of 2013 up to the value of 3.7 percent in the fourth quarter of 2013. This evolution was exclusively influenced by increasing prices of products delivered on external market, given that the annual rate of IPPI delivered on the domestic market in the fourth quarter of 2013 decreased by 0.3 percentage points compared to the first quarter of 2013 (Chart 2.26).

At the same time, the annual rate of IPPI was 4.0 percent at the end of 2013. In December 2013, the largest increase in annual terms was recorded in manufacturing prices, which increased by 5.0 percent. The prices in the extractive industry and the energy sector have decreased by 2.4 percent each. It should be mentioned that during the period November 2012 – December 2013, prices of products delivered on the external market exceeded constantly the prices of products supplied on the domestic market (Chart 2.26), which was argued by the depreciation in annual terms of the domestic currency against the currencies of trading partners during this period.

Construction prices

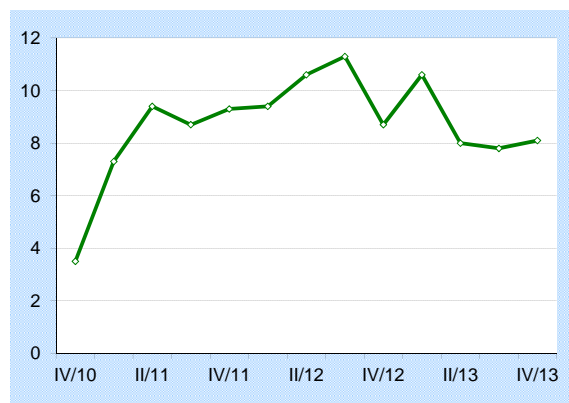
After the acceleration to the value of 10.0 percent in the first quarter of 2013, the annual rate of construction prices have evolved relatively stable until late 2013, fluctuating around 8.0 percent (Chart 2.27). Within the national economy structure in the fourth quarter of 2013, the largest increases compared to the fourth quarter of 2012 were recorded in the following sectors: “agriculture” (10.6 percent), “power engineering” (10.0 percent), “manufacturing” (9.2 percent), “housing construction” (8.1 percent) and “other constructions” (7.9 percent).

Chart 2.26: Annual rate of IPPI (%)



Source: NBS

Chart 2.27: Evolution of construction price index (% , compared to similar period last year)



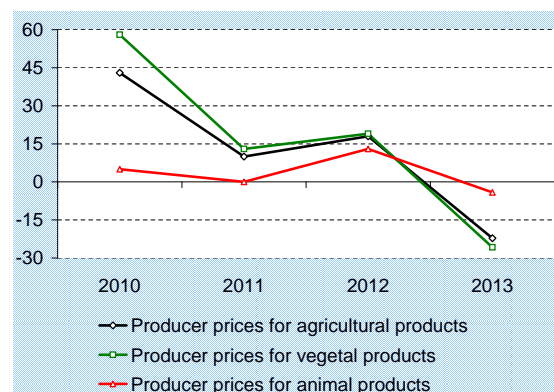
Source: NBS

Producer prices of agricultural products

In 2013, producer prices of agricultural products decreased by 22.2 percent compared to 2012. This evolution was primarily driven by lower prices of vegetable products (minus 25.8 percent), while animal products recorded a smaller decrease (minus 4.1 percent) (Chart 2.28).

The evolution of vegetables products prices was mainly due to the decrease in prices of “sunflower” (minus 39.0 percent), “corn” (minus 35.1 percent), “grape” (minus 28.3 percent), “wheat” (minus 24.4 percent) and “fruit and berries” (minus 20.6 percent). Thus, the decrease in prices of the above-mentioned products was driven by a rich harvest of these products in 2013, after the strong drought in 2012. It should be noted that the annual increase in prices of potatoes was 66.0 percent in 2013 compared to 2012, when prices recorded a decrease of 47.2 percent.

Chart 2.28: Producer prices of agricultural products (% , versus previous year)



Source: NBS

2.3 Public sector

The year 2013 was a favorable one for the national economy, the economic growth was mostly due to impressive development of the agricultural sector after a droughty year, according to the preliminary data, the GDP growth was 8.9 percent compared to 2012. In 2013, the national public budget indicators confirm a more efficient tax administration, as government revenue has increased and the budget deficit was within acceptable limits.

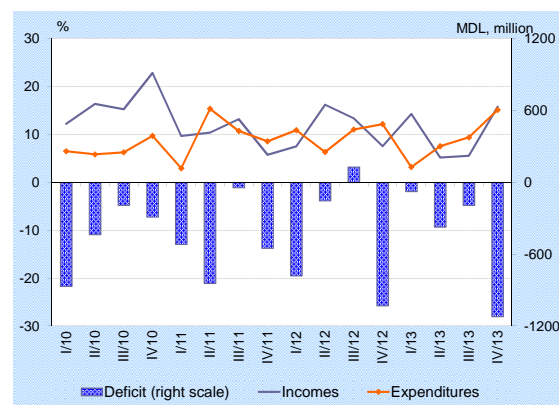
According to the information provided by the Ministry of Finance, the dynamics of the national budget revenue collection was MDL 36908.5 million in 2013, recording a slight decrease in annual growth rates up to 10.1 percent (compared to 11.2 percent in 2012) (Chart 2.29).

The tax revenues ratio to GDP data decreased in 2013 by 1.2 percentage points compared to 2012, accounting for 37.0 percent.

Similar to the previous periods, tax revenues have held major share of 87.2 percent in the public revenues, by 1.1 percentage points more than in 2012. In 2013, the revenues from VAT increased by 14.1 and those from excise duties – by 21.2 percent, which is more compared to the increases recorded in 2012, by 2.0 and 8.5 percent, respectively.

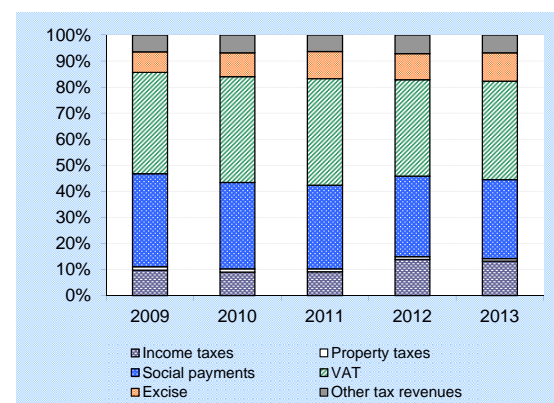
Although the components growth was higher, there has been recorded a further dependence of public budget revenues on

Chart 2.29: Indicators of national public budget



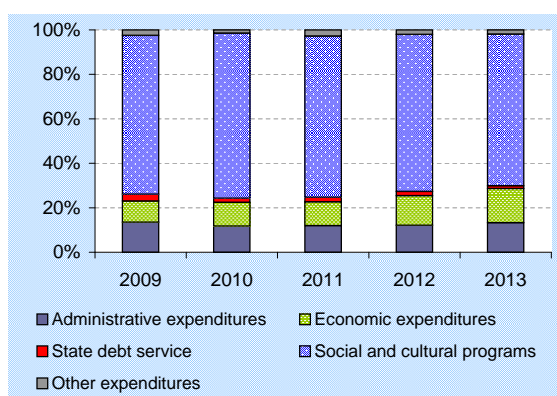
Source: Ministry of Finance, NBM calculus

Chart 2.30: Dynamic of tax revenues structure



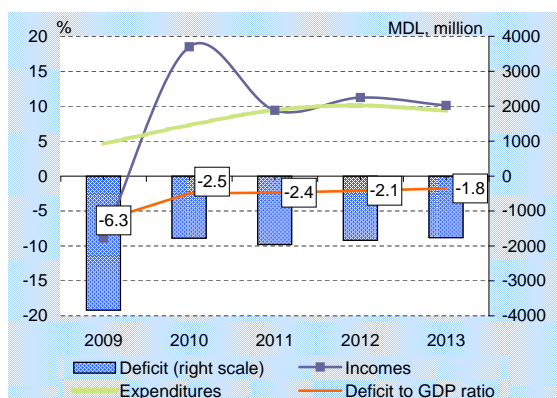
Source: Ministry of Finance, NBM calculus

Chart 2.31: Sectorial distribution of public expenditure



Source: Ministry of Finance, NBM calculus

Chart 2.32: The evolution of public budget deficit



Source: Ministry of Finance, NBM calculus

households' consumption, the indirect taxes accounted for 55.5 percent of total tax revenues. The share of direct taxes decreased by 1.4 percentage points in 2013, down to 44.5 percent, driven mainly by the decrease in income taxes contribution by 0.6 percentage points (Chart 2.30). Social payments (mandatory social insurance contributions and the health insurance premiums) increased on average by 8.9 percent.

During the reporting year, the Republic of Moldova has received financial support for budget support in the form of external grants, totaling MDL 2037.6 million or by 28.7 percent more than in 2012 and internal grants, totaling MDL 36.0 million (by 33.5 percent less than in 2012). The assistance provided by international financial organizations and donor countries is an important contribution to the economic recovery and reforms needed to modernize and re-launch the Republic of Moldova.

General government expenditure in 2013 had a downward trend, recording an annual growth of 9.4 percent compared to that of 2012 (10.1 percent), reaching the value of MDL 38673.1 million. The increase in the volume of expenditure was mainly due to increased spending on insurance and social assistance by MDL 1087.5 million, by 9.4 percent more than in 2012, transport, road management, communications and informatics – by MDL 584.8 million or 27.9 percent, health protection - by MDL 477.1 million or 10.0 percent etc.

Within the structure of expenditure, the social and cultural programs received the most resources – 68.2 percent of the total, although their share has decreased by 2.4 percentage points compared to 2012 (Chart 2.31). During the reporting period, the most significant change was recorded in the expenditure related to the national economy - 15.4 percent, which increased by 2.1 percentage points from 2012. Other significant expenses were related to the administrative sectors - 13.3 percent, which were designated for industries such as state services with special purpose, justice, national defense etc.

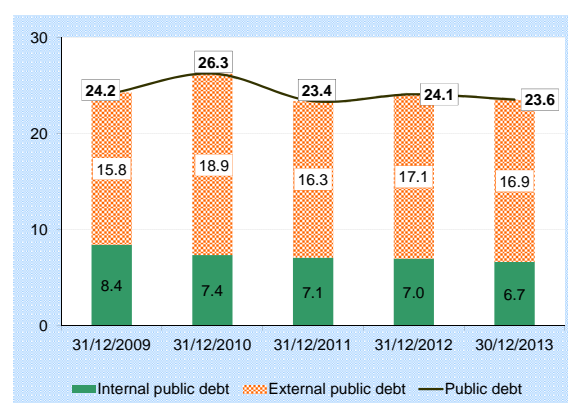
Public expenditure to GDP ratio was 38.7 percent in 2013 or by 1.5 percentage points less than in 2012. In 2013, the consolidated public budget execution resulted in a deficit of MDL 1764.6 million, down by 4.0 percent annually. This deficit to GDP was 1.8 percent or by 0.3 percentage points less than in 2012 (Chart 2.32).

At the end of 2013, the debt of the Republic of Moldova was MDL 23521.6 million, increasing by MDL 2336.8 million or by 11.0 percent compared to the beginning of the year. The debt consisted of the external state debt - 71.6 percent and

domestic state debt - 28.4 percent. In 2013, the balance of external debt denominated in foreign currency increased by USD 44.6 million, representing at the end of the reporting period the amount of USD 1290.2 million. External state debt has also increased as value expressed in MDL by 12.1 percent, totaling MDL 16845.8 million at the end of December 2013. Domestic state debt recorded the value of MDL 6675.8 million and exceeded the value recorded at the beginning of the year by MDL 516.9 million, equivalent to an increase of 8.4 percent. This debt component was composed of SS issued in the primary market in the amount of MDL 4426.1 million, converted SS - MDL 2063.4 million and SS for ensuring financial stability - MDL 186.3 million. In 2013, for the state debt service was used from the national budget the amount of MDL 492.6 million (by 26.1 percent less than in 2012), out of which 62.2 percent were used for domestic debt and 37.8 percent of resources for the external debt.

At the end of 2013, public debt as a share of GDP was 23.6 percent, by 0.5 percentage points lower than in 2012. This decrease was driven by decreased external debt to GDP by 0.2 percentage points, down to 16.9 percent, while the share of domestic debt to GDP by 0.3 percentage points, down to 6.7 percent (Chart 2.33).

Chart 2.33: State debt as a share in GDP (%)



Source: NBM

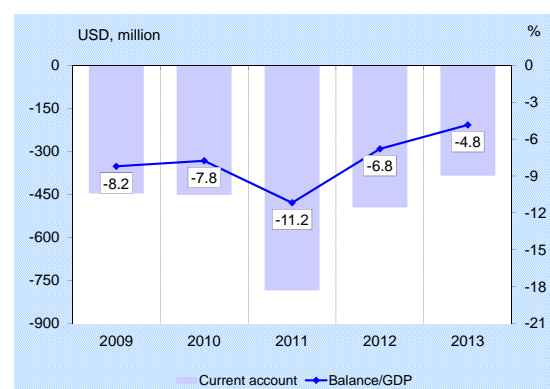
2.4 The evolution of the external sector of national economy

In 2013, the revival of international relations of the Republic of Moldova was mainly driven by national economic growth (real GDP increased by 8.9 percent) and by the positive economic climate of the main partner - countries.

The **current account** recorded a deficit of USD 384.67 million, decreasing by 22.3 percent compared to 2012. The reduction of the deficit was determined by higher growth rates of exports (10.9 percent) than that of imports (5.8 percent) and by increasing surplus of income and transfers that covered the external trade deficit in goods and services at a rate of 87.1 percent. The ratio of current account deficit to GDP was 4.8 percent, decreasing by 2.0 percentage points compared to 2012 (Table A.1, Chart 2.34).

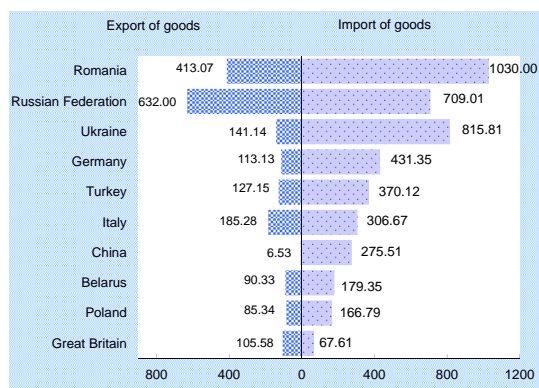
The volume of external trade in goods and services amounted to USD 9978.85 million, increasing by 7.6 percent compared to 2012. Coverage degree of imports of goods and services by exports was 54.0 percent, increasing by 2.2 percentage points.

Chart 2.34: Current account - main components (million, USD)



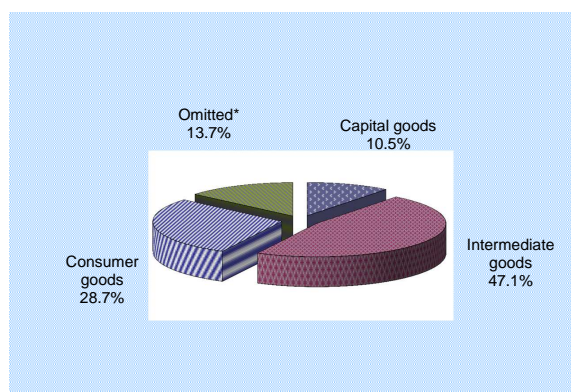
Source: NBM

Chart 2.35: Main trading partners of the Republic of Moldova in 2013 (million, USD)



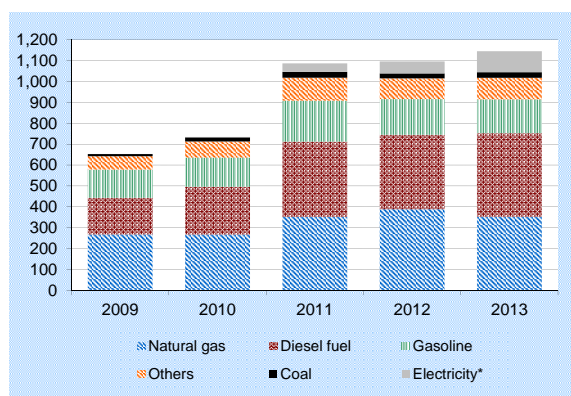
Source: calculated by NBM on NBS data (data of customs declarations, import selections (CIF prices) on country of delivery principle, excluding export and import by individuals)
Note: NBS presents imports on country of origin principle

Chart 2.36: Structure of imports of goods by Major Economic Categories in 2013



Source: NBM
*vehicles for passengers transport, fuel for these, other goods not specified elsewhere

Chart 2.37: Imports of energy products and electricity, annual dynamics, USD, million, FOB prices



Source: NBM
*import net

External trade deficit in goods and services amounted to USD 2981.13 million, its share in GDP accounting for 37.6 percent.

According to the NBS⁸, the main countries of destination of goods exported from the Republic of Moldova were the Russian Federation, Romania, Italy, Ukraine, Turkey, Germany, United Kingdom, Belarus, Poland and Switzerland (Chart 2.35).

Exports of goods amounted to USD 2399.03 million, increasing by 11.0 percent on the account of exports growth to EU countries, by 12.5 percent, and exports to other countries category - by 52.0 percent. It should be mentioned that exports to CIS countries decreased by 0.4 percent.

Within the structure of export of goods categories, the export of agri-food products holds a significant share - 41.2 percent of total exports. Their value increased by 12.4 percent due to the increase by 3.3 times of the *grain* exports and by 66.8 percent of *oilseeds and oily fruits* exports. *Alcoholic beverages* exports have increased by 7.6 percent. In should be mentioned that the alcoholic beverages exports to the Russian Federation decreased by 25.7 percent, following the restrictions imposed by Russian authorities on imports of alcoholic beverages from the Republic of Moldova.

Other categories with significant shares in total exports are: *clothing and articles of clothing* – USD 330.55 million, *machinery and equipment* – USD 316.50 million (of which *wires, cables and other electrical conductors* – USD 213.10 million), *base metals and articles thereof* – USD 123.84 million.

The main suppliers of goods for the Republic of Moldova were: Romania, Ukraine, the Russian Federation, Germany, Turkey, Italy, China, Belarus, Poland, Hungary.

According to the classification by Major Economic Categories (Chart 2.36), intermediate goods used in the manufacture of other goods hold a share of 47.1 percent of all imports (the share in total increasing by 0.2 percentage points compared to 2012); consumer goods – 28.7 percent (+0.1 percentage points), while capital goods – 10.5 percent (-0.6 percent).

Within the structure of imports (CIF prices), the *mineral products* continue to hold the major share – 22.9 percent,

⁸NBS data are based on customs data and do not include adjustments to external trade in goods operated by the Direction of balance of payments of the National Bank of Moldova, such as exports/imports by individuals, repairs of goods, goods purchased in ports by carriers, etc. Imports are evaluated in CIF prices, their distribution by country is based on the principle of the country of delivery. NBS presents imports based on the country of origin principle.

accounting for USD 1256.49 million, of which: *petroleum oils and bituminous minerals* – USD 620.42 million; *oil gas and other gaseous hydrocarbons* – USD 457.78 million. Imports of energy products and electricity amounted to USD 1145.73 million (FOB prices), increasing by 4.5 percent compared to 2012 (Chart 2.37). The physical volume of imported natural gas was 1031.16 million m³, by 5.9 percent less compared to 2012. Electricity was fully imported from Ukraine, the imported volume increased by 72.1 percent, up to 1455.77 million kw/h and the value increased by 75.8 percent to USD 100.28 million.

Other categories with significant shares in imports were: *machines and appliances* – 15.3 percent, *agri-food products* – 14.3 percent and *chemical products* – 11.4 percent.

The service balance recorded a decrease of deficit from USD 21.08 million in 2012 to USD 2.55 million in 2013 (Table A.2). International services registered a positive balance with the countries from the Rest of the world (USD 49.41 million), while with CIS countries, the services balance showed a deficit (-51.96 million USD).

The value of services provided to non-residents was USD 1028.69 million (increasing by 9.9 percent), of which 39.9 percent – transport services, 22.0 percent - travel services and 13.4 percent - communication services. The value of services provided by non-residents amounted to USD 1031.24 million (increasing by 7.7 percent), transport services accounting for 38.6 percent, travel services – 33.6 percent and communication services – 5.0 percent of total imports of services.

In 2013, transport services balance improved significantly, recording a surplus of USD 12.11 million. In total transport services, transport of goods services holds a share of 65.5 percent, 23.9 percent - passengers transport, the rest being auxiliary transport services. Deficit reduction of services balance was determined by the fact that exports exceeded imports for some international services: communication services – positive balance of USD 86.20 million; other business services – USD 24.66 million, informatics and information services – USD 22.45 million.

Travel services provided to non-residents amounted to USD 226.21 million, of which personal travel services held the major share of 71.9 percent, while those received from non-residents in the amount of USD 346.44 million were due to business trips (with a share of 50.9 percent).

Surplus **income** increased by 5.4 percent due to the income growth from residents working for non-resident owners (Table

A.3). Income inflows increased by 10.3 percent and outflows – by 29.9 percent.

Investment income resulted in net outflows of USD 191.03 million, by 31.6 percent higher compared to 2012, mainly due to the increase by 11.5 percent in dividends paid to foreign investors and by 24.4 percent in interests to be paid.

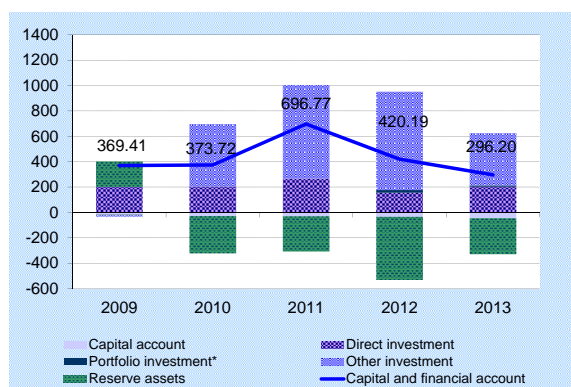
Current transfers recorded a surplus amounting to USD 1711.75 million, increasing by 6.3 percent compared to 2012 (Table A.4).

Personal transfers determined the surplus recorded in current transfers, inflows increasing by 11.3 percent.

The value of *labor income* with *personal transfers* received from abroad was valued to USD 1975.72 million, increasing by 10.6 percent compared 2012. The compensation for work and personal transfers received from abroad to GDP ratio constituted 24.9 percent, increasing by 0.4 percentage points compared to 2012.

The Republic of Moldova received grants and technical assistance from international organizations and foreign governments in the amount of USD 326.10 million, increasing by 11.6 percent compared to 2012.

Chart 2.38: Capital and financial account, main components (million, USD)



Source: NBM

* including financial derivatives

Capital and financial account recorded in 2013 net capital inflows amounting to USD 296.20 million, decreasing by 29.5 percent (Chart 2.38).

Capital account resulted in net outflows in value of USD 44.72 million (by 32.3 percent higher than in 2012), largely driven by transfers of persons leaving to establish permanent residence abroad.

The surplus of **financial account** amounted to USD 340.92 million, which reflects net financial inflows lower by 24.9 percent than in 2012 (Table A.5).

Foreign direct investment (FDI) recorded a net inflow of USD 203.08 million, increasing by 30.7 percent compared to 2012 (Table A.5).

Net inflow of *foreign direct investment in the national economy* constituted USD 231.31 million (Table A.6). Inflows amounted to USD 348.05 million, of which USD 183.86 million – in equity capital and USD 154.77 million represent intragroup loans. In 2013, there have been issued shares in the banking sector in the amount of USD 32.64 million, which largely

determined the increase by 2.7 times of inflows in the equity capital in this sector compared to 2012. Inflows in social capital of other sectors have decreased by 23.6 percent. Capital outflows related to investments of non-residents in the Republic of Moldova recorded a value of USD 116.74 million, mainly determined by the repayments according to the schedule of loans previously contracted from foreign investors in the amount of USD 75.99 million, which represents 65.1 percent of the total outflows, of which USD 70.32 million were actually paid, the remaining increasing the arrears. Loans to foreign direct investors were granted by resident economic agents in the amount of USD 18.36 million. Share capital withdrawals decreased by 65.9 percent compared to 2012.

Foreign direct investment stock as on December 31, 2013 reached the level of MDL 3668.27 million, increasing by 6.4 percent compared to the end of 2012 (Chart 2.39).

It is composed of *share capital contributions and reinvested earnings* – USD 2709.52 million (73.9 percent of the total) and *intra-group loans* (other capital) - USD 958.75 million (26.1 percent). Foreign direct investment stock in share capital of the banking sector was influenced by capital contributions from Italy, Germany and the withdrawal of investments by investors from the Netherlands (partially, the reclassification of a part as investment portfolio). The increase by 7.2 percent compared to the end of 2012 of the foreign direct investment stock in share capital of other sectors was determined by inflows from Turkey, the Russian Federation, the Netherlands and Italy. In the accumulated share capital, investors from EU countries continue to hold the major share – 52.2 percent, those from CIS countries – 11.4 percent and those of other countries – 36.4 percent. The main foreign investors are from Italy, the Russian Federation, Germany, the Netherlands, Romania, Cyprus and the USA.

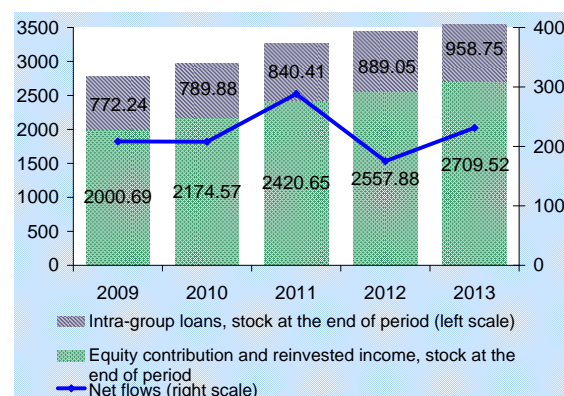
The flow of **direct investment abroad** of residents of the Republic of Moldova during 2013 recorded the net value of USD 28.25 million, representing an increase of 42.7 percent compared to 2012 (Table A.6).

Portfolio investment recorded net inflows of USD 9.71 million, determined by the purchase of bank shares by non-residents – USD 14.00 million.

Financial derivatives recorded net inflows of USD 0.11 million, determined by the currency swaps performed by licensed banks.

Other investment resulted in net financial inflows in the amount of USD 411.86 million, decreasing by 46.9 percent compared to 2012.

Chart 2.39: Foreign direct investment in the national economy* (million, USD)

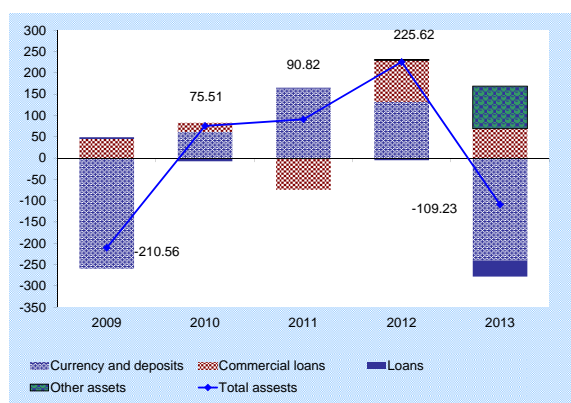


Source: NBM

*stock calculated according to the historical cost

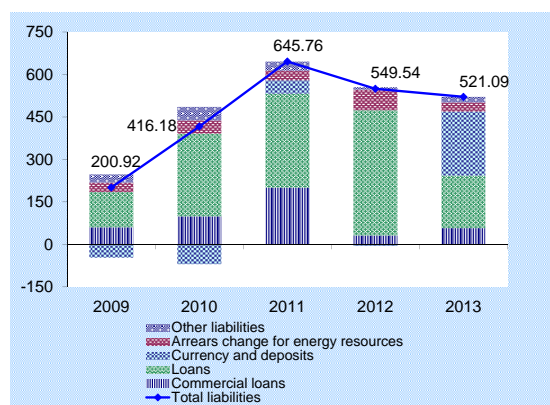
Foreign claims (assets) increased by USD 109.23 million (Chart 2.40) which was determined by the increase of the assets in form of *foreign currency and deposits* of the licensed banks (USD 445.99 million), while the assets in form of foreign currency and deposits of economic agents of other sectors decreased by USD 205.69 million. Net lending to non-residents by resident economic agents of other sectors have also contributed to this increase (USD 37.93 million). The decrease of assets in the form of *commercial loans* represents deliveries of prepaid imports and repatriation of export means evaluated on a net value basis constituted USD 69.26 million and the decrease of *other assets* in the amount of USD 99.60 million was due to the fact that the non-residents paid off their obligations from the assignment of debts in the banking sector. At the end of 2013, assets in the form of *currency and deposits* of licensed banks were largely in U.S. dollars, their share reaching 64.2 percent, while the share in Euro, which constituted 51.2 percent in 2012, decreased by 19.9 percentage points, down to 31.3 percent.

Chart 2.40: Other investments – financial assets, net flows (million, USD)



Source: NBM
Note: (-)increase

Chart 2.41: Other investments – financial liabilities, net flows (million, USD)



Source: NBM

Liabilities to non-residents (liabilities) increased in net value during 2013 by USD 521.09 million (Chart 2.41), determined primarily by the increase of loans of non-residents in domestic licensed banks (USD 226.12 million), by net withdrawals from loans in the amount of USD 185.74 million and the commercial loans granted by foreign partners to local economic agents (USD 57.61 million).

Financial flow of foreign *loans*, in breakdown by sectors, is detailed in Table A.8. The use of foreign loans by all sectors amounted to USD 769.38 million, decreasing by 27.3 percent compared to 2012, of which: on *long-term* – USD 690.97 million, *short-term* – USD 78.41 million.

In the reporting year, the National Bank of Moldova reimbursed USD 21.61 million of the IMF loans previously contracted. The government has used USD 100.76 million, mainly from the International Development Association (USD 31.75 million), the European Bank for Reconstruction and Development (USD 18.44 million), the European Investment Bank (USD 21.61 million), the Council of Europe Development Bank (USD 9.28 million) and from other creditors, making repayments on time in the amount of USD 64.06 million.

Net withdrawals of external loans performed by *banks and economic agents in other sectors* during 2013 constituted USD 668.62 million.

Licensed banks borrowed from abroad USD 269.76 million, of which long-term loans held a share of 81.2 percent. Reimbursements totaled USD 231.30 million, decreasing by 17.8 percent compared to 2012.

The economic agents from other sectors have used foreign loans in the amount of USD 398.86 million. The amount of USD 266.67 million was allocated for repayment as scheduled, of which USD 256.28 million were paid, the rest increasing the arrears.

Liabilities to non-residents in the form of *currency and deposits* of the licensed banks increased in 2013 by USD 226.12 million. At the end of 2013, the liabilities in foreign currency and deposits were mostly in U.S. dollar, with a share of 77.8 percent, increasing compared to the end of 2012 (by 22.9 percentage points). It should be mentioned that the share of liabilities in Euro has significantly decreased, down to 15.8 percent (compared to 30.4 percent at the end of 2012). Liabilities in Russian rubles decreased by 2.5 percent (compared to 6.9 percent in 2012).

Other liabilities (arrears and other outstanding commitments) increased in net value by USD 51.62 million, due to the increase in the arrears of economic agents from other sectors (especially for energy imports).

The stock of *official reserve assets* of the state as on December 31, 2013 reached the value of USD 2820.63 million, increasing by 12.2 percent compared to 2012. The increase was due to effective transactions in the amount of USD 283.84 million (evaluated at the average quarterly rate) and to other flows of revaluation (changes in price, exchange rate fluctuation of original currencies against the U.S. dollar) which amounted to USD 21.79 million.

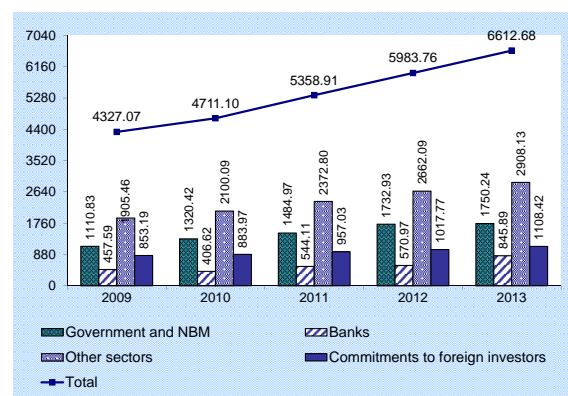
2.5 External debt of the Republic of Moldova

The gross external debt of the Republic of Moldova increased during 2013 by USD 628.92 million (10.5 percent) and constituted USD 6612.68 million as on December 31, 2013 (Table A.8, Chart 2.42).

External debt, in breakdown by institutional sectors, was as follows: other sectors – 44.0 percent (44.5 percent at the end of 2012), government sector – 19.7 percent (21.2 percent in 2012), commitments to foreign direct investors – 16.8 percent (17.0 percent in 2012), banking sector – 12.8 percent (9.5 percent in 2012), monetary authorities - 6.7 percent (7.8 percent in 2012).

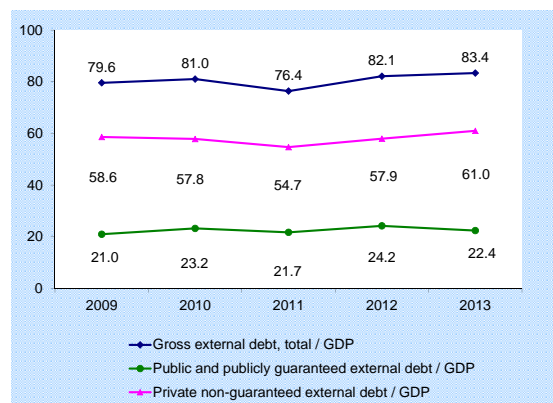
As on December 31, 2013 *long-term* commitments amounted to USD 4291.41 million (+6.0 percent) and were composed of

Chart 2.42: External debt, at the end of period, by sector (million, USD)



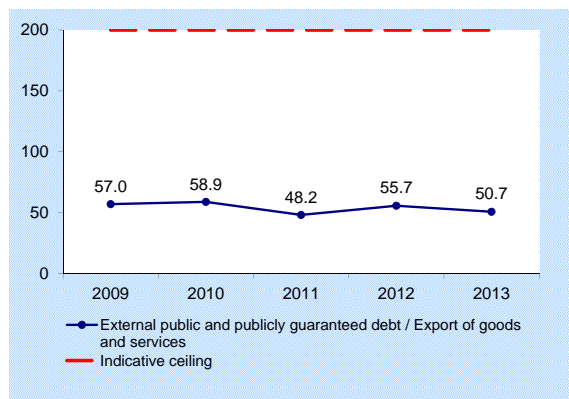
Source: NBM

Chart 2.43: Evolution of ratio of external debt to GDP (%)



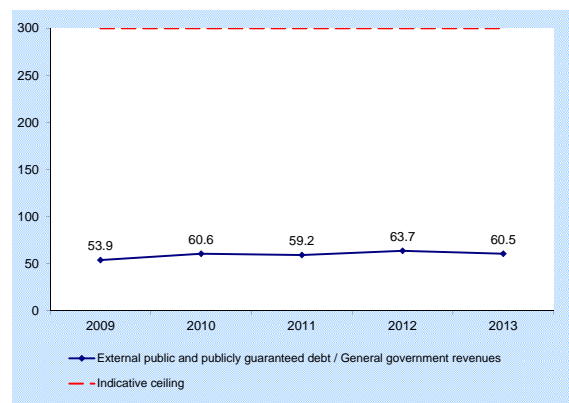
Source: NBM

Chart 2.44: The ratio of public and publicly guaranteed external debt to exports of goods and services (%)



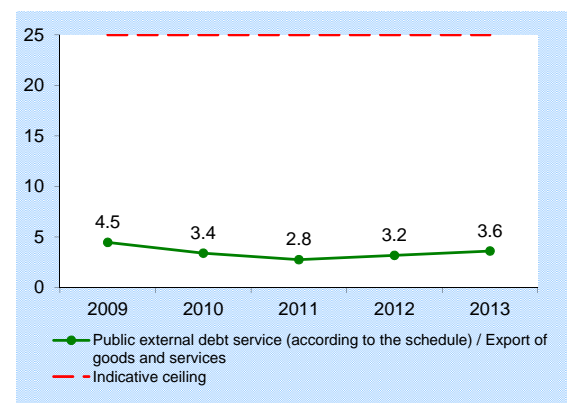
Source: NBM

Chart 2.45: The ratio of public and publicly guaranteed external debt to government revenues (%)



Source: NBM

Chart 2.46: The ratio of public external debt service* to exports of goods and services (%)



Source: NBM

* including private loans guaranteed and undertaken by the state

loans from foreign direct investors in a share of 23.1 percent, other long-term loans – 72.7 percent and SDR allocations – 4.2 percent.

Short-term external debt totaled USD 2321.27 million (+19.9 percent) and included commercial loans (consisting mostly of advances and unpaid bills on time) – 45.3 percent, historical debt for energy imports – 23.3 percent, arrears (outstanding commitments at maturity for foreign loans on long-term and short-term) – 10.5 percent, bank deposits of non-residents with the licensed banks of the Republic of Moldova – 16.0 percent, short-term loans – 4.6 percent and other liabilities – 0.3 percent.

At the end of 2013, *public external and publicly guaranteed debt* amounted to USD 1744.92 million (+0.7 percent) and that *non-guaranteed private debt* - USD 4837.76 million (+14.6 percent), (Table A.9).

At the end of 2013, *loans and SDR allocations* held the major share of 70.2 percent in total gross external debt, recording the value of USD 4642.33 million, of which public sector is 38.2 percent (NBM debt, direct state debt and private debt assumed by the State as a result of guarantees execution, the debt of public corporations and administrative-territorial units), and 61.8 percent are loans contracted by economic agents from private sector, including the intra-group lending (Table A.10).

The Republic of Moldova continued during 2013 to benefit from the support of international organizations, the Government and administrative-territorial units using USD 100.76 million for projects funded from external sources.

External state debt to *multilateral creditors* constituted 1107.08 million as on December 31, 2013, the major share in the balance of external debt is hold by IBRD and IDA – 51.4 percent, IMF – 29.6 percent; EIB – 7.8 percent, IFAD – 5.8 percent. The liabilities to bilateral creditors amounted to USD 179.54 million, of which 39.0 percent of the Russian Federation Government.

External debt sustainability indicators

During 2013, the ratio of gross external debt to GDP was 83.4 percent, increasing by 1.3 percentage points (Chart 2.43). Public and publicly guaranteed external debt did not exceed the threshold of 50.0 percent of GDP⁹, reaching the level of 22.4 percent.

⁹Indicative ceilings under CPIA score (Country Policy and Institutional Assessment) developed by the World Bank. In 2012, IDA resource allocation index of the Republic of Moldova constituted 3.8, so the ceilings were set at 50 percent for the ratio of debt to GDP, 200 percent for the ratio of debt to exports, 300 percent for the ratio of debt to budget revenues, 25 percent for the ratio of debt service to exports and 35 percent for the ratio of debt service to budget revenues.

Reported to exports of goods and services produced in 2013, public and publicly guaranteed external debt was 50.7 percent, decreasing by 5.0 percentage points compared to 2012 amid export growth (Chart 2.44).

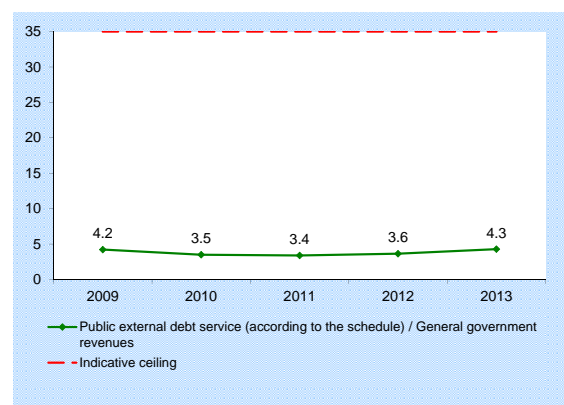
Public and publicly guaranteed external debt, increasing by 0.7 percent compared to the end of 2012, recorded decreases in relation to the national public budget incomes, from 63.7 percent in 2012 to 60.5 percent in 2013 (Chart 2.45).

Public liabilities service, according to agreements, is below 5.0 percent of the volume of goods and services exported in the last seven years (Chart 2.46).

Public external debt service pressure on public finances remained low (4.3 percent of national public budget incomes), registering during the year a slight increase of 0.7 percentage points (Chart 2.47).

Coverage degree of short-term external debt with official reserve assets of the state constituted 121.5 percent, decreasing by 8.4 percentage points compared to 2012 (Chart 2.48).

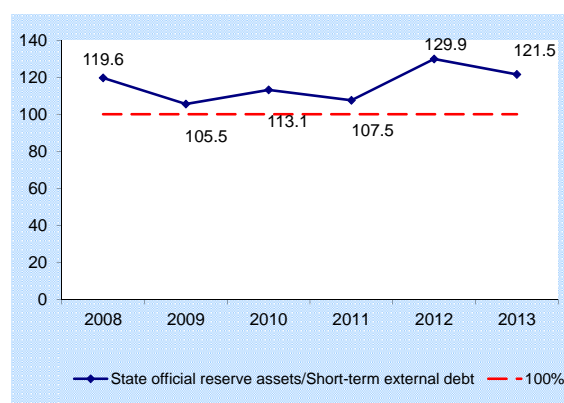
Chart 2.47: Public external debt service* pressure on public finances (%)



Source: NBM

*including private loans guaranteed and undertaken by the state

Chart 2.48: Coverage ratio of short-term external debt by official reserve assets (%)



Source: NBM

Chapter 3

The activity of the National Bank of Moldova in 2013

3.1 Achievements of the monetary and foreign exchange policy in 2013

In accordance with the *Law no.548-XIII of 21 July 1995 on the National Bank of Moldova*, the NBM is the central bank of the Republic of Moldova, the autonomous public legal entity that establishes and promotes the monetary and foreign exchange policy. During 2013, the NBM acted in accordance with the Monetary policy strategy on medium term, approved by the Council of Administration of the National Bank of Moldova on December 27, 2012.

According to this strategy, in order to ensure and maintain price stability, the NBM has set the continuing inflation target, measured by the consumer price index published monthly by the National Bureau of Statistics (NBS) of 5.0 percent with a possible deviation of ± 1.5 percentage points.

Quantifying the macroeconomic situation, trends and projections of macroeconomic indicators in medium term, inflation outlook in the short and medium term with possible uncertainties and challenges during the reporting period, as well as to anchor inflationary pressures, the National Bank of Moldova has promoted during 2013 a stimulating monetary policy under a reduced aggregate demand. As a result, the inflation during 2013 was within the range of ± 1.5 percentage points from the target of 5.0 percent.

Implementation and promotion of the monetary and foreign exchange policy during 2013

In order to achieve its fundamental objective, the NBM used open market operations – the main instrument of monetary

policy as well as auxiliary instruments – standing facilities, required reserves and foreign exchange interventions.

Money market conditions were determined by the NBM through the establishment by the Council of Administration of the main short-term interbank market indicator – the **base rate**.

During the three monetary policy meetings in January – March 2013, the Council of Administration of the National Bank of Moldova decided to maintain the monetary policy base rate at the level of 4.50 percent annually. However, the prevalence of disinflationary trends imposed the necessity to reduce the base rate in April, which was reduced by one percentage point, down to the level of 3.5 percent (Chart 3.1). In the follow-up meetings, the National Bank of Moldova decided to maintain the monetary policy interest rate until the end of 2013, the decisions being compatible with the prospect of the disinflation consolidation along with the gradual recovery of the economy.

After a period of relative stability in the first four months of the year, the interest rate related to state securities (SS) with a maturity of 91 days has resulted in a downward trend in early May, due to the reduction by the NBM of the monetary policy interest rate. The value recorded in July (3.53 percent) represented the minimum level recorded in 2013. However, the interest rate has returned to an upward trend in the next period, reaching a maximum yield in November (5.69 percent), being positioned on an upper level than the base rate.

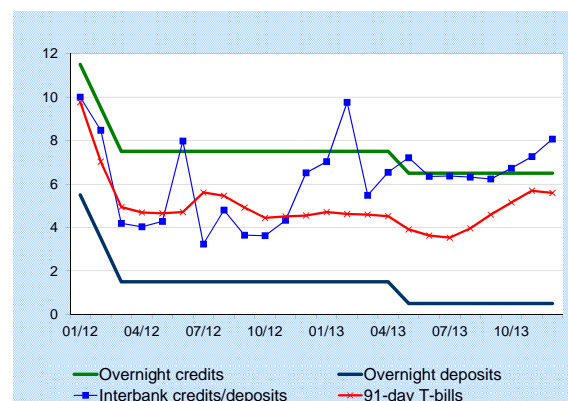
The average interest rate on interbank loans/deposits has evolved during 2013 within the range of 5.48 – 8.07 percent annually and had an unstable trend in the first half of year, recording fluctuations both upwardly and downwardly, remaining on an upward trend since August.

The interbank reference rate CHIBOR 2W had generally a stable trend throughout the year, fluctuating close to the upper limit of the corridor, formed by the interest rates on standing facilities offered by the central bank. Following this development, the CHIBOR 2W interest rate recorded at the end of period was slightly lower than that recorded on the last day of 2012, constituting 6.43 percent (Chart 3.2).

Monetary policy instruments

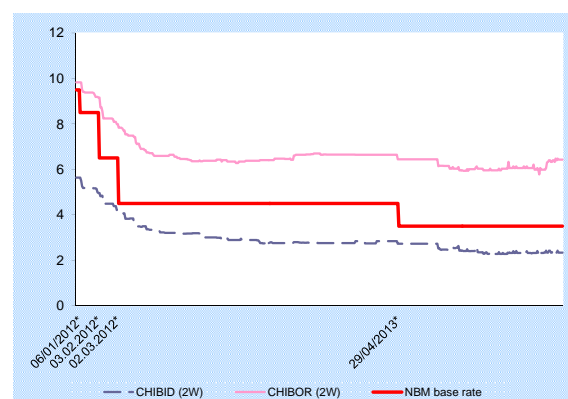
The adequacy of real broad monetary conditions in terms of monetary policy objective was achieved through interest rate policy, supported by appropriate management of liquidity by

Chart 3.1: Monthly evolution of interest rates corridor (%)



Source: NBM

Chart 3.2: Evolution of reference rates on interbank market and the NBM base rate (%)



Source: NBM

*date of changing of base rate

the central bank; where the open market operations, standing facilities and the mechanism of minimum required reserves continued to hold the main role.

The set of monetary policy instruments used by the NBM, appropriate to the operational framework in place, has proved to be further adequate to the requirements for the implementation of the inflation targeting regime.

Open market operations

The National Bank of Moldova conducted open market operations in accordance with its schedule for 2013, published on the NBM official website, announcing sterilization operations of liquidity surplus in the banking sector by selling NBM certificates (NBC) and liquidity injection operations through state securities Repo-buying operations.

NBM Certificates selling

As the net liquidity position of banks recorded only positive values in this period, the National Bank of Moldova acted generally as a net debtor of the banking system.

During the year, there have been conducted 105 auctions for selling NBM certificates, with the announcement of the maximum interest rate equivalent to the base rate, the NBM fully accepting all of the participants' offers.

As the interest rates required in the bids were equal to the maximum rate announced at auctions, the NBC were sold at an interest rate equivalent to the NBM base rate.

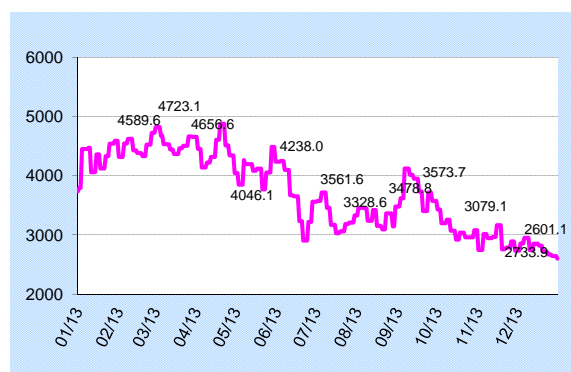
The average balance of sterilization operations recorded a lower level than in 2012 (MDL minus 36.2 million), constituting MDL 3713.8 million (Chart 3.3).

Over the year 2013, the average weighted rate of sterilization operations amounted to 3.89 percent annually, compared to 5.05 percent recorded in 2012, an effect obtained as a result of a lower base rate. This has influenced the cost incurred by the NBM to sterilize the excess liquidity as to lower it from MDL 193.2 million in 2012 to MDL 145.0 million in 2013.

State securities Repo-buying operations

According to the schedule published on the official website, the NBM has announced weekly state securities REPO-buying operations for 28 days at a fixed rate: the base rate plus a margin of 0.25 percentage points. These operations were conducted

Chart 3.3: Balance of sterilization operations (MDL, million) made by the NBM in 2013



Source: NBM

through auctions, the amount of liquidity provided was MDL 0.3 million, banks demand being fully awarded.

Lending activity

Under the influence of increased liquidity excess, the liquidity injection activity of the NBM in 2013 may be characterized as a secondary activity, the liquidity sterilization operations from the market continued to hold the main role.

Credit indebtedness of the licensed banks to the NBM amounted to MDL 194.4 million as on December 31, 2013, which was made up of loans granted to banks to protect the integrity of the banking system (MDL 186.3 million) and loans granted to lending the cooperative societies for housing construction (MDL 8.1 million) (Table A.11.)

Compared to the end of 2012, banks' credit indebtedness to the National Bank of Moldova has decreased by MDL 95.7 million, or by 33.0 percent. The decrease occurred as a result of the payment of due tranches of the loan granted to "Banca de Economii" S.A (MDL minus 93.1 million) to protect the integrity of the banking sector and the tranches of the loans granted for lending to cooperative societies for housing construction (MDL minus 2.6 million).

Standing facilities

In 2013, the standing facilities regime (overnight deposits and credits) set by the NBM, allowed banks to manage their liquidity efficiently and with more flexibility.

Interest rates on standing facilities continued to constitute a symmetrical corridor around the base rate of the National Bank of Moldova, the parameter of this corridor being maintained at the level of 6 percentage points during the entire year. Along with the base rate, the interest rates on standing facilities were reduced in 2013 by 1 percentage point, being established since April 29, 2013 at the level of 0.5 and 6.5 percent annually, respectively.

Overnight credit facility

Excess liquidity in the banking system in 2013 has influenced the banks' interest for the credit facility. Thus, a limited number of banks, which failed to adjust fully themselves to liquidity management procedure, have resorted to overnight credit facility only during the months of August and December.

The amount of overnight credits granted by the NBM in August amounted to MDL 10.0 million, indicating a daily average

balance of MDL 0.3 million. In December, banks have resorted to overnight credit facility in a total amount of MDL 1192.5 million, representing a daily average balance of MDL 58.5 million.

Overnight deposit facility

During 2013, all banks placed overnight deposits with the National Bank of Moldova, demonstrating a good ability for managing their liquidity.

Frequency of deposit facility resort was broadly similar as during all periods of maintaining the required reserves in MDL: the amounts placed overnight by banks with the NBM were at a relatively lower level at the beginning of the period and then increasing as the banks fulfilled their obligation to maintain the required reserves. Thus, the deposit facility was used by banks with preference at the end of required reserves maintenance periods.

The volume of overnight deposits with the NBM during the reporting year totaled MDL 58512.0 million, which indicates an average daily balance of MDL 229.1 million, decreasing (by MDL 0.6 million) compared to 2012. On December 31, 2013 the balance of overnight deposits placed by banks with the NBM was MDL 128.0 million.

Intraday credit

During 2013, a limited number of banks have resorted sporadically to the intraday credit, granted by the NBM under credit facilities to ensure the performance daily payments in due time.

Intraday credit was mainly used for the settlement of state securities and the NBM certificates in due time, which were purchased at auctions in the primary market.

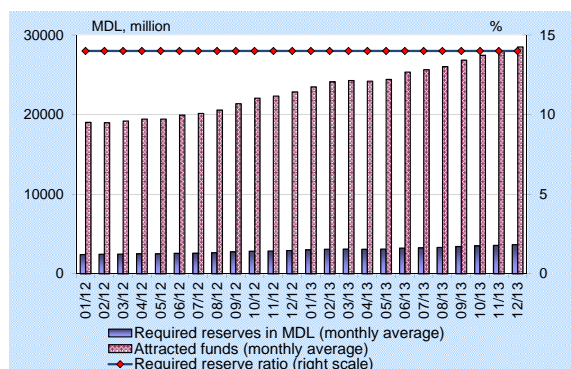
Intraday credit operation mechanism was an effective measure for managing the liquidity risks within the payment system.

Required reserves

The required reserves mechanism continued to exercise the monetary control function, which is closely correlated with that of liquidity management.

During 2013, the characteristics of the required reserves remained unchanged, the required reserves ratio constituting 14.0 percent of the base.

Chart 3.4: Evolution of attracted funds in MDL, required reserves in MDL and required reserves ratio in 2012-2013



Source: NBM

Following the increase of attracted funds subject to reservation, the amount of required reserves in MDL gradually increased during 2013, up to the value of MDL 3650.1 million in the last period of required reserves maintenance of the year, increasing by 25.1 percent versus the similar maintenance period in 2012 (Chart 3.4).

Required reserves in foreign currency, both in USD and EUR recorded a general upward trend during 2013. As of December 31, 2013, the amount of required reserves in foreign currency of the banks amounted to USD 71.4 million and EUR 98.1 million, being higher than those recorded on December 31, 2012 by 5.2 and 7.1 percent, respectively (Chart 3.5).

Under Article 17 of the Law no.578-XIII of 21 July 1995 on the National Bank of Moldova, in order to reduce the cost of bank assets, the National Bank of Moldova pays to banks an interest for the reserves exceeding 5.0 percent of the attracted funds, which amounted to MDL 24.6 million. Compared to 2012, due to the reduction in the interest rate of overnight deposit, which applies for compensation of required reserves in MDL, the expenses incurred by the NBM have been reduced by about 1.5 times.

Intervention on domestic foreign exchange market

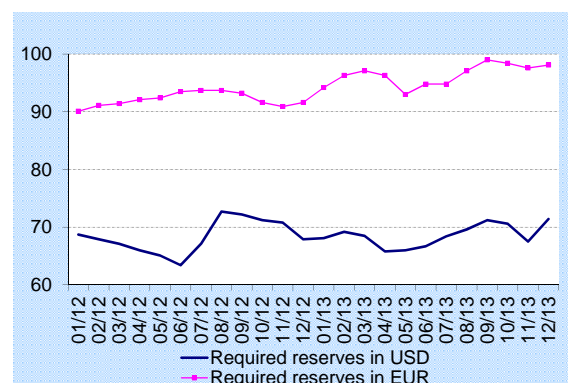
In 2013, the National Bank of Moldova purchased foreign currency in the net amount of USD 304.6 million. At the same time, during the reporting year, there were performed swap transactions totaling USD 246.1 million, including USD 182.0 million and EUR 48.0 million (Chart 3.6).

At the same time, the maximum balance of swap transactions during 2013 was recorded at the end of September, representing USD 24.0 million and EUR 8.0 million. It should be mentioned that in 2013 the majority of swap transactions performed are extensions of swap transactions previously concluded for a period of 14 days.

Communication and transparency of monetary policy

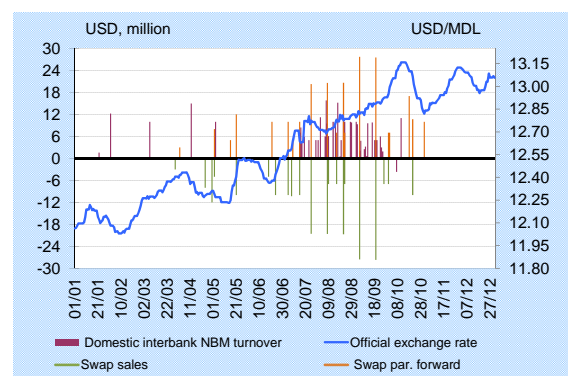
Communication activity of the National Bank of Moldova during 2013 continued to be targeted to the objective of the central bank to ensure and maintain price stability in the context of direct inflation targeting regime. In these circumstances, the NBM increased significantly the frequency and intensity of the communication with different target groups in order to

Chart 3.5: Evolution of required reserves in USD and EUR during 2012-2013



Source: NBM

Chart 3.6: Evolution of the official exchange rate of MDL/USD and the volume of daily transactions of the NBM in 2013



Source: NBM

ensure correct information on its decisions and activities, thus contributing to the effectiveness and credibility of the monetary policy.

In order to ensure the transparency and timely information to the public about the monetary policy decisions, the NBM has published monthly press releases, on the day of the meetings of the Council of Administration of the NBM on monetary policy, which were related to the base rate and required reserves, as well as to the factors and premises that were the basis of the respective decisions.

Communication process has been strengthened by publishing press releases on inflation, which contained information about inflation and its components, inflation forecasts and the challenges that might affect the inflationary process in the context of maintaining price stability.

In order to assess the effectiveness of monetary policy during 2013, the NBM published quarterly an Inflation Report, which contained an analysis of the macroeconomic situation, an inflation medium-term forecast (2 years), main macroeconomic indicators and the risk analysis for achieving the quantitative target.

In the second half of 2013, as to comply with the Monetary policy strategy on medium-term, to the Inflation Report has been added a new chapter, which contains a summary of the minutes of the Council of Administration meetings on monetary policy and reflects the votes of the Council of Administration members. Thus, the summaries will be published six months after their adoption, so the Inflation Report no.3 of August 2013 contains the summary of the Council of Administration meeting of January 31, 2013.

In order to ensure a greater understanding of the value of projected inflation, the NBM has organized on the day of publication of the inflation reports, press conferences with the participation of the Governor of the NBM and the media, where the external economic situation and the domestic economy development had been explained, which substantiated the medium-term forecast.

Seeking to ensure the transparency of the monetary policy, the NBM has increased the frequency and intensity of the messages adapted to different target groups and communication channels given the role of the monetary authority in financial education.

Thus, the NBM organized an interactive session in 2013, hosted by the Finance and Banking College of Chisinau, with the

participation of students of III and IV years of study and the professors of the college. The session consisted of two interactive conferences that took place on October 3 and October 7, 2013 on the theme “Activity of the National Bank of Moldova” and “Monetary policy of the National Bank of Moldova”, respectively.

The conference of October 3, 2013 aimed to improve the knowledge and understanding of central bank activity, its mission, vision and values, as well as the impact of monetary policy decisions of the National Bank of Moldova on the national economy. The conference on “Monetary policy of the National Bank of Moldova” on October 7, 2013 focused on the monetary policy promoted by the NBM in light of the fundamental objective of the NBM to ensure and maintain price stability, monetary policy regimes, indicating their advantages and disadvantages, and monetary policy instruments, specifying their effectiveness according to market developments.

At the same time, the discussions were focused on inflation dynamics, depending on the corridor of the inflation target and the measures taken by the NBM to achieve the fundamental objective, as well as defining aspects underlying the decision-making process within the NBM with regard to the monetary policy promoted, informing the public about the history, concerns and challenges faced by the NBM.

The official website of the NBM is among the high efficient instruments used in communication by the NBM, through which it disseminates in real time a wide range of information and messages, thus ensuring greater transparency of the institution's activity. In 2013, the official website of the NBM extended the information area and improved their presentation form.

To implement the provisions of the *Law no.239-XVI of 13 November 2008 on the transparency in decision-making process* and the *Regulation on the transparency in the development and decision-making process of the National Bank of Moldova*, the NBM continued in 2013 to ensure the participation of central and local public authorities, financial institutions and citizens in the decision-making process through the category created on the official website of the NBM – “Public consultations”.

The National Bank of Moldova continued in 2013 to strengthen the communication activity by informing directly the public and by replying to written correspondence addressed to the NBM. Information requests of public interest and complaints received were resolved promptly and transparently and targeted mainly the aspects of the base rate evolution during determined periods and the similarity of the phrase base rate and

refinancing rate. The NBM will continue to grant a major importance to communication, acknowledging that achieving the communication objectives will increase the efficiency of the institution's activity and its positive perception by the society.

Research, analysis and forecasting

In 2013, the National Bank of Moldova continued to strengthen and develop the framework for *analysis, forecasting and research* as to underlie the monetary policy decisions. The activities have targeted primarily themes closely related to the fundamental objective of the NBM. In this regard, the Monetary Policy and Research Department constituted traditionally the main subdivision generating analysis, forecasts and researches related to the monetary policy.

In 2013, in order to quantify the medium-term inflationary trends in the Republic of Moldova, the NBM conducted a study on *alternative measures of core inflation*. The study addressed the problem of transitory effects on price increases and identification opportunities of inflation caused by monetary factors. In this sense, to obtain an indicator that would measure real inflation trends on medium-term, various measures of core inflation were considered and their main advantages and disadvantages were studied. Thus, although they are often used by central banks implementing the inflation targeting regime, the measures of core inflation calculated by the method of excluding certain predetermined components, which are determined by external factors, by the decisions of central authorities or which had a very volatile behavior in the past, present some disadvantages and may provide sometimes an incomplete vision on inflationary pressures caused by monetary factors. An alternative for the method of exclusion are statistical methods for determination of core inflation, such as the method of *truncated average* and *weighted median*. According to these measures, the excluded components vary in each period and the exclusion criteria is determined by some statistical properties, namely how far is that component of central tendency in a certain period and does not contain any economic substrate. Therefore, the methodology of calculation of core inflation using the truncated average and weighted median for prices in the Republic of Moldova has been developed within the study. These alternative measures present useful information on inflationary trends in the economy that could be omitted by traditional measures of core inflation and deserve to be considered as an additional source of information in decision-making process as to guide the price increase on medium-term in the target corridor.

At the same time, researches on modification degree of *inflation persistence* over time have been conducted in 2013. The degree of inflation persistence is of special importance for central banks because the intensity and the time of monetary policy measures, to reduce inflation to the target in case of existing or anticipated deviations, depends on this inflation particularity. The study estimated the degree of inflation by expressing it as a univariate autoregressive process and by studying the inflation particularity to return to its long-term equilibrium average. Both procedures revealed a higher degree of persistence of core inflation than overall inflation. At the same time, the way the persistence of inflation has changed in the last four years has been determined, since it has shown a lower average value compared to the period of 2000-2008. Thus, it can be observed an increase in the persistence of inflation in recent years.

In order to strengthen the capacity of analysis and forecasting of the economic activity during 2013, the *economic sentiment index methodology* and the *confidence indicators* have been developed within the NBM. The economic sentiment index and the confidence indicators show essential information for economic monitoring, short-term forecasting and economic research. In addition, they are widely used in detecting turning points in the economic cycle, representing complementary instruments to official statistics, which is often available only after long periods of delay. Index of economic sentiment and confidence indicators are calculated based on surveys data of businesses and consumers.

During the reporting year, terms of *second round effects* and *secondary effects* have been studied in the context of price developments. These terms are often easily confused even by economic experts, although denote different economic phenomena.

Secondary effects are defined as adverse effects of economic actions that develop more slowly, while the event is consumed. Another approach of secondary effects term, in price development context, the secondary effects have an impact on economic activity as a result of price increase. According to some authors, the secondary effects can be divided in two categories:

Indirect effects are the changes in sales, income, employment etc. occurred within an economic sector or sectors related to the good or service whose price was subject to increase.

Induced effects are determined by increased sales in the sector of the economy, generating the increase of household spending of the income earned in the economic sector and related sectors.

The second round effects are considered effects due to the increase in wages occurred as a result of the sharp increase in raw material prices. This will lead to high inflation, so that monetary authorities will reassess the interest rates upwardly as to maintain price stability. Second round effect in the context of price development is the phenomenon that occurs due to the inflation of the past and creates inflationary waves in the economy. In the context of the second round effect study, the *inflationary spiral* has a particular role, which is defined as the effect of a shock on a macroeconomic variable, which, in correlation and interdependence with the level of prices, are stimulating each other.

Remittances modeling in the Republic of Moldova represented another tentative of study for the reporting period. In the process of the Republic of Moldova's transition to market economy, the remittances have become a component and necessary part in the evolution of the Moldovan economy. Their importance, both for national economy and for each of the recipients of remittances, has gradually increased, now being a reliable source of support of the domestic consumption and investments. In turn, higher dependence of supply versus the volume of remitted money contributed to a deeper exposure of national economy to the changing effects of the world economy, of the economies where Moldovan migrants are working. The evolution of the euro area and the Russian Federation economies, in particular the labor market and economic activity, are factors which cannot be neglected in the analysis of the interdependence between the evolution of internal and external macroeconomic indicators. Remittances are an important part in the evolution of the Republic of Moldova economy and have a strong effect on the national economy, influencing the major domestic macroeconomic indicators like consumption and investments. Knowing the factors that determine the evolution of remittances, especially external factors, allow their analysis and forecasting, thus being a necessary element in the development of macroeconomic projects and policies. Following the study of the factors and the combination that demonstrates best evolution trend of the remittances volume of the Republic of Moldova, it can be concluded that it depends significantly on the development of the economies where the migrants are working, represented by the growth rate of the GDP of Italy and the Russian Federation.

The *transmission of base rate to retail market rates* was another subject of study. The proposed main aim was to identify the main features of the monetary transmission mechanism, namely the transmission of monetary policy impulses on interest rates on loans and deposits and the real time for reaction. Practical and theoretical analysis shows that the creation of traditional

channels for monetary impulses transmission is at an incipient phase. The continued progress of transmission mechanism of the interest rate channel diminishes the importance of the exchange rate channel. Currently, the interest rate channel, as part of the transmission mechanism of monetary policy, acts more through nominal interest rates and real levels are less relevant.

During the reporting year, there have been conducted researches on *potential GDP growth* and its estimation by alternative methods. The main aim was to estimate the potential GDP growth by applying several methods – *linear trend method, Hodrick and Prescott Filter method, Single Bandpass Filter method, multivariate Kalman filter method and the estimation method by means of the production function*. However, estimates made by different methods with different specifications provide similar conclusions on the dynamics and values of potential GDP growth for the reporting period. The average growth rate of potential GDP from the first quarter of 2002 to the third quarter of 2012 was within the range of 4.1-4.5 percent. In this context, it can be affirmed that all the methods used to estimate the unobservable values of potential GDP produce similar results, except the estimation methods through the production function, which illustrates a permanent acceleration in the growth rate of potential GDP.

In 2013, there were initiated several research projects that are still ongoing. One of them deals with the *optimal level of inflation* for the Republic of Moldova. The subject is treated from two points of view, theoretically and empirically. Another two projects aimed to estimate the *Balassa-Samuleson effect* and to determine the *equilibrium of real effective exchange rate*.

At the same time, in order to strengthen the degree of accuracy of econometric models and techniques used in the short-term forecasting of economic activity and inflation, the *re-estimation* of links between internal and external macroeconomic indicators, taking into account the recent data was continued in 2013.

In this context, the factors that influence the evolution of *fuel and earth coal prices* in the Republic of Moldova have been analyzed in 2013 in order to optimize the process of short-term inflation forecasting. There were presented some econometric models that allow to quantify these factors and the short-term forecasting of fuel and earth coal prices. As a result, the use of these models has contributed to the quality improvement of the analysis and forecasts related to these sub-components of the CPI.

In order to understand better the openness degree of the economy and dependence on external products, there was conducted a study that addressed this issue during 2013. First, an analysis of imports by category of goods of the Republic of Moldova has been conducted. The analysis identified the main categories of products imported, identifying subsequently the factors influencing the demand for these products. Based on the identified factors, there were estimated some econometric models, which were used in forecasting the imports in short-term. At the same time, a combined forecasting was used to diminish the deviations related to the forecast of imports in short-term, based on forecasts that were made through several models.

During the reporting period, the *database* was still subject to a restructuring in order to optimize both current activities and those of research. Although the consolidation and development of databases are constantly ongoing, the results in this direction are visible and contribute positively to streamline the analyzes, forecasts and researches. The possibilities they provide are, however, constrained by the fact that they are managed only by a single subdivision of the institution (Monetary Policy and Research Department), the resources available for this purpose are limited. In the future, this gap will be eliminated by implementing solutions at the level of the bank.

In the reporting year, the NBM experts participated at various *scientific events* such as seminars, conferences etc. At the same time, employees involved in the process of analysis and forecasting related to monetary policy published articles, studies and other researches in specialized magazines.

3.2 The results of monetary and exchange rate policy during 2013

Among the many accomplishments during the past few years, it should be mentioned the gradual reduction in the annual rate of inflation, which recorded for the fourth consecutive year a level of a single digit, falling within the range of ± 1.5 percentage points from the target of 5.0 percent during 23 months.

The conduct of monetary policy during 2013 was affected by the complexity of the balance of risks with the prevalence of disinflationary ones. The consolidation of disinflation climate was based on reduction of economic growth expectations in major trading partners, the reduction in international food

prices amid favorable meteorological conditions for harvest in 2013 and the significant decrease in oil prices.

Thus, the NBM continued to promote a monetary policy aimed at preventing the intensification of disinflationary pressures and avoiding the risk of recording an inflation rate below the lower limit of the range of the target of 5.0 percent, by reducing the interest rate of monetary policy in April by 1.0 percentage points, down to the level of 3.5 percent (last change being applied on March 2, 2012), respectively, modifying the interest rate on overnight loans from 7.5 percent to 6.5 percent and the interest rate on overnight deposits from 1.5 percent to 0.5 percent. Within the sessions that followed, the NBM decided to maintain monetary policy interest rate until the end of 2013, in perspective of strengthening disinflationary risks along with the gradual recovery of the economy.

The decision taken in April aimed at adjusting the domestic economic environment to the instability and uncertainty of the external macroeconomic environment. Another objective was to stabilize the domestic demand, which would directly create premises to moderate the disinflationary pressures within their range and to ensure a consistent set of real monetary conditions to strengthen the convergence of inflation rate to the target in medium term and further support the lending process, thus boosting the domestic demand.

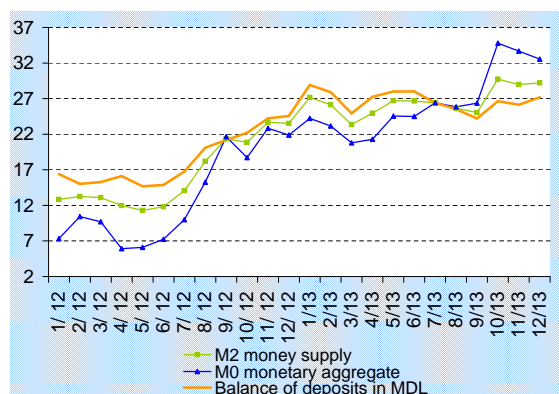
In order to ensure an appropriate set of monetary conditions aimed at achieving convergence of inflation rate to the target in the medium term, in the context of boosting domestic demand through the support of real economy lending, the National Bank of Moldova maintained the minimum reserves requirements rates from funds attracted in MDL and foreign currency at the level of 14.0 percent throughout 2013. This decision aimed at anchoring inflation expectations through strengthening prospects of maintaining inflation rate within the range of ± 1.5 percentage points from the target of 5.0 percent.

The firm management of liquidities in the banking system through sterilization operations aimed at ensuring proper functioning of the money market, maintaining a balance between price stability and recovery of the national economy.

Dynamics of monetary indicators

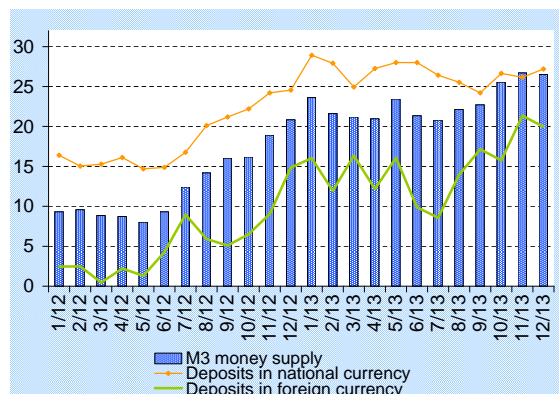
During 2013, the monetary indicators remained at an upward trend. It should be mentioned that in January – September 2013, the growth rate of money supply averaged 22.0 percent

Chart 3.7: Evolution of M2 money supply components (increase versus the same month of the previous year, %)



Source: NBM

Chart 3.8: Dynamics of main components of M3 money supply (increase versus the same month of the previous year, %)



Source: NBM

in annual terms, while in October-December the growth was on average 26.2 percent. The behavior of all monetary aggregates was similar during 2013.

Money supply

In 2013, the *money supply* ($M2$)¹⁰ increased by 29.2 percent compared to the increase of 23.5 percent recorded in 2012 (Chart 3.7). The M2 dynamics increased throughout the year, the growth rates increasing particularly in the period of October-December, recording the highest growth of 29.7 percent in October 2013. The money supply M2 components recorded positive developments, deposits in national currency increased by 27.2 percent compared to 2012 and money in circulation – by 32.5 percent.

Thus, the deposits in national currency in 2013 recorded an increase lower than that of M0 by 5.3 percentage points, but deposits in national currency contributed by MDL 5893.0 million to the increase of the aggregate M2, while money in circulation – by MDL 4309.7 million.

Deposits evolution in MDL recorded a uniform growth, with more accelerated rates in the first half of the year, recording a maximum level of 28.9 percent in January 2013. Money in circulation developed positively throughout the year, its growth rate increasing in October-December 2013, recording in October the highest growth of 34.8 percent.

At the same time, the *money supply* ($M3$)¹¹ recorded an increase of 26.5 percent, the growth rate being higher than that recorded in 2012, when it constituted 20.8 percent (Chart 3.8).

The depreciation of MDL against the single European currency and the U.S. dollar during 2013 contributed to an increase by 20.0 percent of deposits in foreign currency (recalculated in MDL), while their growth in USD for the same period was 10.8 percent.

The share of term deposits in total deposits in MDL was 65.3 percent at the end of December 2013, decreasing by 0.7 percentage points versus the end of December 2012.

The total volume of term deposits attracted by banks in national currency during 2013 decreased by MDL 2098.5 million, or by 9.5 percent. Their reduction was due to the decrease compared

¹⁰Money supply M2 includes the currency in circulation (M0), deposits in MDL and money market instruments.

¹¹Money supply M3 includes money supply M2 and deposits in foreign currency of residents expressed in MDL.

to 2012 of the volume of term deposits attracted from legal entities by MDL 2723.6 million (28.4 percent). At the same time, the volume of term deposits attracted from individuals increased by MDL 625.2 million (5.0 percent).

During 2013, the volume of term deposits in foreign currency recorded a downward trend. Expressed in USD, the deposits in foreign currency decreased by USD 267.6 million (19.3 percent), expressed in MDL these decreased by 2705.3 million (16.1 percent) as a result of lower volume of new deposits attracted from individuals by MDL 1380.1 million (11.7 percent) and the volume of those attracted from legal entities – by MDL 1325.2 million (26.5 percent).

The volume of sight deposits in national currency have also recorded a negative trend, decreasing by MDL 38027.5 million, or by 28.6 percent during the reporting year as a result of the decrease of the volume of sight deposits in MDL attracted both from legal entities (33.2 percent) and from individuals (8.5 percent).

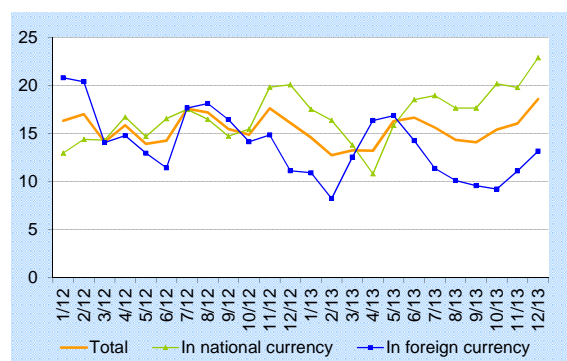
A similar trend was observed at sight deposits in foreign currency recalculated in MDL. During 2013, their volume decreased by MDL 50285.8 million, or by 74.4 percent, due to the decrease in the volume of sight deposits in foreign currency attracted from legal entities by 77.8 percent and the volume of those attracted from individuals – by 51.5 percent compared to 2012.

Credit market

In 2013, the *total balance of credits granted to economy* increased by 18.6 percent compared to 2012, a higher growth than in 2012 (16.1 percent). This increase was mainly determined by the evolution of the component in national currency (22.6 percent). At the same time, the growth rate of the component in foreign currency was more temperate (13.2 percent). The dynamics of the balance of granted credits was influenced by various factors, including favorable conditions of new credits with interest rates steadily falling for both the private sector and the population. It should be mentioned that the lower costs of new granted loans have also boosted the demand for credits during the reporting period (Chart 3.9).

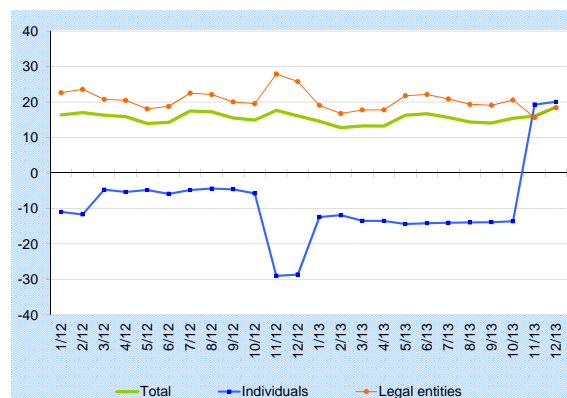
At the end of 2013, the balance of credits granted to legal entities registered a positive growth rate of 18.4 percent, based on more pronounced increase of the component in national currency (23.1 percent), the component in foreign currency recording a more modest rate (13.2 percent). The dynamics of the balance of credits granted to households (Chart 3.10)

Chart 3.9: Evolution of credits in economy (increase versus the same month of the previous year, %)



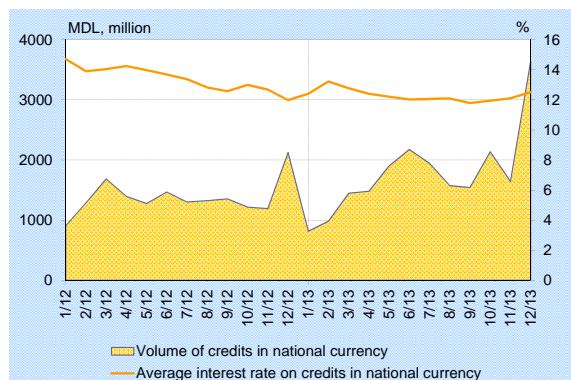
Source: NBM

Chart 3.10: Balance of credits granted to the economy (increase versus the same month of the previous year, %)



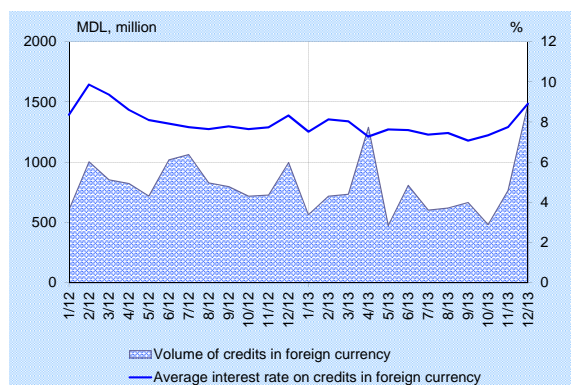
Source: NBM

Chart 3.11: Dynamics of the volume and average rates of new loans granted in the national currency



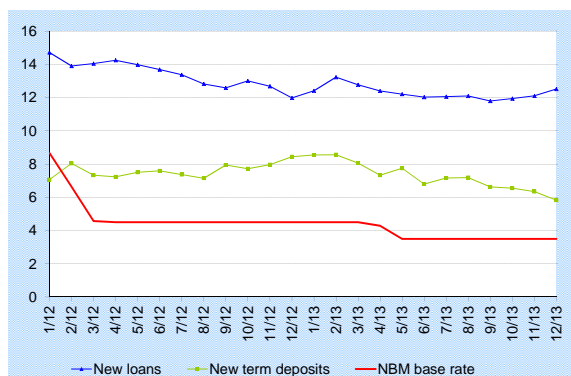
Source: NBM

Chart 3.12: Dynamics of the volume and average rates of new loans granted in the foreign currency



Source: NBM

Chart 3.13: Average interest rates in MDL (%)



Source: NBM

recorded an increase of 20.0 percent at the end of 2013, as the result of the base effect, due to changes in calculation methodology at the end of 2012¹².

Evolution of new granted loans

In 2013, the development of new loans registered a positive trend, representing MDL 30504.5 million, increasing by 14.3 percent. Loan demand was positively influenced by interest rates, which have been steadily declining during 2013, by more pronounced economic activity and a more favorable agricultural situation. At the same time, the positive development was characteristic only for credits granted in national currency, whose volume increased by 28.8 percent compared to 2012, recording MDL 21300.8 million, the volume of credits in foreign currency decreased by 9.3 percent, reaching the level of MDL 9203.7 million (Chart 3.11).

In 2013, the volume of loans in national currency granted to legal entities increased by 30.4 percent, up to MDL 16986.1 million, constituting 79.7 percent of total loans in MDL. Loans to households, although have a low share in total loans, recorded a pronounced increase by 22.7 percent compared to 2012, up to the level of MDL 4314.7 million.

The loans in foreign currency granted to legal entities recorded a decrease by 9.9 percent, down to the level of MDL 8936.0 million (Chart 3.12). The legal entities held a share of 97.1 percent of total loans, the dynamics of which has been influenced by the financing of foreign trade operations. The individuals held only 2.9 percent of the total loans volume granted in foreign currency, while it recorded a positive annual growth rate of 13.1 percent, up to the level of MDL 267.7 million.

Interest rates and monetary policy transmission mechanism

With the base rate adjustment by the Council of Administration of the NBM, the interest rates applied by banks in dealing with customers have recorded a stable downward trend for both the loans and deposits, recording a continuous decrease since 2010 (Chart 3.13).

The average rate on new loans granted in national currency in 2013 recorded the level of 12.26 percent, by 1.08 percentage points lower than the level recorded in 2012. This trend was

¹²According to the Instruction on the way of filling by licensed banks of the Report on monetary statistics, which was modified and supplemented by the Resolution of the Council of Administration of the NBM no.243 on October 23, 2012, in force since November 1, 2012.

consistent in both categories of customers. Thus, the rate on loans granted to individuals recorded a level of 13.62 percent, decreasing by 1.67 percentage points, while the rate on loans granted to legal entities recorded the level of 11.91 percent, decreasing by 0.90 percentage points. At the same time, the interest rates on loans granted in national currency reached in December 2013 the level of 12.51 percent and the interest rates on loans granted in foreign currency constituted 8.91 percent.

The average rate of the yields for bank term placements in national currency decreased by 0.37 percentage points, reaching the level of 7.23 percent (Chart 3.14). The interest rate on deposits of legal entities decreased by 0.40 percentage points, down to the level of 4.55 percent, while the interest rate of deposits of individuals decreased by 0.99 percentage points, down to the level of 8.62 percent.

During 2013, the average interest rates on deposits in national currency decreased from 8.55 percent in January down to the historic low level of 5.82 percent recorded in December 2013. In the reporting period, the interest rates on deposits in foreign currency had a more stable evolution, falling within the corridor of 4.2 - 4.8 percent and reaching the level of 4.51 percent in December 2013.

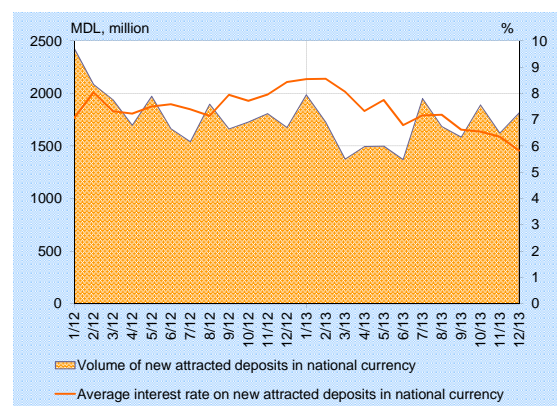
Similar to the evolution of deposits, the interest rate on new granted loans recorded a downward trend throughout 2013. Thus, the maximum interest rate on loans in national currency amounted to 13.23 percent in February 2013 and reached in September the historic low value of 11.79 percent. The interest rates on new loans in foreign currency had a similar evolution, with some moderate deviations. Thus, in the first nine months of 2013, the rates decreased to the minimum level of 7.07 percent in September, the trend reversing in the last quarter with a maximum rate of 8.91 percent in December 2013.

The average annual interest rate on term deposits in foreign currency increased by 0.12 percentage points compared to 2012, representing 4.41 percent in 2013 (Chart 3.15). This upward trend was characteristic for all customer segments, the interest rate for legal entities was 3.94 percent, up by 0.11 percentage points, and the interest rate for individuals was 4.58 percent, up by 0.09 percentage points compared to 2012.

The average annual interest rate on new loans in foreign currency amounted to 7.77 percent in 2013, compared to 8.28 percent recorded in 2012, evolution due to both customer segments.

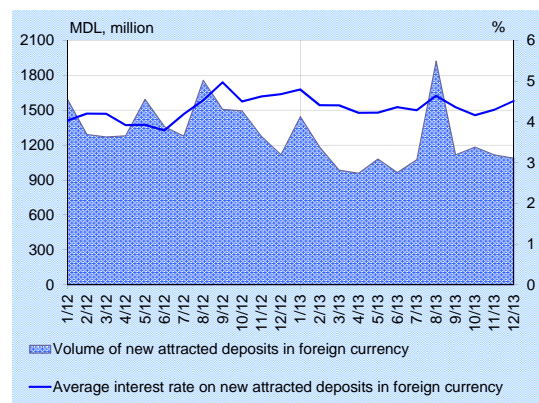
In 2013, the favorable conditions, excessive liquidity and credit risk mitigation allowed banks to contribute to banking margin decrease.

Chart 3.14: Dynamics of the volume and average rates of term deposits in the national currency



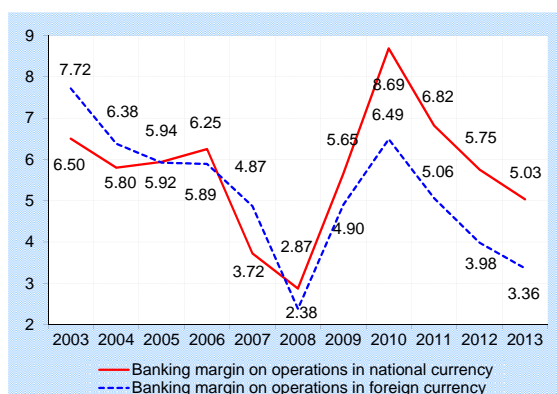
Source: NBM

Chart 3.15: Dynamics of the volume and average rates of term deposits in the foreign currency



Source: NBM

Chart 3.16: Evolution of banking margin on operation in national currency and foreign currency (p.p.)



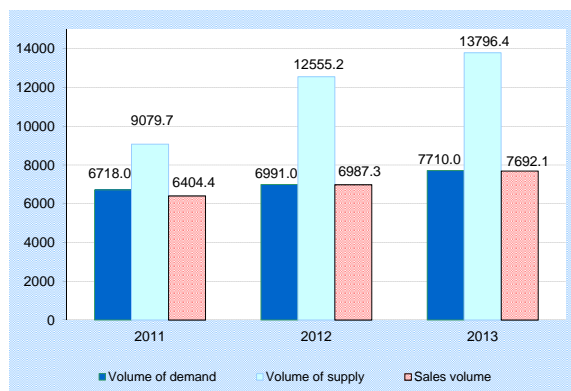
Source: NBM

The decrease in banking margin (the difference between the average interest rates on loans and deposits) was mainly at the expense of the evolution of the annual interest rates on both new attracted deposits and new granted loans. Attractive lending conditions in the real sector and the initiative of licensed banks to attract more new deposits marked 2013 and influenced directly the change in the margin.

Thus, the banking margin for operations in national currency fell by 0.72 percentage points, down to the level of 5.03 percentage points and the banking margin for operations in foreign currency amounted to 3.36 percentage points or by 0.62 percentage points less than in 2012 (Chart 3.16).

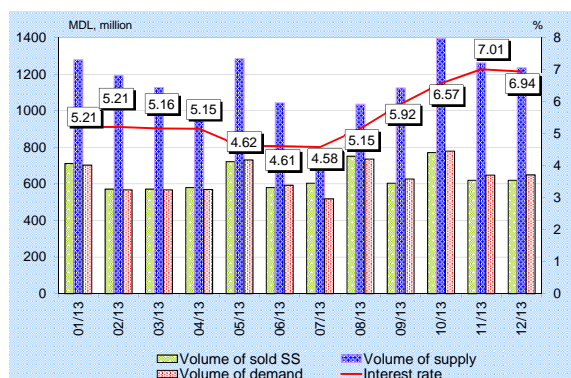
3.3 Monetary market

Chart 3.17: Quantitative indicators of the primary market of SS (MDL, million)



Source: NBM

Chart 3.18: Monthly dynamics of SS at auctions in the primary market in 2013



Source: NBM

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 168 auctions of state securities issuances during 2013.

Following the need to increase the budget deficit funding for 2013 at the expense of domestic sources, the Ministry of Finance increased the supply of state securities placement through auctions, the weekly volume of treasury bills (T-bills) for placement increased from MDL 140.0 million to MDL 152.0 million and that of state bonds (SB) remained at the level of 2012 – MDL 12.0 million. In addition, the intention of the Ministry of Finance to increase the average maturity of the SS issued in the primary market determined the modification of T-bills structure towards increasing the volume of T-bills with the maturity of 182 and 364 days and decreasing slowly the volume of T-bills with the maturity of 91 days.

Demand for state securities recorded a historic maximum level of MDL 13796.4 million. However, the ratio between the volume of bids submitted and the volume announced for placement remained at the level of 2012, the demand for securities being supplied by the relatively higher volume of due SS.

The volume of state securities put into circulation (MDL 7692.1 million) was lower than that announced for placement by the Ministry of Finance (MDL 7710.0 million), as a result of placing partially the volume announced at some auctions (Chart 3.17).

Chart 3.18 shows the monthly dynamics of the primary market indicators of state securities during 2013.

The average interest rate related to state securities (SS) with a maturity of up to one year placed on the primary market remained relatively stable in early year with a subsequent trend to diminish until July (recording the minimum of 4.58 percent), as a result of the reduction by the NBM of the monetary policy interest rate at the end of April. The trajectory of this rate has reversed in the next period, reaching the maximum of 7.01 percent in November.

Increased yields on SS slightly influenced the non-bank investors' interest for SS. Thus, the value of SS purchased by non-bank investors increased by MDL 36.1 million compared to 2012, recording MDL 501.5 million, and their share in the total volume issued, decreased marginally, constituting 6.5 percent. SS purchases by non-resident investors during 2013 were not registered.

During 2013, the Ministry of Finance offered for placement, through auctions, T-bills of 91 days, 182 days, 364 days, and state bonds with a maturity of 2 years.

Treasury bills with a maturity of 6 months were one of the placements with the largest share – 42.6 percent, followed by those with a maturity of 12 months, with a share of 28.9 percent. The share of state bonds with floating rate with a maturity of 2 years in total SS issued decreased compared to 2012 (Chart 3.20).

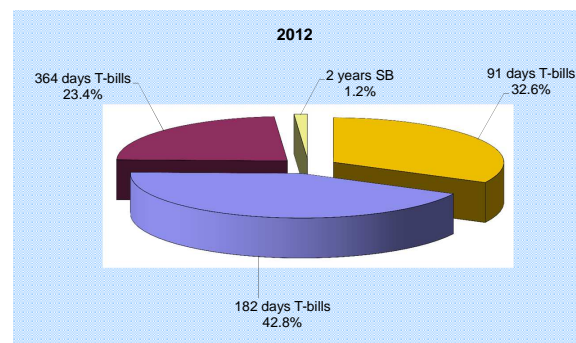
Putting into circulation of a greater volume of T-bills with a maturity of 364 days and a lower volume of those with a maturity of 91 days caused the average maturity of newly issued securities to increase from 202 days in 2012 to 212 days in 2013.

At last SS auctions of 2013, the average interest rates have recorded values of 5.49, 7.02 and 7.81 percent annually for maturities of 91, 182 and 364 days respectively, or by 0.91, 2.09 and 1.87 percentage points, respectively, more than the values recorded at the end of 2012.

The average annual interest rate on state securities with the maturity up to one year traded in 2013 decreased to the level of 5.54 percent annually compared to 6.09 percent annually in 2012.

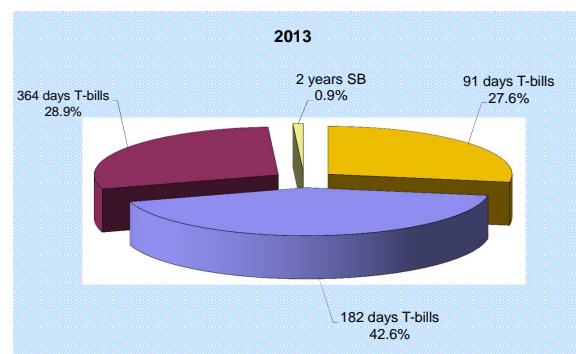
The weighted average annual nominal interest rates on state securities, traded in the last two years in the primary market auctions, are shown in table 3.1 by maturity (Chart 3.22).

Chart 3.19: Structure of SS issuances by types in 2012



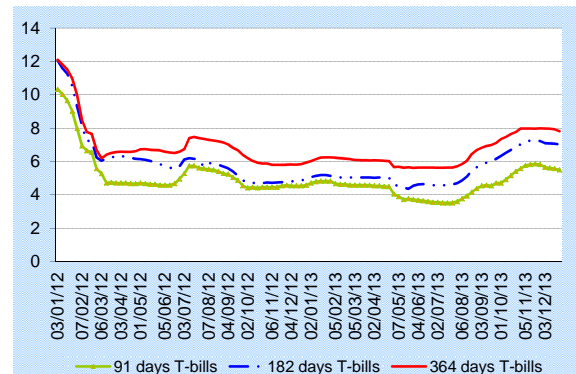
Source: NBM

Chart 3.20: Structure of SS issuances by types in 2013



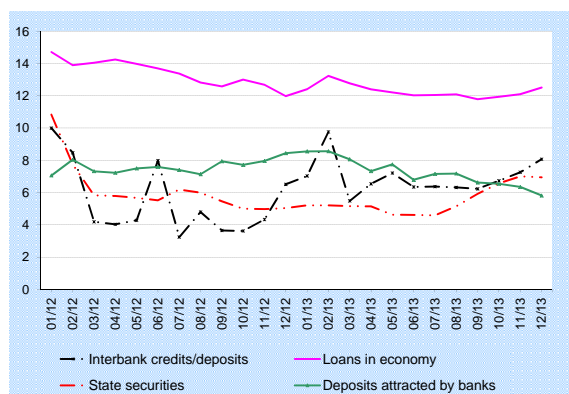
Source: NBM

Chart 3.21: Dynamics of nominal interest rates on SS (%)



Source: NBM

Chart 3.22: Evolution of interest rates (%)



Source: NBM

During the first nine months of 2013, similar to the same period of 2012, the interest rates on state securities were below the interest rates offered by banks on deposits. Although, in early fourth quarter they have surpassed the interest offered by banks on deposits and maintained this position until the end of the year (Chart 3.22).

The volume of state securities placed on the primary market through auctions and underwritings, outstanding as on December 31, 2013, recorded the value MDL 4619.7 million at face value (Chart 3.23). The selling-buying price was MDL 4426.1 million, increasing by MDL 610.0 million at the end of the reporting year compared to 2012. Among the SS at December 31, 2013, outstanding, those with residual maturity up to three months constituted 38.83 percent, up to 6 months – 31.19 percent, up to 12 months – 27.70 percent and up to two years – 2.28 percent.

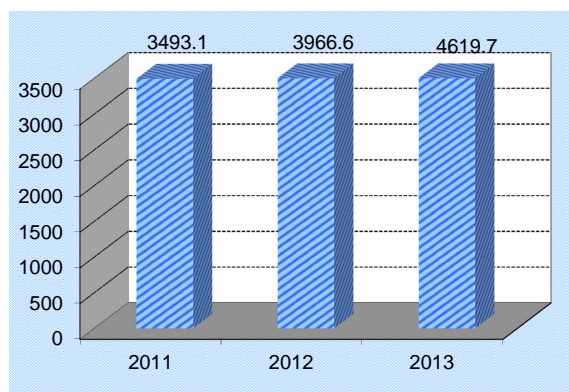
Table 3.1: Weighted average annual nominal rates of interest on state securities by maturity (%)

	2012	2013
QB 91 days	5.41	4.54
QB 182 days	6.16	5.55
QB 364 days	6.92	6.60
SB 2 years	5.89	6.56

Source: NBM

Note: For bonds are represented the effective interest rates

Chart 3.23: Dynamics of the volume of SS in circulation at the end of the period (MDL, million)



Source: NBM

Secondary market of state securities

In 2013, average yields related to SS selling-buying operations on the secondary market recorded a slow downward trend since January (5.18 percent) to August (3.86 percent) and at the end of the year they recorded an upward trend (from 6.00 percent in September to 6.49 percent in the last month of the year). Overall, the average yield in 2013 was 4.86 percent, lower by 0.81 percentage points compared to 2012.

The increased volume of purchases in the primary market by major investors – licensed banks that maintain the SS up to the maturity in its investment portfolios and the excess liquidity in the banking system determined the state of passivity of the secondary market of state securities. In these conditions, the volume of state securities transactions on the secondary market decreased, recording in the reporting year MDL 29.4 million compared to MDL 98.1 million in 2012.

Within the structure of transactions, there was intended the decrease of participation share of the non-bank investors in the total volume of traded SS and, respectively, the increase of the share of bank-bank transactions up to 83.1 percent, compared to 44.2 percent in 2012. Secondary market participants' interest was directed towards SS with residual maturity of less than one year, and namely in the range of 28 to 91 days, whose share was 60.2 percent of total volume of transactions made with SS.

The dynamics and evolution of the volume of weighted average interest rate compared to 2012 is represented in the Chart 3.24.

The annual average holding share of SS up to maturity by corporate and institutional investors (joint ventures, microfinance institutions, insurance companies) in 2013 amounted to 2.3 percent, the insurance companies holding the largest share.

Interbank money market

During 2013, the interbank market has experienced a spectacular development due to increased volumes of interbank loans/deposits, which constituted almost the entire volume of transactions in this market.

The transactions of securities in the secondary market amounted to only 0.1 percent of the total, while REPO operations of securities between banks were not recorded, similar to 2012.

Interbank loans/deposits market

During 2013, the interbank loans/deposits market has experienced a significant increase, the value of transactions reaching a continuous increasing trend, especially in the second half of the year. Since July, the monthly volume of transactions exceeded the value of MDL 4.0 billion, maintaining this level until November, recording in December a historic maximum level of MDL 6764.0 million. The total amount of interbank loans/deposits in the reporting year amounted to MDL 37467.4 million, increasing by 12.3 times compared to 2012.

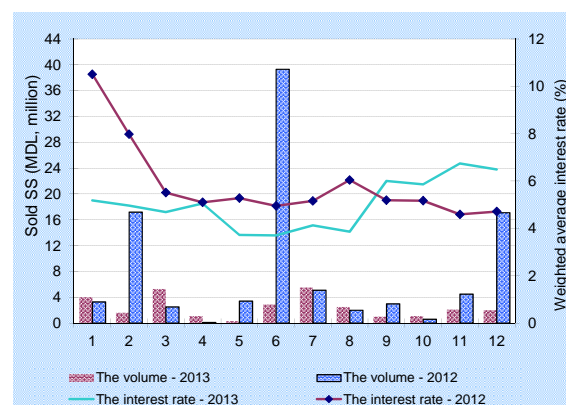
Successive increase in the volume of transactions in 2013 took place amid increased demand for short-term liquidity, recorded in some of the licensed banks, which have borrowed means mainly from the market with overnight maturity (61.0 percent of the total) at exaggeratedly high rates.

In these circumstances, the monthly average interest rates on interbank loans/deposits had an increasing trend during 2013, remaining in the top of the interest rate corridor, and in some months exceeding its upper limit.

In 2013, the monthly average interest rate ranged between the minimum 5.48 percent annually (March) and the maximum of 9.76 percent annually (February), and the annual average rate recorded 6.88 percent.

Compared to 2012, the annual average interest rate on interbank loans/deposits increased by 1.42 percentage points, exceeding the upper limit of the interest rate corridor of the NBM by 0.38 percentage points.

Chart 3.24: Dynamics of indicators on the secondary market



Source: NBM

The increase of interest rates reflected the worsening conditions for maintaining the liquidity of banks that have borrowed on the interbank market.

The average weighted term of transactions concluded among banks in 2013 accounted for 7 days, by 10 days less compared to that recorded in 2012. The term decrease was caused by the amplification of transactions with minimal market maturity.

A favorable event for the development of the interbank loans/deposits market took place in late 2013, when by the Decision of the Council of Administration no. 222 of November 21, 2013 the *Regulation on the functioning of interbank money market in national currency* has been approved (in force since November 29, 2013). The Regulation establishes the principles, rules and basic terms of the interbank money market, the duties and responsibilities of the participants.

According to the provisions of the above-mentioned Regulation, the transaction of means on interbank market are exclusively made through the trading system within the unique trading platform provided by the Bloomberg company.

The implemented way of trading offered the possibility to the National Bank of Moldova to monitor in real time the evolution of interbank money market conditions and to increase the maneuverability in the conduct of monetary policy.

Reference interest rates on interbank money market

CHIBOR/CHIBID reference rate curve (indicative quotations of interest rates in the placement/attraction on the interbank market of funds in national currency) was less sensitive to the NBM base rate adjustment.

CHIBOR/CHIBID quotations remained stable during the first four months of the year and recorded a downward movement in early May, due to the NBM decision to decrease the base rate, while the amplitude of decreases is lower than that of the base rate. During the rest of the year, they have remained generally stable, recording sporadically slight changes in both directions.

As a result of these developments, CHIBOR 2W and CHIBID 2W quotations decreased slightly (by 0.27 and by 0.42 percentage points respectively) compared to the values recorded at the end of 2012. As on December 31, 2013 CHIBOR 2W recorded 6.43 percent and CHIBID 2W – 2.34 percent annually (Chart 3.2).

Activity of primary dealers in the state securities market

During 2013, there were 11 primary dealers in the state securities market, who in accordance with the agreements on the performance of the functions of the primary dealer on SS market concluded with the NBM, contributed to the placement of state securities on the primary market and to the provision of their liquidity in the secondary market.

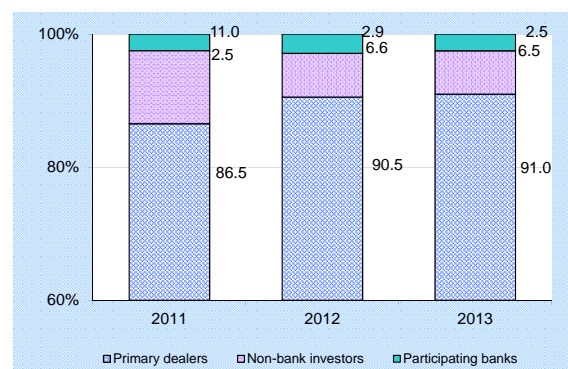
The volume of requests submitted by primary dealers at the auctions of state securities placement in 2013 amounted to MDL 13253.2 million and increased by 1330.8 million (11.2 percent) compared to 2012.

In 2013, the primary dealers purchased securities in the amount of MDL 7500.0 million, which represents 97.2 percent of the offer of the Ministry of Finance (in 2012 this indicator was 94.0 percent).

The primary dealers purchased on their name and on their account 91.0 percent (or MDL 6998.5 million) of the total traded securities and the volume of SS purchased by non-bank investors recorded an increase in absolute value and a marginal decrease as weight in the allocated volume (Chart 3.25).

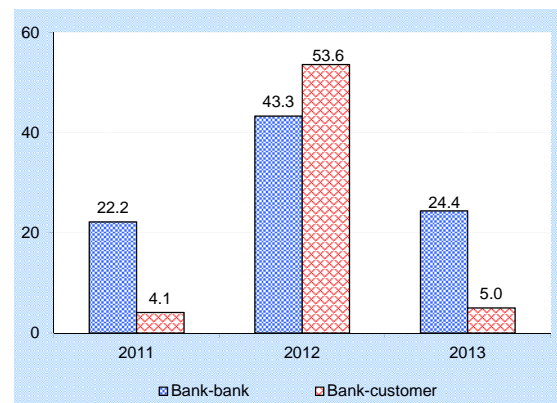
In 2013, the activity of primary dealers on the secondary market for state securities has decreased significantly, especially in transactions such as bank-client, which registered a volume of MDL 5.0 million (17.0 percent of the total volume of transaction with state securities) compared to MDL 53.6 million (54.6 percent) in 2012 (Chart 3.26).

Chart 3.25: Structure of SS purchases at auctions on the primary market by categories of participants



Source: NBM

Chart 3.26: Selling-buying transactions performed by the primary dealers on the secondary market (MDL, million)



Source: NBM

Recordkeeping of securities in the book-entry system of the NBM

The securities book-entry system administrated by the National Bank of Moldova is a store and settlement system of securities issued by the Ministry of Finance and those issued by the National Bank of Moldova.

BES efficient operation ensures safe, accurate and timely conduct of the National Bank of Moldova operations on the money market, to process operations of participants in relation

with issuers, to perform securities transactions in connection with the payments system of the NBM.

On December 31, 2013 the total amount of the securities registered in BES constituted MDL 9502.1 million at face value, which by issuers are as follows:

I. Ministry of Finance – SS in the total amount of MDL 6897.4 million, including:

- MDL 4619.7 million or 67.0 percent are SS issued via auctions and underwriting on the primary market;
- MDL 186.3 million or 2.7 percent are SS issued for “Banca de Economii” S.A. according to the Law no.190 on additional measures to ensure financial stability;
- MDL 2091.4 million or 30.3 percent are SS issued and delivered to the National Bank of Moldova.

II. National Bank – NBM certificates (NBC) in the total amount of MDL 2604.7 million.

The total amount of SS recorded in the book-entry system at face value is divided by holders as follows:

Banks

- on 31.12.2013 - MDL 4381.4 million
- on 31.12.2012 - MDL 3987.5 million

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

- on 31.12.2013 - MDL 424.6 million
- on 31.12.2012 - MDL 258.5 million

National Bank of Moldova (SS delivered to the NBM as a result of the conversion of loans previously granted to the State and subsequently reissued)

- on 31.12.2013 - MDL 2091.4 million
- on 31.12.2012 - MDL 2086.5 million.

On December 31, 2013 compared to 2012, within the structure of SS registered in BES by holders the following changes have occurred:

- the share held by banks has increased as a result of increased volume of SS purchases on the primary market;
- the share held by non-bank investors has increased as a result of their preference of an investment alternative to assume less risk by investing in state securities market;
- the share held by the NBM has decreased as a result of the downward trend in interest rates on SS issued and delivered following the conversion of loans previously granted to the government.

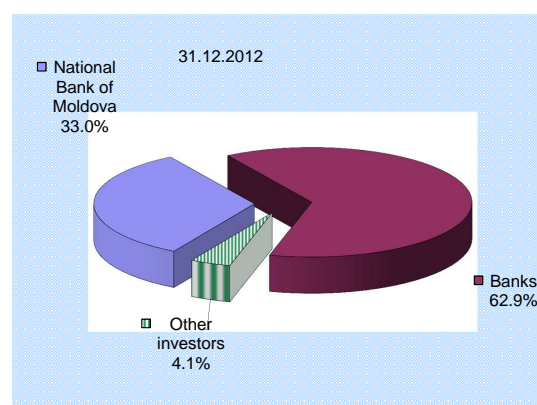
The NBM certificates in the total amount of MDL 2604.7 million were recorded in the licensed banks portfolios.

During 2013, 7753 operations in the amount of MDL 232356.7 million were recorded in the book-entry system of the NBM, of which:

- Operations on primary market of SS and NBM Certificates – MDL 113019.4 million.
- Redemption and payment of interest by the Ministry of Finance of SS at maturity – MDL 15487.0 million.
- Redemption by the National Bank of Moldova of NBM certificates at maturity – MDL 98120.1 million.
- Selling - buying operations – MDL 49.4 million, of which:
 - operations with SS – MDL 29.4 million;
 - operations with NBM certificates – MDL 20.0 million.
- Pledging operations – MDL 5680.2 million.
- REPO operations – MDL 0.6 million.

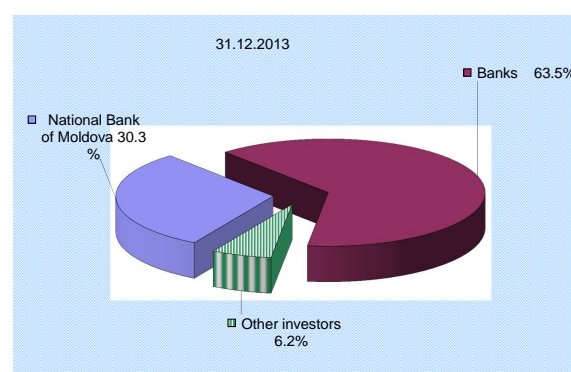
In 2013, DvP (delivery versus payment) held a share of 98.6 percent of total transfers, FoP (free of payment) transfers - 1.4 percent, the latter being made between banks and the NBM on operations of pledging and transfers between banks and their customers.

Chart 3.27: Structure of state securities in circulation in the holders' profile in 31.12.2012



Source: NBM

Chart 3.28: Structure of state securities in circulation in the holders' profile in 31.12.2013

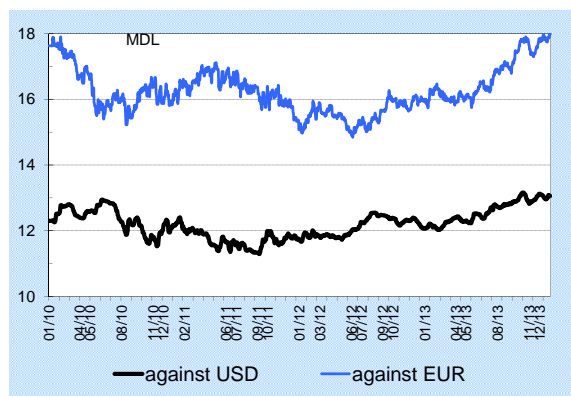


Source: NBM

3.4 Foreign exchange market

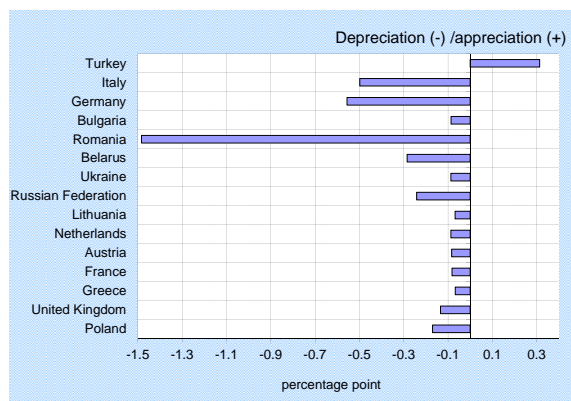
The evolution of nominal and real exchange rate

Chart 3.29: Fluctuations of the official exchange rate of MDL



Source: NBM

Chart 3.30: Contribution of the main commercial traders of the RM to the real effective exchange rate modification during 2013



Source: NBM

During 2013, *the official nominal exchange rate of the national currency depreciated both against the U.S. dollar and against the EUR* by 8.2 percent and by 12.3 percent, respectively, compared to the end of 2012 (Chart 3.29).

Similar trend was recorded by *the average exchange rate of the national currency* which depreciated against USD and against EUR by 4.0 percent and by 7.5 percent, respectively, compared to the average official exchange rate of the national currency recorded in 2012 (Chart 3.30).

At the same time, *the real effective exchange rate of the national currency*¹³, recorded a depreciation, calculated based on the ratio of major trading partners and the average exchange rates (by 3.9 percent compared to December 2012). Romania held the major contribution (by 1.5 percentage points) to the depreciation of the real effective exchange rate, whose currency has appreciated both against the MDL and against the USD.

Net supply of foreign currency from individuals registered in 2013 an annual increase of 8.4 percent, amounting to USD 2934.7 million. Within the annual structure of currencies, the net supply in EUR was predominant, whose share was 46.0 percent. At the same time, there was recorded a gradual increase in supply in Russian rubles¹⁴, especially toward the end of the year, so in December 2013 it held the major share of 39.3 percent (Chart 3.32).

Regarding the evolution of *net foreign currency sales to legal entities*, it can be observed an annual increase by 6.3 percent, reaching the amount of USD 2669.9 million. Net sales of USD held a major share (65.4 percent) in the annual currency structure, followed by net sales of EUR (34.0 percent) and RUB (1.2 percent).

Therefore, sales of foreign currency in 2013 were covered at a rate of 109.9 percent by the net supply of foreign currencies compared to 107.8 percent in 2012.

¹³calculated in comparison with December 2000

¹⁴recalculated at the exchange rate of December 31, 2013

Although the coverage was not uniform throughout the year, it should be mentioned that the domestic foreign exchange market in 2013 was saturated with liquidity in foreign currency. In addition to excess of foreign currency supply over the demand of foreign currency (USD 264.8 million), a factor generating excess of foreign currency was the positive net flow of loans and investments, which amounted to USD 444.9 million, increasing by USD 115.5 million compared to 2012. In order to reduce the disinflationary pressures¹⁵ and to strengthen the state foreign exchange reserves, the NBM purchased foreign exchange on the interbank foreign exchange market in the amount of USD¹⁶ 304.6 million. Thus, although there were premises on the domestic foreign exchange market for the national currency to appreciate, the exchange rate of MDL against the USD recorded a general trend of depreciation during 2013 (Chart 3.34). The exchange rate dynamics was determined both by the NBM interventions of currency purchase to mitigate the disinflationary pressures and by the evolution of foreign currencies on external markets.

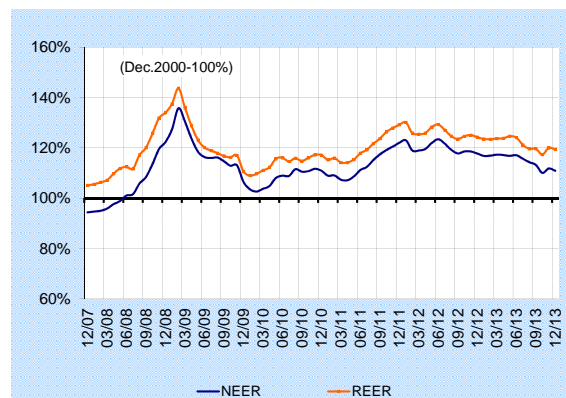
In the **first quarter** of 2013, although foreign currency sales to legal entities were covered to the limit by net supply of foreign currency from individuals (99.9 percent), the average exchange rate of the national currency against the USD recorded a moderate appreciation. This was due to the net flow of loans and investments attracted by resident legal entities in the amount of USD 106.0 million, especially the investments from founders in the capital of some enterprises. In light of these developments, during the first quarter of 2013, the NBM absorbed the surplus of foreign currency by purchasing the amount of USD 23.9 million.

In the **second quarter** of 2013, the average exchange rate of MDL depreciated against the USD, showing trends of appreciation or depreciation depending on the evolution of the coverage of demand for foreign currency by the supply. Thus, in April 2013, the net supply of foreign currency from individuals increased, due to the attractive exchange rate. The NBM carried out interventions to purchase foreign currency in April and early May (USD 25.0 million) given the appreciation pressures on the domestic foreign exchange market. Subsequently, in May and June, there were recorded significant payments of dividends by certain companies with foreign capital. In these conditions, the demand of foreign currency by legal entities increased, so the coverage of supply by the demand has reduced. This determined the NBM to intervene in order to satisfy the market's needs of foreign currency, by conducting swap selling operations.

¹⁵in the context of inflation targeting regime

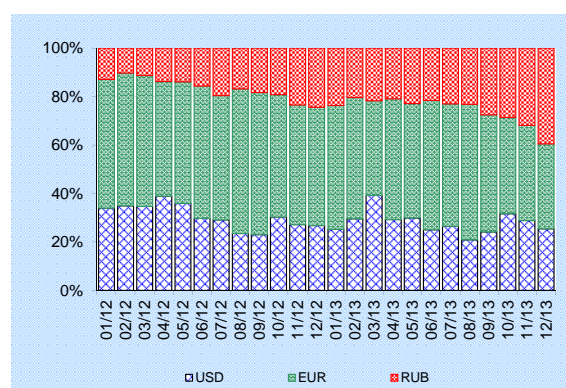
¹⁶figure includes interventions with regards to all currencies

Chart 3.31: Dynamics of the nominal and real effective exchange rate of the national currency calculated based on the weight of the main commercial traders for Dec.2007 – Dec. 2013



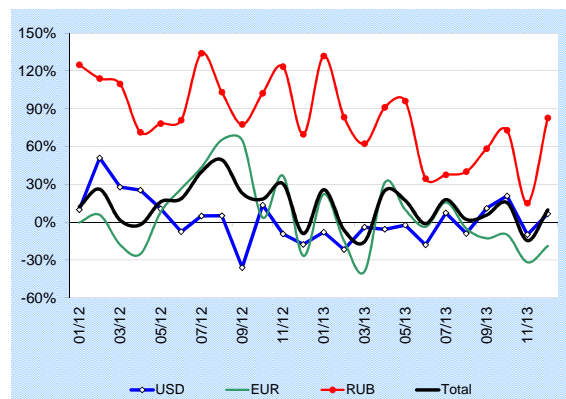
Source: NBM

Chart 3.32: Currency structure of the net supply of foreign currency (currencies are recalculated in USD at an average constant exchange rate)



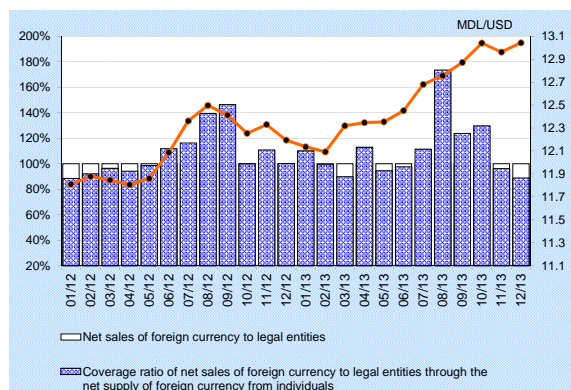
Source: NBM

Chart 3.33: The growth rate of net supply of foreign currency from individuals, by currency (compared to the same period last year)



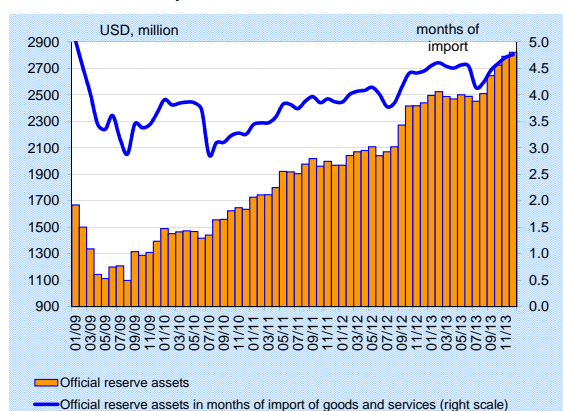
Source: NBM

Chart 3.34: Coverage of net foreign currency sales to legal entities by net supply of foreign currency from individuals and the dynamics of the average exchange rate dynamics of the national currency against U.S. dollar



Source: NBM

Chart 3.35: Evolution of foreign exchange reserves expressed in months of goods and services import



Source: NBM

In the **third quarter** of 2013, foreign exchange market was oversaturated with liquidity, the record net supply of foreign currency from individuals (USD 934.2 million) exceeding by 32.5 percent the demand of foreign currency from economic agents. However, a depreciation of the average exchange rate of the national currency was attested during this period, driven by the evolution of foreign currencies on external markets and by the interventions (in total amount of USD 247.8 million) carried out by the NBM to reduce the disinflationary pressures¹⁷ and to strengthen the state foreign exchange reserves.

In the **fourth quarter** of 2013, the average exchange rate of the national currency against the USD recorded a quarterly depreciation with specific monthly developments. Thus, in early October 2013, the exchange rate of the national currency depreciated by 1.6 percent, after which the trend has reversed, marking a sharp appreciation amid exceeding by 29.8 percent the demand for foreign currency by the supply. In the last two months of the year, the premises of appreciation have reduced amid increased demand of foreign currency, which is characteristic to this period, when the payments for energy import are intensified.

At the end of 2013, official reserve assets amounted to USD 2820.6 million, increasing by 12.2 percent compared to the end of previous year and covering about 4.8¹⁸ months of import (Chart 3.35). The increase of official reserve assets was due to the purchases of foreign currency on domestic exchange market conducted by the NBM and the reception of grants by the Ministry of Finance granted by the European Commission for financial support related to the reform of justice sector (EUR 15.0 million or equivalent of USD 20.29 million), energy sector (EUR 11.6 million or equivalent of USD 15.8 million), sector of economic stimulus in rural areas (EUR 13.0 million or equivalent of USD 17.64 million). At the same time, the World Bank granted to the Ministry of Finance a loan for the *Emergency Agriculture Support Project in Moldova* (USD 6.38 million) and a loan in education (USD 3.92 million).

Foreign exchange market of the Republic of Moldova. NBM's activity on foreign exchange market

The analysis of the foreign exchange market of the Republic of Moldova indicates an upward trend in transactions carried out on the foreign exchange market against MDL.

¹⁷in the context of inflation targeting regime

¹⁸calculated based on the import of goods and services forecast for 2014

Total turnover of traded foreign currencies against MDL in this period amounted to the equivalent of USD 22788.1¹⁹ million, increasing by 59.0 percent compared to 2012 (Table A.11). Within the structure of the total turnover, the foreign currency purchases on the domestic foreign exchange market against MDL totaled USD 11416.5 million, and sales – USD 11371.6 million. The transactions increase was mainly driven by the foreign exchange market by transfer, particularly by the foreign exchange swap transactions carried out in 2013 by resident banks (by 4.4 times) and by the National Bank of Moldova (by 2.3 times) and the transactions of non-resident banks (by 56.5 percent).

At the same time, the legal entities held a dominant presence in the foreign exchange market by transfer in 2013, recording a growth of 15.2 percent.

As regarding the cash foreign exchange market, the turnover increased both at foreign exchange offices of the licensed banks (by 7.3 percent) and at the foreign exchange entities (by 16.7 percent) (Table A.11).

During 2013, as well as in 2012, the U.S. dollar has maintained its dominant position in both total turnover of foreign exchange transactions in the domestic foreign exchange market and in the turnover of foreign exchange transactions carried out in the transfer foreign exchange market, the EUR holding the dominant position in the total turnover of foreign exchange market in cash (Table A.12).

Changes in positions were recorded in total purchases in the foreign exchange market. Thus, the EUR has held the major position in 2012, while in 2013 the situation has changed in favor of the U.S. dollar.

As compared to 2012, the foreign currency purchases of the licensed banks on domestic foreign exchange market significantly increased by USD 4181.8 million, or by 62.4 percent (Table A.13). This increase was mainly due to increased purchases of foreign currency from resident banks – by USD 3340.5 million (by 4.4 times), and from the NBM – by USD 229.2 million (by 12.5 times), mainly due to swap purchases transactions.

At the same time, the purchases of foreign currency from legal entities increased by USD 408.3 million (20.9 percent), and from individuals by USD 274.4 million (8.6 percent).

¹⁹The amount does not include the purchases/sales against MDL carried out by the NBM with the Ministry of Finance.

Thus, the purchases of foreign currency by the licensed banks on domestic foreign exchange market in 2013 were made mostly from resident banks (39.6 percent), individuals and legal entities (31.9 percent 21.7 percent, respectively).

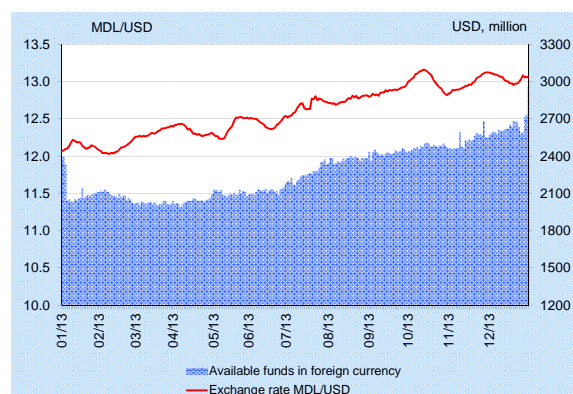
Compared with 2012, sales of foreign currency carried out by the licensed banks of the Republic of Moldova on domestic foreign exchange market in 2013 increased by USD 4117.8 million, or by 61.2 percent (Table A.14). This increase was mainly due to increased sales to resident banks – by USD 3348.1 million (by 4.4 times), and to the NBM – by USD 223.7 million (67.8 percent), mainly due to swap sale transactions. The volume of foreign currency sold to legal entities increased by USD 566.5 million (12.7 percent).

The foreign currency sold by licensed banks on the domestic foreign exchange market in 2013 was primarily made in favor of legal entities (46.4 percent), resident banks (39.9 percent), the NBM (5.1 percent) and individuals (5.0 percent).

The foreign currency surplus on the domestic foreign exchange market in the total amount of USD 3077.3 million, mainly derived from individuals (USD 2925.0 million, or 95.0 percent) (Table A.15), purchased by banks in 2013, was sold to legal entities (USD 2669.9 million) and to the National Bank of Moldova (USD 304.6 million).

Dynamics of banks' assets and liabilities in foreign currency

Chart 3.36: Evolution of balance sheet assets of the licensed banks (million, USD) and of the official exchange rate of national currency against U.S. dollar (MDL/USD)



Source: NBM

As of December 31, 2013 the banks' **balance sheet assets in foreign currency**²⁰ (loans granted, disposable funds, required reserves and other assets in foreign currency and assets linked to foreign exchange rate) increased by 32.6 percent as compared to December 31, 2012 (from USD 1969.2 million to USD 2610.2 million). This increase was due to the intensification of non-resident²¹ customer operations of some local banks and interbank placements on the domestic interbank market.

The balance of *credits granted in foreign currency* held the highest weight in total balance sheet assets in foreign currency and accounted 50.2 percent as on December 31, 2013 (Table A.16),

²⁰excluding the adjustment position of assets in foreign currency

²¹conditioned by attracting term placements from foreign banks, increasing balances of current accounts of non-resident legal entities, contracting some subordinated loans and attracting other investments from non-residents

decreasing by 12.8 percentage points compared to December 31, 2012. This indicator has varied during 2013 from the minimum level of 49.9 percent to the maximum level of 64.9 percent. As compared to December 31, 2012, the *balance of loans in foreign currency* increased by the equivalent of USD 68.7 million (from USD 1240.2 million to USD 1308.9 million), or by 5.5 percent.

As by the currency structure of loans granted in foreign currency, the loans in EUR prevailed (58.8 percent) as on December 31, 2013, followed by those in USD (40.8 percent) (Table A.17). In absolute values, the balance of loans in EUR and USD has increased by the equivalent of USD 54.2²² million (from USD 715.6 million to USD 769.8 million), or by 7.6 percent and by the equivalent of USD 10.0 million (from USD 524.6 million to USD 534.6 million), or by 1.9 percent, respectively.

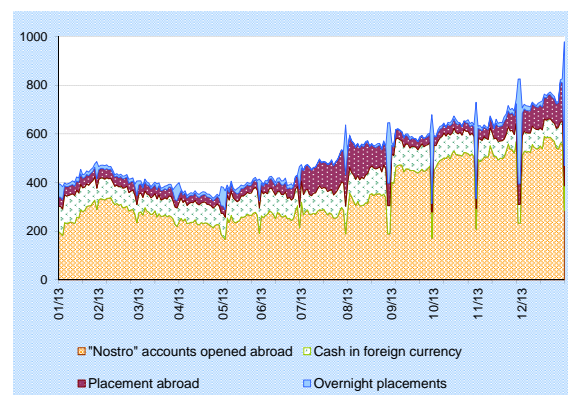
At the end of 2013, the share of disposable funds in foreign currency constituted 32.4 percent in total balance sheet assets in foreign currency of licensed banks. This indicator has varied during the year from the minimum level of 16.9 percent to the maximum level of 32.4 percent.

At the end of 2013, *the disposable funds in foreign currency*, as compared to December 31, 2012, have increased by the equivalent of USD 453.6 million (from USD 392.9 million to USD 846.5 million), or by 2.2 times (Table A.18). The disposable funds in foreign currency of licensed banks as of December 31, 2013 had the following structure: overnight placements abroad – 44.1 percent, “Nostro” accounts opened abroad – 33.7 percent, cash in foreign currency – 12.0 percent, placements abroad of the licensed banks – 9.9 percent and securities in foreign currency – 0.3 percent.

On December 31, 2013 the balance of disposable funds in foreign currency has recorded the following structure by types of currency: USD – 64.1 percent, EUR – 31.4 percent, RUB – 4.0 percent, other currencies – 0.5 percent (Table A.19). Thus, the share of disposable funds in USD increased by 24.3 percentage points to the detriment of the share of disposable funds in EUR, which decreased by 19.8 percentage points. The change of currency structure of the disposable funds in foreign currency was due to the significant increase of funds attracted from non-residents primarily in USD.

On December 31, 2013 the balance of *required reserves in foreign currency* increased by 9.0 percent, from USD 189.4 million to USD 206.4 million, constituted 7.9 percent in total balance sheet assets of licensed banks and during the reporting period ranged

Chart 3.37: Dynamics of disposable funds in foreign currency (equivalent in USD, millions)



Source: NBM

²²of which USD 26.2 million subject of foreign exchange difference, as a result of the EUR appreciation against the U.S.dollar

from the minimum level of 7.9 percent and the maximum level of 10.0 percent.

At the end of 2013, the *balance of other assets* increased by the equivalent of USD 110.4 million, up to USD 154.0 million, mainly at the expense of overnight funds placed on the domestic interbank market.

Balance of foreign currency-linked assets constituted the equivalent of USD 94.4 million as of December 31, 2013, decreasing by USD 8.7 million, or by 8.4 percent as compared to December 31, 2012. The balance of foreign currency-linked loans recorded during 2013 the minimum value of USD 96.4 million and maximum value of USD 107.6 million.

The licensed banks' *balance sheet liabilities in foreign currency* recorded during the reporting period an increase by the equivalent of USD 583.0 million²³ (from USD 1947.8 million on December 31, 2012 to USD 2530.8 million on December 31, 2013), or by 29.9 percent (Table A.20).

The *balance of clients' term deposits in foreign currency* held on December 31, 2013 the most significant weight in total balance sheet liabilities in foreign currency (38.5 percent). In this context, the balance of these deposits increased as compared to the end of 2012 by the equivalent of USD 87.6 million, or by 9.9 percent, mainly at the expense of increased balance of deposits of resident individuals. At the same time, the term deposits of non-residents recorded an insignificant decrease (from USD 54.1 million on December 31, 2012 to USD 52.6 million on December 31, 2013) due to non-resident legal entities. During 2013, the share of term deposits of non-residents in total term deposits of clients ranged between 4.9 and 6.9 percent.

The *balance of current accounts in foreign currency of the clients* on December 31, 2013 amounted to USD 374.1 million, increasing by 37.6 percent compared to the end of 2012. This increase was mainly driven by the increasing funds in current accounts of non-resident legal entities. At the end of 2013, the *balance of current accounts in foreign currency of the clients* recorded a share of 14.8 percent of total balance sheet liabilities in foreign currency (which varied between the minimum level of 11.8 percent and the maximum level of 15.6 percent during the reporting period). At the same time, the balance of current accounts in foreign currency of non-residents held the share of 27.0 percent of total current accounts in foreign currency of clients of licensed banks, compared to 9.5 percent at the end of 2012.

²³as a result of attracting term placements from foreign banks, increasing balances of current accounts of non-resident legal entities, contracting some subordinated loans and attracting other investments from non-residents

At the end of the reporting period, *the clients' various deposits in foreign currency* represented 7.4 percent of total balance sheet liabilities in foreign currency, their balance decreasing in insignificant proportions (from USD 186.9 million on December 31, 2012 to USD 186.4 million on December 31, 2013), or by 0.3 percent. During 2013, the share of various deposits of non-residents in total of clients' various deposits ranged between 1.2 and 2.3 percent, whose balance represented USD 2.9 million at the end of the year, held by non-resident individuals.

The *basic balance sheet liabilities in foreign currency* of licensed banks (term deposits, various deposits and current accounts of clients) increased by the equivalent of 189.3 million (from USD 1344.4 million on December 31, 2012 to USD 1533.7 million on December 31, 2013), or by 14.1 percent. This increase was mainly driven by increased funds placed by non-resident legal entities (by USD 65.7 million), and by resident individuals (by USD 78.2 million²⁴). At the same time, the non-residents held the share of 10.2 percent of total basic balance sheet liabilities in foreign currency, increasing by 4.1 percentage points as compared to December 31, 2012.

The share of deposits in EUR in total clients deposits in foreign currency as at the end of the reporting period was 63.0 percent, decreasing by 3.1 percentage points compared to December 31, 2012, the minimum share during the reference period being 62.4 percent and the maximum – 67.8 percent (Table A.21). The balance of clients' deposits in EUR on December 31, 2013 was the equivalent of USD 966.9 million, increasing by the equivalent of USD 78.2 million or by 8.8 percent compared to December 31, 2012. At the same time, the increase by USD 32.3 million in the balance of deposits in EUR was due to the foreign exchange rates differences, as a result of the EUR appreciation against the USD on the international market.

On December 31, 2013 the share of balance of clients' deposits in USD increased by 3.5 percentage points as compared to the end of 2012 (from 32.5 percent to 36.0 percent). During 2013, the maximum share of these deposits was 36.7 percent, and the minimum – 30.7 percent. The balance of deposits in USD constituted USD 551.9 million at the end of the reporting period, increasing by USD 115.4 million, or by 26.4 percent compared to December 31, 2012.

Deposits in RUB and other currencies have been an insignificant part of total clients' deposits in foreign currency on the banking system. At the end of analyzing period, the balance of deposits in RUB has constituted the equivalent to USD 12.0 million,

²⁴of which an increase by USD 23.9 million is due to the foreign exchange difference, as a result of the EUR appreciation against the U.S.dollar

mainly originating from non-resident legal entities. The share of deposits in RUB in total clients' deposits decreased to 0.8 percent, compared with 1.2 percent at the end of 2012.

On December 31, 2013, the share of balance of credits in foreign currency in total balance sheet liabilities in foreign currency of licensed banks constituted 18.7 percent, decreasing in absolute value by the equivalent of USD 4.5 million (from USD 476.9 million to USD 472.4 million), or by 0.9 percent as compared to the end of 2012.

The *balance of term deposits in foreign currency with banks overseas* increased as of December 31, 2012 by the equivalent of USD 145.7 million (from USD 50.6 million to USD 196.3 million) or by 3.9 times as compared to the end of 2012.

The *balance of conditional assets and liabilities* in foreign currency of licensed banks decreased at the end of 2013 as compared to the end of 2012, by 14.2 and 4.0 percent, respectively (Table A.22). At the end of 2013, conditional liabilities in foreign currency exceeded the conditional assets in foreign currency by USD 47.7 million, or by 13.5 percent. This increase was due to the increase in term sales of foreign currency, operations performed in the swap and forward transactions.

As compared to the end of December 2012, the open foreign currency position²⁵ (long) of the licensed banks for all currencies increased by 22.2 percent (from USD 34.7 million to USD 42.4 million) on December 31, 2013. This increase was determined by the increase in the EUR position by 43.0 percent (from USD 7.9 million to USD 11.3 million), in USD position - by 16.1 percent (from USD 16.8 million to USD 19.5 million), and the Russian RUB - by 18.9 percent (from USD 8.6 million to USD 10.2 million).

Management of foreign exchange reserves

In accordance with Articles 5, 16 and 53 of the *Law on the National Bank of Moldova no. 548-XIII of July 21, 1995*, the NBM holds and manages the state foreign exchange reserves, carries out foreign exchange transactions using foreign exchange reserves assets and keeps them at an appropriate level to carry out the monetary and foreign exchange policies. The role of foreign exchange reserves is to ensure the credibility and financial stability of the country, to honor the country's payments related to foreign liabilities of the state and to deal with unforeseen exogenous shocks.

²⁵including foreign currency-linked assets and liabilities

Within the management of foreign exchange reserves process, the NBM ensures a high level of safety and a required level of investment liquidity. The NBM investment policy is prudent, aiming at optimizing profitability, focusing on liquidity and safety. An essential element of the management of foreign exchange reserves process is the management of foreign reserves investment risk, which is achieved by imposing constraints and limitations related to investments.

In table A.23 shows the main financial risks related to the management of foreign exchange reserves and methods used to mitigate them.

Since July 2013, in collaboration with the World Bank there is implemented the Strategic Assets Allocation (SAA). The strategic assets allocation implies a vision of long-term management aimed at achieving the optimal level of return and risk. In the context of SAA, the international reserves are divided into three tranches according to their specific objectives and regulations, this approach ensuring a more efficient achievement of the objective set.

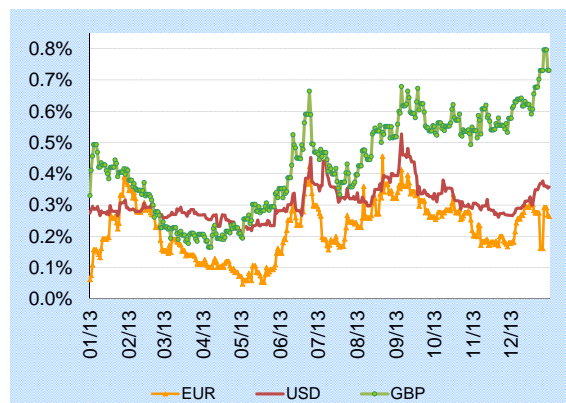
The current tranche represents a part of international reserves, which are used to cover fund needs for sale interventions of foreign currency on domestic foreign exchange market, for payments related to external debt of the NBM and the Government of the Republic of Moldova and other payments in foreign currency during one month.

Liquidity tranche ensures the coverage of the average value of at least 3 months of imports of goods and services (calculated based on historical data for the last 4 years and based on imports forecast for next year) and of payments related to external debt of the NBM and the Government of the Republic of Moldova and of other payments in foreign currency during the year.

Investments tranche represents the total of international reserves excluding assets that are part of the current tranche and the liquidity tranche. The investments tranche allows investment in longer-term instruments and the portfolio optimization. The portfolio of securities held to maturity and investments in gold are part of the investments tranche. The tranches consist of portfolios in various currencies, a benchmark – market index was selected for each portfolio, which is recognized and used worldwide for the benchmarking performance and risks related to investments portfolios.

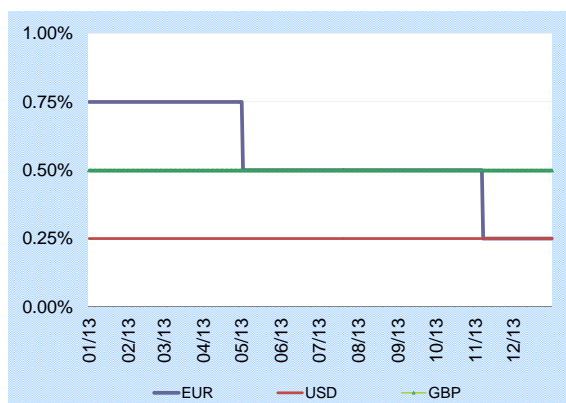
The strategic assets allocation is a complex and lasting process. When switching to the SAA, according to new the requirements, not all of the foreign exchange reserves of the NBM could

Chart 3.38: Profitability rates for state securities with maturities of 2 years



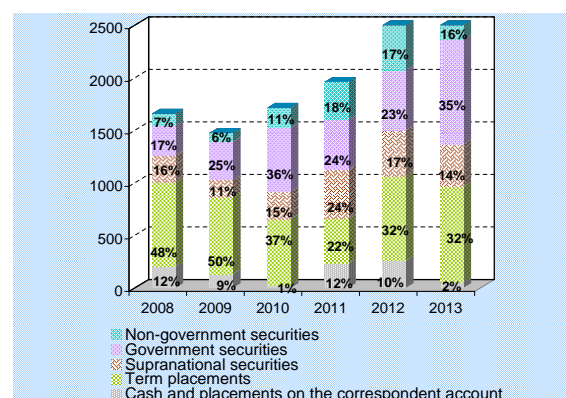
Source: NBM

Chart 3.39: Base rates in USA, EU and Great Britain



Source: NBM

Chart 3.40: Foreign exchange reserves structure at the end of 2008 - 2013 (USD, million)



Source: NBM

be redistributed, thus there was created a transition tranche for such assets. The securities of this tranche are reinvested according to new benchmarks to their maturity.

The world economy in 2013 continued to face numerous turbulences, emphasizing the instability of the political climate, the suspension of the U.S.A government caused by disagreements on fiscal policy and the U.S. public debt ceiling, and the economic downturn in main emerging economies.

The U.S Federal Reserves' Bank has decided to limit the expansionary monetary policy and the speculations regarding this measure led to the interest rate increase in the U.S treasury securities. At the same time, the interest rate volatility on securities was determined by the conflict situation in the Middle East, namely the danger of military interventions in Syria and critical situations in Ukraine and Turkey.

An important event of 2013 was the economic growth of the euro area by 0.3 percent in the second quarter, which caused the overcoming of the most prolonged recession in the history of the Monetary Union. A factor that determined this increase is the recognition by the European financial authorities that the austerity is counterproductive, thus renouncing to imposing additional taxes. This fact allowed the stabilization of financial markets in debtor countries.

During the reporting year, there were successive downgrades ratings of credit given by the rating agencies in several European countries such as Italy, Great Britain, France and the Netherlands. Political instability, high unemployment rate, low level of economic growth and low efficiency of fiscal policy are among the causes of rating downgrades, as well as the growth in medium term of the budget deficit and public debt.

Global economic development trend is also reflected in the evolution of profitability rates (Chart 3.38). At the same time, the base rates set by the monetary authorities (Chart 3.39) were maintained at the same level during 2013, excluding the base rate for the EUR, which has been reduced on May 2, 2013 from 0.75 percent to 0.50 percent and on November 7, 2013 from 0.50 percent to 0.25 percent. The inflation deceleration during the analyzed period has underlined these decisions.

Official reserve assets increased by 12.15 percent as of December 31, 2013 or by about USD 305.63 million (from USD 2515.0 to 2820.63 million) as compared to December 31, 2012. Among the main factors that influenced the growth of official reserve assets can be listed: interventions in the interbank foreign exchange market, income related to the management of

foreign exchange reserves, grants and loans attracted from the European Union and World Bank, increased required reserves of the licensed banks maintained with the NBM.

Within the management of foreign exchange reserves process, the NBM invests in safe instruments used by other central banks: placements on correspondent accounts (usually with other central banks), term placements in foreign currency and securities, which are classified into supranational securities (issued by supranational institutions), state securities (issued by the U.S. government, EU member governments, other governmental issuers with high credit rating) and non-government securities (issued by highly rated agencies).

Some of the foreign exchange reserves are managed externally by the World Bank. According to the Consulting and Management Investment Agreement, concluded on December 8, 2010 between the International Bank for Reconstruction and Development (IBRD) and the National Bank of Moldova, IBRD became the consultant and the agent of the NBM for managing a part of the external assets, limited to 20.0 percent of official reserve assets (the share of externally managed assets was 7.27 percent of the official reserve assets as of December 31, 2013). Taking into account the importance and effectiveness of the collaboration with the World Bank in the management of foreign exchange reserves, the agreement was extended for a period of two years on January 24, 2014.

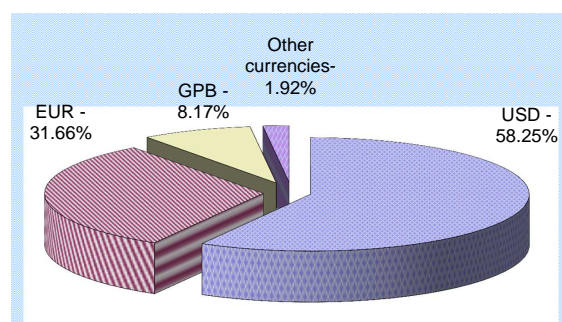
The portfolio of securities held to maturity was supplied during 2013 with new securities. The value of this portfolio at the end of 2013 amounted to USD 546.0 million, or 19.3 percent of official reserve assets, which is within the maximum limit of 20 percent.

The evolution of foreign exchange reserves during 2008-2013, divided by investment instruments, is shown in Chart 3.40. A downward tendency of term deposits has been recorded, which decreased from 48.33 percent at the end of 2008 to 32.39 percent at the end of 2013. Investments in securities followed a positive trend, their share increasing from 39.42 percent in 2008 to 65.69 percent in 2013.

At the same time, during 2013, due to low rates of remuneration of balances on current accounts and the implementation of the SAA, there was recorded a decrease in investments in placements on correspondent accounts, along with the increase in investments in securities by about 8.0 percentage points compared to 2012.

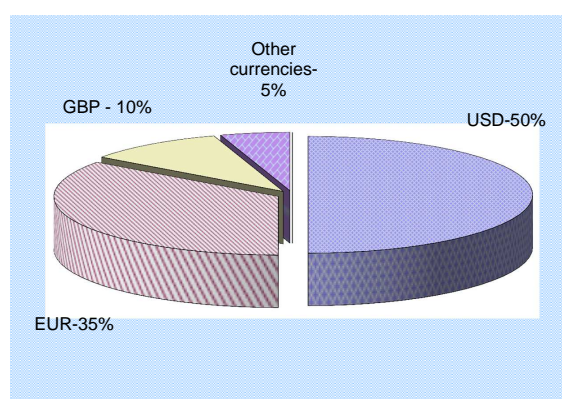
Return on investment depends on market conditions, fluctuations in exchange rates and prices of investment

Chart 3.41: Foreign exchange reserves as of 31.12.2013



Source: NBM

Chart 3.42: Normative foreign exchange composition



Source: NBM

instruments. The evolution of the global economic environment and prospects of development of financial markets and investment decisions influenced the composition of foreign exchange reserves. Chart 3.41 reflects the share of the currencies in which the foreign exchange reserves are denominated in late 2013. The most significant share was held by the USD – 58.25 percent, followed by the EUR with 31.66 percent. It should be mentioned that, de facto, the composition of foreign exchange reserves may deviate within the limits of ± 10 percent from the foreign exchange composition (Chart 3.42).

Despite unfavorable conjuncture of global economic environment and the negative developments of profitability rates of investment instruments, the decisions taken in the management of foreign exchange reserves led to a rate of profitability of 1.02 percent in 2013 or USD 26.65 million.

3.5 The activity of the National Bank of Moldova as fiscal agent of the State

Government debt to the National Bank of Moldova

In accordance with the Agreement on the balance of state debt previously contracted from the National Bank of Moldova for 2013, concluded between the Ministry of Finance and the National Bank of Moldova on December 11, 2012, the NBM conducted during 2013 re-issuances of state securities to maturity from its portfolio.

State securities had generally a maturity of 91 days and were obtained in the NBM portfolio at the average interest rates on state securities with the same maturity sold at recent auctions of state securities placement on the primary market, which were within the range of 3.52–5.86 percent annually.

As of December 31, 2013 the state debt to the National Bank of Moldova in form of state securities in the NBM portfolio amounted to MDL 2063.4 million (at the purchase price), remaining at the level of 2012.

On December 31, 2013 the average weighted interest rate on state securities held in portfolio recorded the level of 5.45 percent annually compared to 4.50 percent annually in 2012 and the average maturity of state securities in the portfolio was 43 days on the last day of the reporting period.

On December 31, 2013 the market value of state securities held in the NBM portfolio amounted to MDL 2079.4 million.

State deposits placed with the National Bank of Moldova

Based on the Agreement between the National Bank of Moldova and the Ministry of Finance on December 5, 2007, whose object is the provision of services to the Ministry of Finance by the NBM, and the provisions of the Regulation on the acceptance of deposits from the Ministry of Finance, approved by the Decision of the Council of Administration of the NBM no.358 of December 28, 2006, in 2013, the Ministry of Finance has placed with the National Bank of Moldova deposits in MDL on a term of 14 days up to 6 months, in a total volume of MDL 797.0 million.

As compared to 2012, the amount of deposits placed with the National Bank of Moldova decreased by MDL 578.0 million in 2013.

The deposits were placed at the base rate of the National Bank of Moldova, variable during the deposit contract, which constituted 4.5 percent annually in January-March and 3.5 percent annually in April-December 2013.

As of December 31, 2013 the balance of term deposits of the Ministry of Finance was null.

3.6 Regulation and supervision of banks' activity

General Information

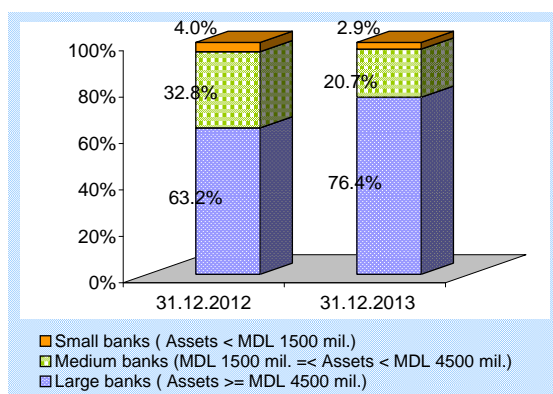
On December 31, 2013, there were operating 14 licensed banks in the Republic of Moldova, including 4 subsidiaries of foreign banks and financial groups.

The total number of subdivisions of banks was 1288, of which 344 branches, 942 agencies and 2 foreign exchange entities. During 2013, there were opened 20 branches, 40 agencies and there were closed 3 branches, 34 agencies and 5 foreign exchange entities.

The total number of staff employed in the banking sector as of December 31, 2013 amounted to 10933 employees. On average, each employee in the banking sector accounted for MDL 7.0 million assets as of December 31, 2013, increasing by MDL 1.8 million (33.8 percent) compared to the end of 2012.

Assets of banks

Chart 3.43: Dynamics of assets concentration of the banking system of the Republic of Moldova by groups of banks



Source: NBM

During 2013, the banking sector in the Republic of Moldova registered the following trends.

The assets amounted to MDL 76184.0 million, increasing by MDL 18015.5 million (31.0 percent) compared to the end of 2012. Their share in GDP has also increased from 66.0 percent to 76.3 percent (Chart 3.44). The asset growth was determined by the increase of debts by MDL 16597.3 million (34.5 percent) and by the capital increase (IFRS) by MDL 1418.2 million (14.2 percent).

Chart 3.43 shows the assets concentration of the banking sector during the reporting period.

The banking sector assets are concentrated in the large banks group. At the end of 2013, the large banks group included 6 banks (BC "MOLDOVA - AGROINDBANK" S.A., BC "Moldindconbank" S.A., B.C. "VICTORIABANK" S.A., Banca de Economii S.A., B.C. „UNIBANK” S.A., B.C. „EXIMBANK-Gruppo Veneto Banca” S.A.). The share of assets of the banks of this group was 76.4 percent on December 31, 2013, increasing by 13.2 percentage points compared to the end of 2012. It should be mentioned that in November 2013 the composition of the groups changed. Thus, B.C. „UNIBANK” S.A. moved from the medium banks group in the large banks group. The medium banks group included 5 banks (BC „MOBIASBANCA –Groupe Societe Generale” S.A., BC "BANCA SOCIALĂ" S.A. B.C. „ProCredit Bank” S.A., B.C. "ENERGBANK" S.A., "FinComBank" S.A.), the group of small banks included 3 banks (BCR Chişinău S.A., BC "COMERTBANK" S.A., BC "EuroCreditBank" S.A.).

It should be mentioned that the dominant position limits by assets size on banking market are respected. The BC "MOLDOVA - AGROINDBANK" S.A. holds the largest share of the total assets of the bank in relation to the total assets of the banking sector, representing 17.6 percent (the norm ≤30%).

Table A.25. shows the structure of banking sector assets by the main components.

In 2013, within the structure of assets, there have been recorded the following increases (in descending order):

- cash and cash equivalents²⁶ (mainly due to the increase of interbank placements) – by MDL 9981.5 million (69.5 percent);
- loans and receivables – by MDL 7505.2 million (20.7 percent);
- investments held to maturity – by MDL 408.8 million (12.0 percent);
- tangible assets – by MDL 255.3 million (15.1 percent);
- financial assets available for sale – by MDL 151.0 million (44.3 percent);
- intangible assets – by MDL 12.6 million (5.0 percent).

At the same time, the following have decreased:

- other assets – by MDL 155.1 million (17.8 percent);
- fixed assets and disposal groups, classified as held for sale – by MDL 102.7 million (14.1 percent);
- claims on taxes – by MDL 29.3 million (28.2 percent);
- financial assets held-for-trading – by MDL 11.8 million (6.4 percent).

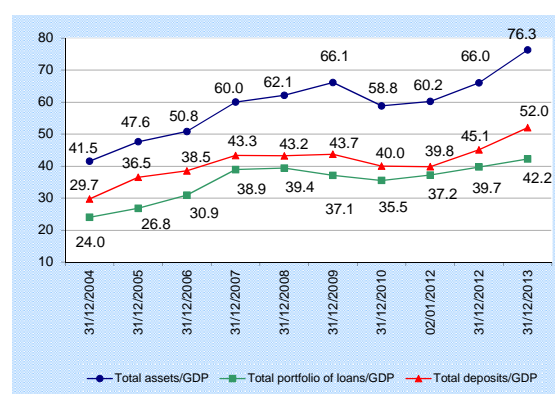
Loans and receivables held the largest share in total assets – 57.4 percent, by 4.9 percentage points less than at the end of 2012. Cash and cash equivalents amounted to 32.0 percent, increasing by 7.3 percentage points. Investments held to maturity held a share of 5.0 percent, down by 0.9 percentage points, and the tangible assets – 2.6 percent, down by 0.3 percentage points. Shares of other items in total assets were insignificant.

Gross loan portfolio (according to prudential reports) amounted to MDL 42177.3 million as on December 31, 2013, increasing by MDL 7195.0 million (20.6 percent) in 2013.

Gross loans ratio to GDP increased from 39.7 percent on December 31, 2012 to 42.2 percent on December 31, 2013 (Chart 3.44).

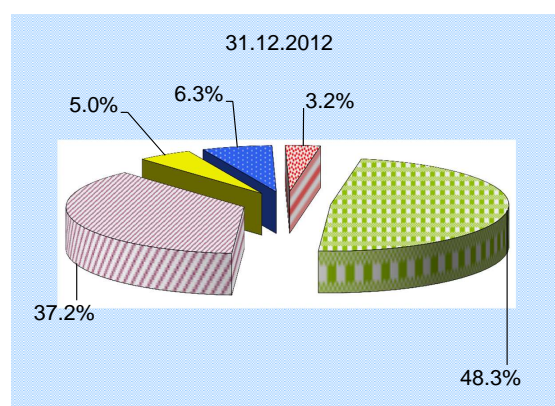
²⁶Cash and cash equivalents – including cash, interbank loans granted for a period longer than 3 months, including funds due from banks, funds due from the National Bank of Moldova, placements and overnight loans and the corresponding part of increased interest, state securities and securities issued by the National Bank of Moldova purchased with a maturity of less than 3 months, including non-pledged and required reserves in MDL.

Chart 3.44: Dynamics of assets, credits and deposits to GDP (%)



Source: NBM

Chart 3.45: Dynamics of the structure of credit portfolio of the banking sector of the Republic of Moldova according to the level of investment operations risk as of 31.12.2012

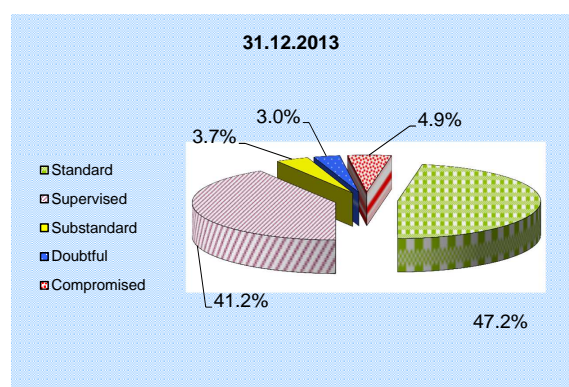


Source: NBM

The structure of the loan portfolio of licensed banks in the Republic of Moldova by industry is presented in Table A.26.

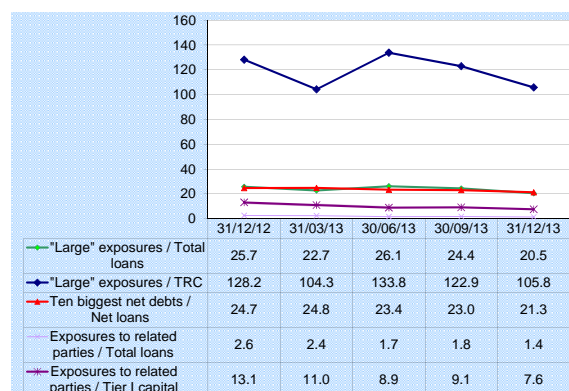
In the context of risk distribution, the loans granted to commerce held the largest share in total loans – 40.0 percent, followed by loans granted to food industry – 9.6 percent, other loans – 9.4 percent, loans granted to productive industry – 7.3 percent, consumer loans – 6.2 percent, loans granted to agriculture – 5.3 percent, loans granted to transport, telecommunications and network development – 5.0 percent, loans granted to the purchase/construction of building – 4.3 percent, loans granted to individuals performing an activity – 3.6 percent, loans granted to construction sector – 3.6 percent, loans granted to non-bank financial environment – 2.6 percent, loans granted to energy industry – 2.4 percent. The shares of other branches are insignificant.

Chart 3.46: Dynamics of the structure of credit portfolio of the banking sector of the Republic of Moldova according to the level of investment operations risk as of 31.12.2013



Source: NBM

Chart 3.47: Dynamics of „large” exposures and exposures to affiliated persons (%)



Source: NBM

During 2013, the non-performing loans decreased in absolute value by MDL 189.3 million (3.7 percent), amounting to MDL 4883.0 million, while the share of non-performing (substandard, doubtful, and compromised) loans in total loans was 11.6 percent as on December 31, 2013, decreasing by 2.9 percentage points compared to the end of 2012 (Chart 3.45; Chart 3.46)

At the same time, the share of net non-performing loans²⁷ in total regulatory capital was 16.6 percent on December 31, 2013, decreasing by 9.3 percentage points.

The share of allowance for loan losses in total loans was 9.7 percent as on December 31, 2013, decreasing by 1.0 percentage points compared to the end of 2012.

It should be mentioned that the allowance calculated for all conditional assets and liabilities in the banking sector amounted to MDL 5218.4 million as on December 31, 2013, while the allowances for impairment losses amounted to MDL 2392.9 million, the difference recorded – MDL 2825.5 million.

Banks' exposures to affiliates recorded insignificant shares in total credits – 1.4 percent (average per sector). The ratio of exposures to affiliates and Tier I capital amounted to 7.6 percent on December 31, 2013 (maximum limit – 20.0 percent).

The amount of the ten largest net debt loans constituted 21.3 percent of net loans on the sector (maximum limit – 30.0 percent). The share of all "large" exposures constituted 20.5 percent of the total loan portfolio and 105.8 percent of total

²⁷Net non-performing loans = amount subject to classification on non-performing loans minus discounts on these

regulatory capital (maximum limit – 500.0 percent), (Chart 3.47).

The total amount of the bank's net exposures in MDL linked to foreign exchange rate to individuals, including those who practice entrepreneurial or other activity, constituted 5.6 percent (the limit ≤ 30.0 percent) of total regulatory capital. Total net exposures, other than mortgages to individuals, accounted for 2.5 percent (the limit ≤ 10.0 percent) of total regulatory capital.

Loans granted to banks employees accounted for MDL 186.8 million or 0.4 percent of the total loan portfolio and 2.3 percent of total regulatory capital of the banking sector (maximum limit – 10.0 percent of total regulatory capital).

The ratio of the total investment in long-term tangible assets to total regulatory capital on sector was 23.4 percent (the limit ≤ 50.0 percent).

The ratio of the total investment in long-term tangible assets and equity interest in the capital of economic entities to total regulatory capital on sector accounted for 25.9 percent (maximum level – 100.0 percent).

The share of balance sheet assets in foreign currency combined with foreign currency-linked assets in total assets was 44.7 percent. The share of balance sheet liabilities in foreign currency and the foreign currency-linked liabilities in total assets amounted for 43.4 percent. The difference of 1.3 percentage points between the aforementioned shares shows that the exchange rate risk is minimal and does not significantly influence the financial stability of the banking sector.

Capital of banks

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

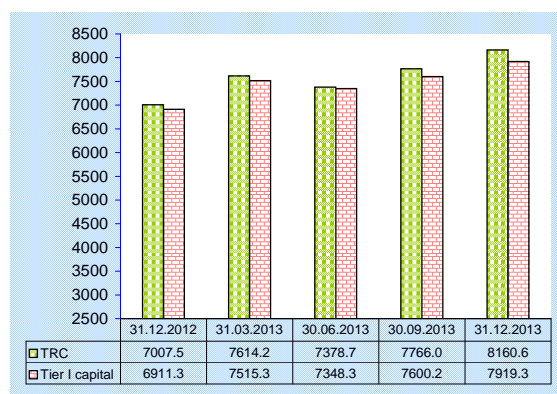
Tier I Capital reached the level of MDL 7919.3 million, increasing by MDL 1008.0 million (14.6 percent) as compared to the end of 2012.

Tier I Capital increase was due to the income obtained during 2013 in the amount of MDL 1020.2 million and by the shares issuances performed by 4 banks in the amount of MDL 568.7 at the expense of additional money contributions made by the

underwriters of shares (B.C. "EXIMBANK – Gruppo Veneto Banca" S.A – MDL 365.0 million, B.C. "ProCredit Bank" S.A. – MDL 23.5 million, Banca de Economii S.A. – MDL 80.2 million and B.C. "UNIBANK" SA – MDL 100.0 million).

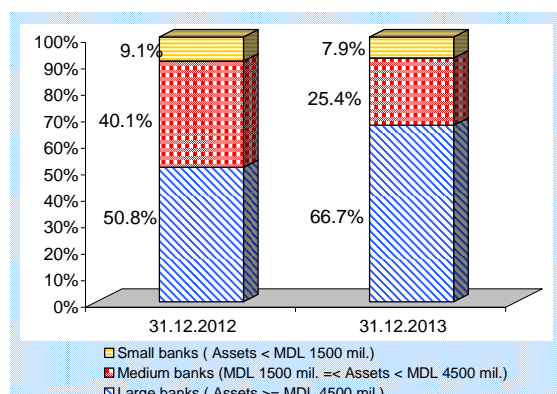
The calculated but unformed yet amount of allowances for the impairment losses on conditional assets and commitments have also increased by MDL 386.2 million, or by 15.8 percent (which decreases the amount of Tier I capital). It should be mentioned that during 2013, five banks have paid dividends in the amount of MDL 191.3 million.

Chart 3.48: Dynamics of banking capital of the Republic of Moldova in 31.12.2012 – 31.12.2013 (MDL, million)



Source: NBM

Chart 3.49: Concentration of Tier I capital of the banking sector of the Republic of Moldova by groups of banks



Source: NBM

As of December 31, 2013, Tier I capital of banks corresponded with the established minimum required capital (the norm \geq 200.0 million), with the exception of one bank.

Total regulatory capital includes Tier I and Tier II capital (Tier II capital is limited to maximum – 100.0 percent of Tier I capital) minus equity interest in the capital of other banks holding the license of the National Bank of Moldova.

Total regulatory capital compared to the end of 2012 increased by MDL 1153.1 million (16.5 percent). Dynamics of Tier I capital and total regulatory capital in the analyzed period is shown in the Chart 3.48.

The average risk weighted capital adequacy by sector on December 31, 2013 (ratio of total regulatory capital to risk-weighted assets) maintained at a high level – 23.4 percent (the minimum level in the Republic of Moldova is \geq 16.0 percent), indicating a high degree of safety of banks.

As compared to December 31, 2012, the aforementioned indicator decreased by 0.9 percentage points at the expense of investments increase. As of December 31, 2013, all banks complied with this indicator.

Chart 3.49 shows the changes in the capital structure of the banking system in terms of its concentration on groups of banks.

The share of total regulatory Tier I capital of large banks of the banking system totaled 66.7 percent as of December 31, 2013, increasing by 15.9 percentage points as compared to December 31, 2012. The share of Tier I capital of medium and small banks constituted 25.4 and 7.9 percent respectively, decreasing by 14.7 and 1.2 percentage points as a result of changes in the composition of bank groups.

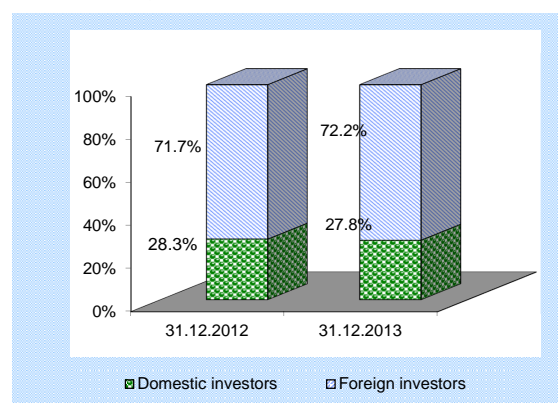
In 2013, the foreign investors maintained their activity in the banking sector, which is confirmed by the significant share of

foreign investments in the banks' capital, which constituted 72.2 percent on December 31, 2013, by 0.5 percentage points higher than at the end of 2012, as a result of social capital increase at the expense of non-resident shareholders investments (Chart 3.50). Thus, non-resident shareholders investments increased by MDL 431.0 million (16.9 percent), while domestic shareholders investments increased by MDL 137.8 million (13.6 percent).

Among the foreign investors participating in the capital formation of banks from the Republic of Moldova are as follows: the European Bank for Reconstruction and Development, banks from Italy, France, Romania and Slovenia, as well as corporate investors from Great Britain, Austria, Germany, the USA, Ukraine, the Russian Federation, the Netherlands, Greece, Czech Republic, Switzerland, Cyprus and other countries.

Out of total number of banks, 4 banks have their capital formed entirely from foreign investments (2 of them are subsidiaries of foreign banks: B.C. "EXIMBANK - Gruppo Veneto Banca" and BCR Chişinău S.A) and 10 bank - of capital formed entirely from foreign and domestic investments.

Chart 3.50: Capital structure of the banking sector in the Republic of Moldova, according to sources of investments



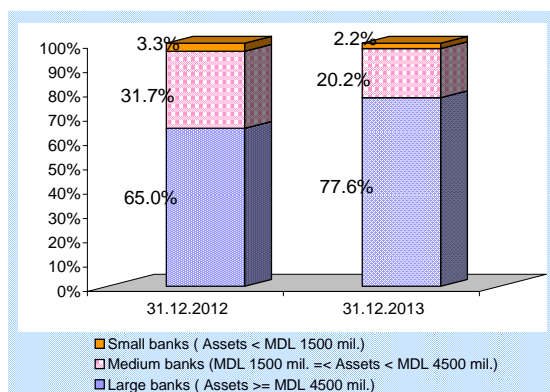
Source: NBM

Liabilities of banks

As of December 31, 2013 the liabilities of banks accounted for MDL 64752.9 million, increasing by MDL 16597.3 million (34.5 percent) as compared to December 31, 2012. Financial liabilities measured at amortized cost (clients' deposits, bonds issued by the bank, other loans, subordinated debts, overnight loans, securities sold under REPO) held the largest share in total liabilities as of December 31, 2013 – 98.6 percent (MDL 63851.4 million), by MDL 16413.0 million (34.6 percent) more than at the end of 2012. Thus, the clients' deposits accounted for MDL 55270.4 million, increasing by MDL 15355.3 million as compared to December 31, 2012. At the same time, other debts (overdraft on "Nostro" accounts, overnight loans from the NBM, overnight loans from banks, loans from banks) increased by MDL 127.5 million (42.5 percent), accounting for MDL 427.4 million, the debts on taxes – by MDL 46.6 million (14.0 percent), accounting for MDL 380.4 million, provisions by MDL 9.1 million (10.8 percent), accounting for MDL 92.6 million (including provision for business restructuring, debt related to employee benefits, provisions related to damage costs arising from lawsuits against the bank, funding commitments and other provisions) and the financial liabilities held for trading – by MDL 1.1 million, accounting for MDL 1.1 million (Table A.27).

The clients' deposits hold the largest share in bank liabilities as on December 31, 2013 – 85.4 percent, by 2.5 percentage points more as compared to the end of 2012.

Chart 3.51: Dynamics of liabilities concentration of the banking system of the Republic of Moldova by group of banks



Source: NBM

According to the prudential reports on December 31, 2013, the balance of deposits amounted to MDL 51889.9 million, increasing by MDL 12118.6 million (30.5 percent) compared to December 31, 2012 due to the increase in individuals' deposits by MDL 5869.2 million (23.0 percent), up to MDL 31349.3 million, deposits of legal entities - by MDL 3633.9 million (28.6 percent), up to MDL 16318.2 million, and deposits of banks - by MDL 2615.5 million (162.8 percent), up to MDL 4222.5 million. Their share in GDP increased by 6.9 percentage points compared to December 31, 2012, representing 52.0 percent (Chart 3.44).

As on December 31, 2013, the deposits in foreign currency held a share of 44.7 percent in total deposits (MDL 23183.9 million), increasing in absolute value by MDL 5748.5 million (33.0 percent) compared to December 31, 2012. Deposits in MDL recorded a share of 55.3 percent (MDL 28706.0 million) in total deposits, increasing by MDL 6370.1 million (28.5 percent) compared to the end of 2012.

The liabilities concentration in the banking system during the analyzed period is shown in the Chart 3.51.

The share of liabilities of large banks in total banking system liabilities was 77.6 percent as of December 31, 2013, increasing by 12.6 percentage points as compared to December 31, 2012. At the same time, the share of liabilities of medium banks has decreased by 11.5 percentage points, representing 20.2 percent as on December 31, 2013 and the share of liabilities of small banks - by 1.1 percentage points, accounting for 2.2 percent in total liabilities in the system, as a result of changes in the composition of the bank groups.

Liquidity of banks

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

Thus, the long-term liquidity (assets with the reimbursement term over 2 years/financial resources with the potential withdrawal term of over 2 years ≤ 1) accounted for 0.7 as of December 31, 2013.

The current liquidity (liquid assets expressed in cash, deposits with the NBM, liquid securities, and net current interbank funds /total assets X 100% \geq 20.0%) equaled to 33.8 percent at the end of 2013. Both of the indicators were observed by the banks.

Liquid assets totaled MDL 25718.6 million, and increased by MDL 6556.0 million as compared to December 31, 2012 (34.2 percent). Within the structure of liquid assets, net interbank loans up to 1 month increased by MDL 5939.9 million (2.8 times), deposits with the National Bank of Moldova – by MDL 1063.2 million (17.8 percent) and cash and precious metals – by MDL 342.4 million (13.9 percent). Simultaneously, the liquid securities decreased by MDL 789.5 million (10.7 percent) (Chart 3.52).

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

The current net interbank placements held the largest share in liquid assets as of December 31, 2013 – 36.1 percent, followed by deposits with the NBM – 27.4 percent, liquid securities – 25.6 percent, and cash and precious metals – 10.9 percent.

Income and expenses of banks

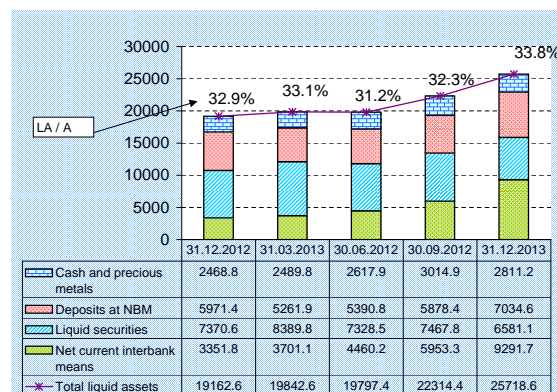
As of December 31, 2013 the profit on the banking sector amounted to MDL 1020.2 million. Compared to the same period of 2012, the profit increased by MDL 585.6 million (2.3 times), as a result of the decrease in noninterest-related expenses by MDL 549.9 million (15.9 percent) and the increase in interest-related income by MDL 348.6 million (7.9 percent).

The dynamics of income and expenses of banks during the analyzed period is shown in Chart 3.53.

Thus, the interest-related income amounted to MDL 4766.2 on December 31, 2013 or 72.2 percent of total income, increasing by MDL 348.6 million (7.9 percent) compared to December 31, 2012. The interest-related income on loans and receivables held the largest share within the structure of interest-related income, which accounted for MDL 4425.3 million or 92.8 percent of the total, increasing by MDL 452.4 million or (11.4 percent) compared to December 31, 2012.

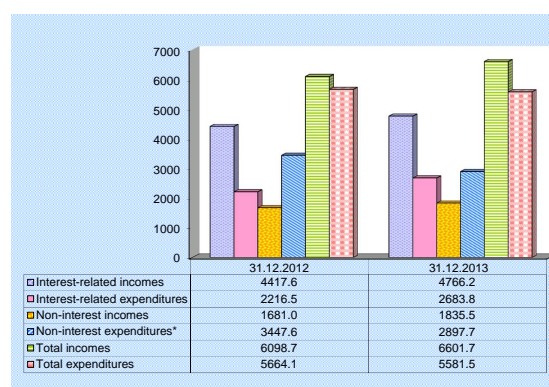
Noninterest-related income accounted for MDL 1835.5 million or 27.8 percent of total income, increasing by MDL 154.5 million (9.2 percent) compared to December 31, 2012. Fees

Chart 3.52: Dynamics of liquid assets (MDL, million) and thier share in total assets (%) of the banking sector of the Republic of Moldova



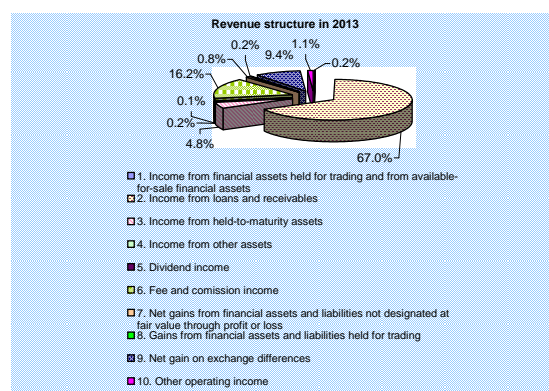
Source: NBM

Chart 3.53: Dynamics of banking income and expenses in the Republic of Moldova during 2011-2013 (MDL, million)



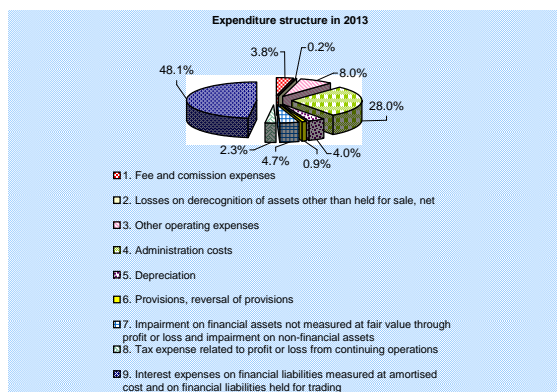
Source: NBM

Chart 3.54: Incomes structure of the banking sector of the Republic of Moldova for 2013



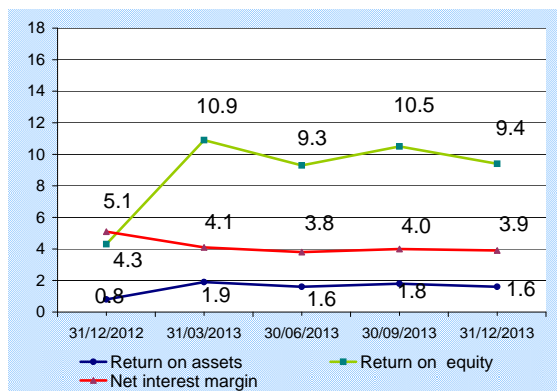
Source: NBM

Chart 3.55: Expenditures structure of the banking sector of the Republic of Moldova for 2013



Source: NBM

Chart 3.56: Dynamics of net interest margin, the return on assets and return on equity in the banking system of the Republic of Moldova (%)



Source: NBM

and commissions related income held the largest share in total noninterest-related income, amounting to MDL 1066.7 million (58.1 percent).

The total amount of expenses equaled to MDL 5581.5 million, of which MDL 2683.8 million or 48.1 percent represented interest-related expenses, increasing by MDL 467.3 million (21.1 percent) compared to December 31, 2012 (Chart 3.54; Chart 3.55)

Noninterest-related expenses (including impairment of financial assets not at fair value through profit or loss and the impairment of non-financial assets) accounted for MDL 2897.7 million or 51.9 percent of total expenses, decreasing by MDL 549.9 million (15.9 percent) compared to December 31, 2012.

As of December 31, 2013 the impairment of financial assets not at fair value through profit or loss amounted to MDL 314.4 million, decreasing by MDL 422.2 million (57.3 percent) compared to 2012.

Impairment of non-financial assets of the banking sector recorded a value of minus MDL 52.6 million on December 31, 2013, decreasing by MDL 212.0 million (133.0 percent) compared to 2012.

In 2013, the return on assets²⁸ and return on equity²⁹ of licensed banks was 1.6 percent and 9.4 percent, respectively, increasing by 0.8 and 5.1 percentage points as compared to the end of 2012.

Net interest margin³⁰ was 3.9 percent on December 31, 2013, decreasing by 1.2 percentage points versus the end of 2012 (Chart 3.56).

The absolute value of interest-bearing assets increased by MDL 16599.8 million during 2013 or by 34.9 percent, totaling MDL 64128.1 million on December 31, 2013. Their share in total assets has increased by 2.5 percentage points compared to the end of 2012, accounting for 84.2 percent on December 31, 2013. This significant share in total banking assets indicates the ability of banks to generate income in the future.

²⁸Return on assets = annualized net income / average assets

²⁹Return on equity = annualized net income / average equity

³⁰Net interest margin = annualized net interest / average interest-bearing assets

3.7 Strategic Plan of the National Bank of Moldova for 2013-2017

In September 2012, the Council of Administration of the National Bank of Moldova has approved for the first time the Strategic plan of the NBM for 2013-2017. The decision to develop a Strategic plan for the National Bank of Moldova, which would draw the direction over the next five years, was taken considering the bank's desire to consolidate all functions and activities of the NBM to serve the best interests of Moldovan citizens.

The strategic plan is a corporate management tool that will help the bank to focus its resources and efforts on achieving the objectives it initiated in a period in which central banks face extensive challenges as a result of the global financial crisis. The plan intends to ensure a high level of efficiency, transparency and performance, by aligning to the best international practices of communication, credibility and corporate governance. The strategic planning process involves setting goals considered most important to achieving organizational success and developing an action plan (other than operational), which will in time lead to achieving the goals and bring an added value. A functioning strategic plan will result in the strengthening of the NBM's role in society by fulfilling all tasks undertaken, ensuring an efficient use of resources and reducing the exposure to risks. The strategic plan includes several key elements such as: mission, vision, values, basic fields of activity, strategic objectives, etc.

Mission of the National Bank of Moldova

The mission reflects the fundamental objective of the NBM and describes its concrete reason to exist and indirectly indicates its primary stakeholders (citizens, partners, etc.). The mission statement has a concise formulation that identifies the role of the NBM in the State. The mission raises public awareness on economic issues and promotes the credibility of the Bank. The mission statement should be achievable, instructive, and accurate, reflecting the values and culture of the NBM and be oriented towards achieving its primary objective. Based on the above, the NBM mission is:

„The primary objective of the National Bank shall be to ensure and maintain price stability. Without prejudice to the primary objective, the National Bank shall promote and maintain a financial system based on market principles and shall support the general economic policy of the State.”

Vision of the National Bank of Moldova

The vision of the NBM is the statement that concisely expresses the future aspirations of the institution. The declaration of NBM's vision is accepted, assimilated and respected by all employees and is the starting point in formulating strategic objectives. Accordingly, NBM's vision is:

„National Bank of Moldova is an independent public authority, efficient and credible, which promotes an adequate monetary policy and helps ensuring the integrity and stability of the financial system, consistently applying the best international practices in the interest of society.”

Values of the National Bank of Moldova

The common values of the NBM are the basic principles guiding its activity and to which its decisions are aligned; these values are shared by the Council of Administration, valued by each employee, are maintained over time and remain unchanged. These values are meant to determine the internal communication procedures and to support the creation of a credible public image of the NBM. The NBM's values are the following:

Civic engagement - activities oriented towards the benefit of public interest;

Efficiency - application of innovation and of modern technologies in resources usage;

Excellency - demonstration of competence and professionalism in exercising and adopting the best international practices;

Transparency - transparent and impartial attitude in the decision-making process;

Accountability - responsible attitude toward society in implementing the assigned tasks;

Integrity - ethical behavior at bank and employee level;

Credibility - conduct that inspires and maintains public confidence.

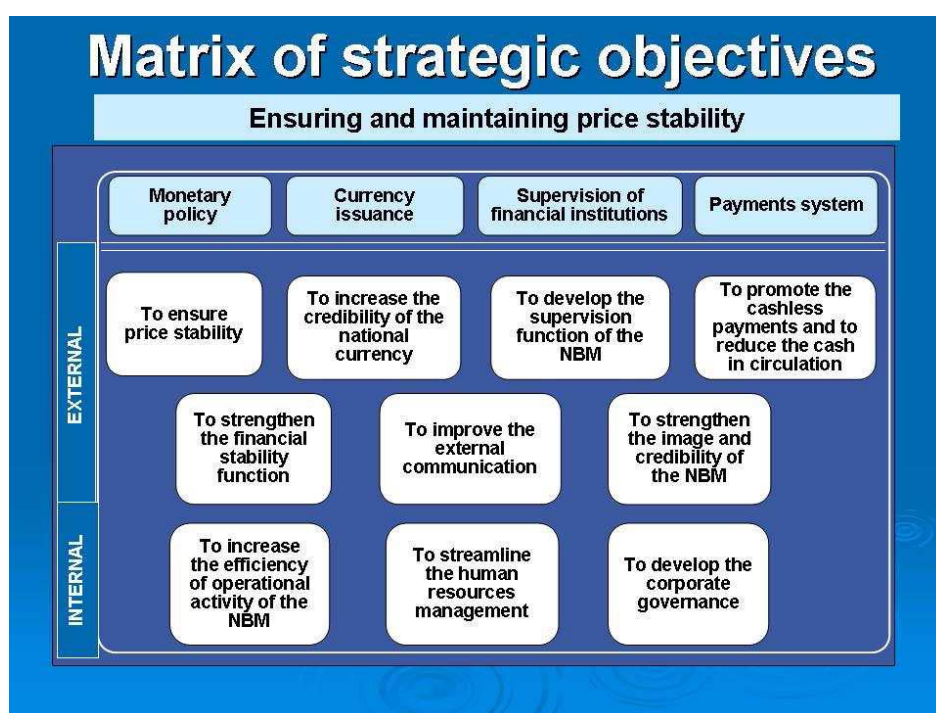
By establishing the *basic fields of activity*, the specific functions of the NBM are highlighted, these fields of activity actually reflecting the NBM's mission and constituting its basic pillars. The basic fields of activity are a source for formulating strategic goals.

The *strategic objectives* are those priorities that the Bank sets based on the mission for a period of time, in order to help achieve its vision. The strategic objectives are clearly defined and specific, attainable, being qualitative or quantitative. It is important to indicate both interim deadlines (for actions that

will be determined later) and final deadlines, depending on the nature, complexity and difficulty of the assumed objectives and the manner of ensuring the volume and the resources committed.

The basic fields of activity and strategic objectives set in the Strategic plan are represented in the *Matrix of strategic objectives of the NBM* (Figure 1) in order to highlight the four pillars of NBM's activity and have a clearer view of the strategic objectives from internal and external perspective.

Figure 1: Matrix of strategic objectives of NBM



The year of 2013 is the first year of implementation of the Strategic plan. In this context, the measures taken by the NBM subdivisions to achieve strategic objectives were assessed, those achieved being listed below:

- Maintaining inflation rate within the range of ± 1.5 percentage points from 5.0 percent target;
- Establishing the National Payments Council;
- Approval of the Risk Register Concept;
- Implementation of macroprudential-stress testing of credit risk;
- Developing analysis, forecasting and monitoring skills;
- Implementation of a single trading platform for foreign exchange and monetary instruments (ongoing for monetary operations);
- Improving communication and dissemination of knowledge related to the areas of activity of the NBM to the media and general public;
- Approval of the Concept of activity process transformation and modernization of the banking information system of the NBM;
- Data and information classification in the NBM.

During 2013, according to the Strategic plan of the National Bank of Moldova for 2013-2017, a series of major projects to achieve the strategic objectives were conducted. A review of the major projects and achievements of 2013 are shown in Table A.39.

3.8 Payment system

Payment Systems Oversight

In order to ensure financial stability and to maintain public confidence in payment instruments, the National Bank of Moldova the statutory task of supervising the payment system in the Republic of Moldova and to facilitate the efficient functioning of the interbank payment system, according to Art.5 letter f) of the Law no.548-XIII of July 21, 1995 on the National Bank of Moldova. This task is carried out in

accordance with the best international practices and recommendations, principles, standards in this area issued by the Bank for International Settlements (BIS), the European Central Bank (ECB), International Monetary Fund (IMF), World Bank (WB) etc., with the normative acts, as well as with the internal procedures for monitoring the automated interbank payment system, the book-entry system of state securities, the market for payment cards and money remittance system.

According to the *Payment System Oversight Policy* in the Republic of Moldova (approved by the Decision of the Council of Administration no.143 of June 30, 2011) the National Bank of Moldova oversees the payment and settlement systems, their stable and efficient functioning being essential for financial stability and monetary and foreign exchange policy implementation, as well as the mechanisms for risk management established within the systems widely used by the population for payments and transfers. In order to promote public confidence in cashless payments, the National Bank oversees the cashless payment instruments and remote banking systems to ensure their effectiveness and safety.

To achieve the objectives set out in the oversight of payment and settlement systems, the followings are subjected to oversight:

- 1) Automated Interbank Payment System – system through which interbank payments are made in MDL on the territory of the Republic of Moldova, being administered by the NBM;
- 2) the book-entry system of state securities – depository and settlement system of state securities are organized and managed by the National Bank of Moldova;
- 3) financial risk management mechanisms regarding the settlements in MDL established within the card payment systems;
- 4) financial and operational risk management mechanisms established within the international money transfer systems.

Within the oversight of payment and settlement systems, the National Bank of Moldova performs the following: assesses the systems / risk management mechanisms; ensures the regulatory framework; assesses the compliance of the systems / risk management mechanisms with the requirements set out in the normative acts and applicable international standards; where appropriate, depending on the results of the oversight, applies sanctions and/or remedial measures in the form of recommendations or mandatory provisions with implementation deadlines, in accordance with the law.

For the oversight of non-cash payment instruments and e-banking systems, the National Bank of Moldova performs the following: collects data on safety and efficiency of non-cash payment instruments and e-banking systems, monitors the appearance of new technology in the field, analyzes the effectiveness and safety indicators based on the information and data obtained from both banks and its own researches, in order to identify the current situation and recent developments in the use of non-cash payment instruments / e-banking systems, their safety and measures that can be undertaken in order to improve the value of the aforementioned indicators. As well, in the event of worsening of indicators value related to safety and efficiency of payment instruments / e-banking systems, the National Bank intervenes by adjusting the regulatory framework, making recommendations or undertaking other appropriate measures to increase their robustness.

The Automated Interbank Payment System

Statistical Data

The Automated Interbank Payment System (AIPS) is formed by the Real-Time Gross Settlement System (RTGS) and Designated-time Net Settlement System (DNSS). The RTGS is designed for processing large-value and urgent payments, and the DNSS is designed for processing retail payments.

In 2013, the volume of payments processed with the AIPS has increased in number (9.2 percent) and in value (with 17.3 percent), compared to 2012. The number of payments stood at 14.1 million, and their value exceeded MDL 688.0 billion.

In terms of structure of the payments, the budgetary credit transfers held the largest share (56.4 percent of total payments), followed by regular transfers of clients (42.6 percent). In terms of value, the payment structure was different, the value of regular transfers of clients (20.9 percent) exceeded the budgetary credit transfers (14.9 percent), but the transfers of banks in their own name and those of the NBM held the largest share.

The distribution of the number of payments between the AIPS components in 2013 represented: RTGS – 7.2 percent of payments and DNSS – 92.8 percent. The ratio of the two AIPS components is changing in terms of the value of payments, the RTGS processed 93.2 percent of total amount of payments while the DNSS – only 6.8 percent.

In 2013, averaged over one day³¹, there were 4000 payments worth MDL 2.5 billion settled through the RTGS system, while

³¹the term „day” means operational day

settle through the DNSS there were 51.3 thousands payments worth MDL 184.2 million. The average value of payments settled in the RTGS system was MDL 634.8 thousand and a payment settled with the DNS system – MDL 3.6 thousand.

Budgetary and ordinary credit transfers of the clients have the largest share in the total number of payments processed in AIPS, the shares being distributed as following:

- ordinary credit transfer – 42.6 %;
- budgetary credit transfer – 56.4 %.

Table A. 28 presents the evolution of payments settled through AIPS compared with 2012.

During 2013, the Centre for Electronic Governance was connected to the AIPS in the context of the settlement of interbank payments for public services paid through the E-Payment Government Service (MPay).

The integration of MPay service (intended for the electronic payment for public services) in AIPS is consistent with the National Bank's agenda for 2013-2017 on promoting cashless payments and reducing cash in circulation³².

Also, in order to minimize financial risks and to implement the relevant international principles³³, the National Securities Depository as from January 1, 2013 is part of AIPS.

Therefore, at the end of 2013, there were 19 participants registered at AIPS:

- The National Bank of Moldova;
- 14 banks licensed by the National Bank of Moldova;
- Settlement Centre from Tiraspol;
- State Treasury within the Ministry of Finance;
- National Securities Depository of Republic of Moldova;

³²Promoting cashless payments and reducing cash in circulation is one of the strategic objectives of the NBM established in the Strategic plan of the National Bank of Moldova for 2013-2014 (Decision of the Council of Administration of the National Bank of Moldova no. 209 of September 13, 2012).

³³Principles for Financial Market Infrastructures, Bank for International Settlements (BIS) - International Organization of Securities Commissions (IOSCO), April 2012.

- Centre for Electronic Governance.

During 2013, as the administrator of AIPS, the National Bank has continuously monitored the activity of the participants in the system and tested their ability to react in case of incident. As a result of the measures applied, it was found that the participants activated adequately, without inducing substantial risks in the system and have the necessary abilities to quickly and effectively organize themselves in case of incidents.

Taking into account the NBM's objective to promote cashless payments and reduce cash in circulation, the uniform tariff for processing a payment document in the DNS system has come into force since January 1, 2013. Thus, regardless of the value and purpose of the payment processed through the DNS system, the commission charged by the National Bank was MDL 0.25. Note that the above fee for processing a payment document in the DNS system, except for the payment documents related to budget transfers with the value of MDL ≤ 1000 , was MDL 1.25.

Supervision of AIPS

The supervision of AIPS is made to ensure the stable and efficient operation of the system. Over 2013, the system's availability for its participants was 99.9 % and was within the limits set for the system parameters while major incidents that disrupt the activity of AIPS and affect its participants did not occur.

The state securities book-entry system

The state securities book-entry system is a system of indirect ownership of State securities, structured on two tiers:

- 1) First tier - organized at the NBM, the securities are registered in the name of each participant.
- 2) Second tier - organized at the licensed banks and the central depository, the securities are registered in the name of each client - the owner of SS, as a result of operations at the primary and secondary markets.

Supervision of the state securities book-entry system

Supervision of the state securities book-entry system is performed to ensure stable operation of the system. Over 2013, the system's availability for its participants was 99.9 % and was within the limits set for the system parameters, while major incidents that disrupt the activity of the state securities book-entry system and participants did not occur.

In 2013, the compliance evaluation with the principles related to the financial market³⁴ infrastructures developed by CPSS³⁵ - IOSCO³⁶ was conducted by the state securities book-entry system. The evaluation was also performed by using the information related to the operation of the state securities book-entry system, including information obtained from monitoring its functional and technical parameters, the amendments to the laws and regulations that deal with the securities settlement system, recent developments in field of securities settlement systems, and other relevant information. In the context of the evaluation, it was determined that the state securities book-entry system complies with most of the principles.

Cashless payment instruments

The National Bank of Moldova carries out supervision of non-cash payment instruments, which are essential components of the payment systems, in order to ensure efficiency and safety of use.

Note that, payment cards are the most used payment instruments by the population, the remaining payment instruments being at the initial stage of use, while NBM undertakes relevant measures jointly with other authorities and international institutions to promote their use.

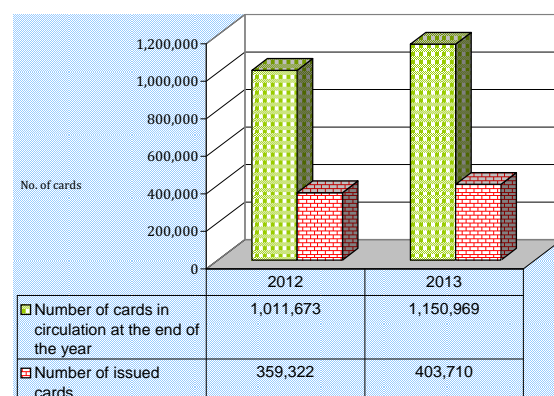
Payment cards

The number of cards in circulation by the end of 2013 exceeded 1 million (1150969 units), recording an increase of 13.8 percent compared to 2012. The active cards³⁷ represent 62.0 percent of the total number of cards in circulation (713218 units).

As in 2012, the banking cards market in the Republic of Moldova is prevailed by cards equipped only with a magnetic tape - 70.1 percent, the share of cards with a microprocessor and a magnetic tape being 29.3 percent. In 2012, the share of magnetic tape cards was 82.0 percent.

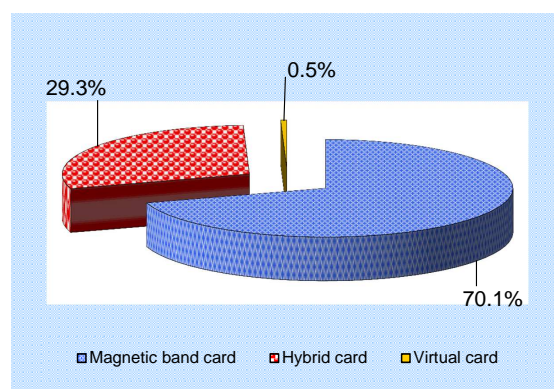
The number of virtual cards³⁸ has increased over the year by 65.0 percent, but their share is insignificant - 0.5 percent (6119 cards), of which 74.2 percent (4542 units) are active cards.

Chart 3.57: Number of cards in circulation in 2012 and 2013



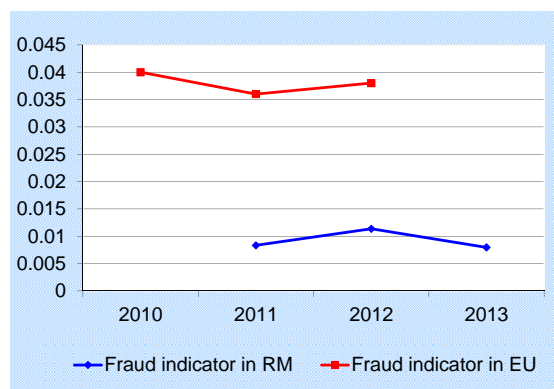
Source: NBM

Chart 3.58: Share of cards issued during 2013, by technical solution



Source: NBM

Chart 3.59: Fraud committed by payment cards in the EU and the Republic of Moldova



Source: NBM

³⁴Principles for Financial Market Infrastructures, CPSS-IOSCO, 2012

³⁵Committee for payment and settlement systems

³⁶International Organization of Securities Commissions

³⁷Bank card through which at least one financial operation has been performed during the reporting period

³⁸Exclusively used for cashless payments through Internet

Note that, when it comes to the dynamics of fraud in 2013, the Republic of Moldova has recorded a decrease in the number and value of frauds recorded, compared with 2012, with 14.8 percent and 19.5 percent, respectively.

The basic indicator applied to assess the situation of payment card frauds is the share of the total amount of fraud committed from the total value of transactions with payment cards issued by licensed banks made both locally and abroad. In the Republic of Moldova, this indicator was 0.0114 percent in 2012 and 0.0079 percent in 2013, being below the European level, which in 2012 amounted to 0.038 percent.

For 2013, the most common type of fraud recorded is performed via internet using data card (card not-present) - 50.2 percent of frauds.

From the geographical point of view, in 2013, from the total numbers of frauds made with cards issued by licensed banks in the Republic of Moldova, 64.0 percent are made abroad and constitute 78.0 percent of the total amount of frauds.

Actions in the development of the national payment system

National Council of Payments. On September 16, 2013 there was held a meeting to create the National Council of Payments and was approved the Status of the National Council of Payments.

At the meeting there were present representatives of the management of the National Bank of Moldova, Ministry of Finance, Ministry of Economy, Ministry of Information and Communication Technology, the State Fiscal Inspectorate, Centre of Electronic Governance, Moldovan Banks Association and licensed banks in the Republic of Moldova.

National Council of Payments is conceived as a professional forum for high-level consultation between various public and private institutions, to support the safe and stable operation of the payment system in the Republic of Moldova and has the following objectives:

- promoting cashless payments in the Republic of Moldova and reducing cash in circulation;
- promoting operational efficiency, security and integrity of services and payments systems in the Republic of Moldova;

- promoting the compliance of services and payment systems with the market demand and the needs of users, and their accessibility to whole population of the Republic of Moldova;
- promoting the innovative nature of payments, the cashless payment instruments safety and their accessibility for users.

Questionnaire on cashless payment instruments/services.

In order to understand the public perception on cashless payment instruments and the main causes of reticence in their use, the National Bank of Moldova organized a survey in January-March 2013 that aimed to identify the population's opinion on the cashless payment instruments/ services (bank cards, internet-banking, direct debit) and the main causes of reticence in their possession or in their use for performing cashless payments. The results of this survey provided an opportunity to determine the respondent's opinion on cashless payment instruments/ services and the main impediments to their use, which is very important for setting the strategic actions on promoting the cashless payments by the National Bank of Moldova.

In this context, the National Bank of Moldova has taken actions to increase the level of financial literacy of payment services users. It was developed the Concept on cashless payments mediatization to promote the financial literacy of the payment services users, under which the National Bank of Moldova shall cooperate with the German investment fund "Finance in motion" to conduct awareness campaigns on the growth of the degree of awareness growth of the cashless payment instruments advantages. The aim of these campaigns is the dissemination through various channels (TV, radio, Internet) of the messages on the benefits of cashless payments.

MPay Service Launch. The National Bank of Moldova banks participated actively with the licensed banks to launch the Mpay service, which allows the services payment through multiple payment methods. The National Bank of Moldova participated to all phases of the Mpay service implementation – from the conceptualization phase to the achievement of the last live tests.

Facilitating remittances through the use of the formal channels to transfer remittances and the increase of financial inclusion level. In this regard, in October 2013 there was concluded an Agreement of cooperation with the International Organization for Migration – mission in the Republic of Moldova, which has as objectives:

- increase the financial literacy of the users of money remittance services;
- increase the transparency of conditions to provide money remittance services;
- strengthen the capacity of the national providers of money remittance services to diversify the ways of performing international money transfers.

3.9 Information system for reporting to the National Bank of Moldova

After a successful implementation of the new system for reporting to the NBM (SIRBNM) in 2012, based on the international standard for data transmission – XBRL, the migration work of the reports from the old reporting system to SIRBNM continued in 2013. It was also worked on the optimization and further development of SIRBNM.

During 2013, the reporting FINREP (at individual level) has been extended, by including new tables, and the reporting FINREP at consolidated level (submitted since 2014, as of December 31, 2013). Simultaneously, the number of reports of ORD³⁹ domain was extended, presented through SIRBNM (updating the normative acts in the reporting area, as appropriate). Thus, within SIRBMN at the end of the year were presented:

- a) for the FINREP – 1 report that includes 38 tables, presented with monthly, quarterly, semesterly periodicity;
- b) for the ORD - 29 reports that include 56 tables, presented with the following periodicity: 3 of them weekly, 11 of them monthly and 14 of them quarterly.

In order to ensure the quality of data presented in those 30 reports, there were implemented a number of validation rules, as simple: data types, mathematical/accounting relations, as well as advanced – conditional or relational (based on values of reporting for a given indicator, is determined the presentation of other indicators).

At the same time, following the successful completion in 2013 of the second stage of development of the reporting system,

³⁹domain including all statistic and prudential reports, other than FINREP and COREP

which aimed to improve the functionality needed to strengthen statistical and prudential reporting in XBRL format, including those with low periodicity (daily reports), were created the premises for full migration of the statistical and prudential reports to SIRBNM, including those with a daily periodicity.

3.10 Information technology

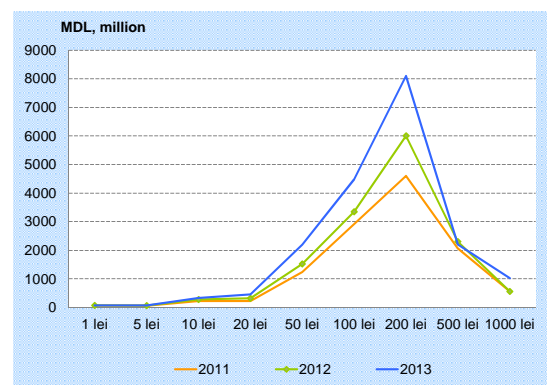
In 2013, the priorities of IT function within the NBM were focused primarily on continuing the major projects initiated during 2012. These priorities targeted both the NBM transversal projects and internal projects of the department of development and optimization of the IT services, the last ones being described below.

As regarding the aspects of hardware and IT services infrastructure, the primary aim was to strengthen the capacity of virtualization of IT resources. The purpose of virtualization of IT resources projects in the NBM is to ensure, on the one hand, a more efficient management of existing resources, and, on the other hand, to optimize the processes related to the way they are allocated, managed, monitored and disused, as well as related to the capacity and change management, information security etc.

One of the projects based on the direction of development, initiated during 2012 and to be completed by 2014, is the implementation of Virtual Desktop Infrastructure. This project is based on an innovative concept for the Republic of Moldova, which will allow the optimization of use and management of IT resources, increased level of data protection, ensuring a high level of availability of the working place, enhancing responsiveness and minimizing the recovery time in case of incidents of continuity, increased user mobility, etc. Expanding the number of virtualized jobs from 50 to 150, optimizing the virtualization platform and improving the quality of virtualization services are among the achievements of 2013.

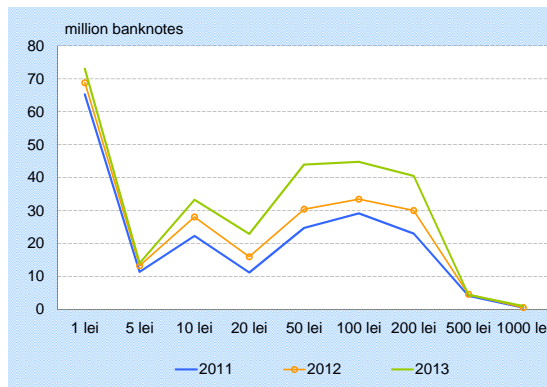
Another major project initiated in 2013 was the modernization of the automated interbank payment system (AIPS). The objectives of this project aimed to improve performance characteristics, reliability, security and functionality of AIPS. These objectives were based on two main factors: the criticality level of this system for the financial security of the country and the achievement of a high degree of obsolescence and wear and tear of the hardware/software infrastructure and of the technological platform, which were implemented in 2007. This

Chart 3.60: Evolution of banknotes in monetary circulation (in terms of value)



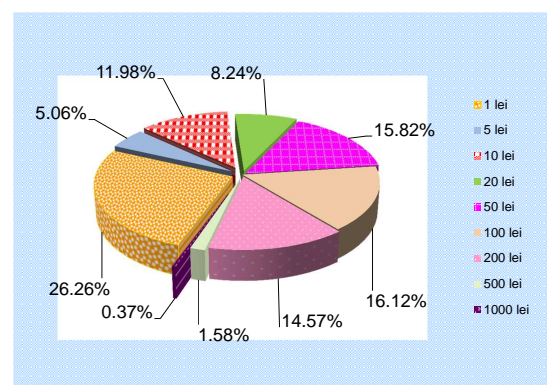
Source: NBM

Chart 3.61: Evolution of banknotes in monetary circulation (in terms of quantity)



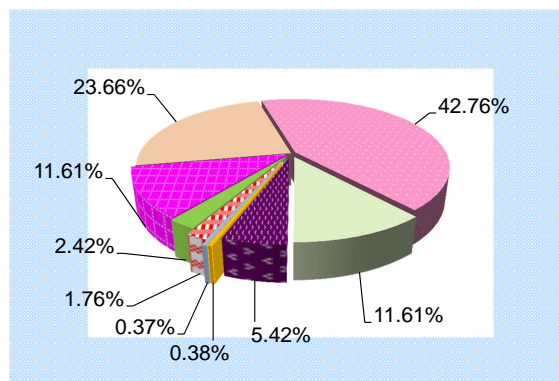
Source: NBM

Chart 3.62: Structure of banknotes in circulation by face value as the end of 2013 (in terms of quantity)



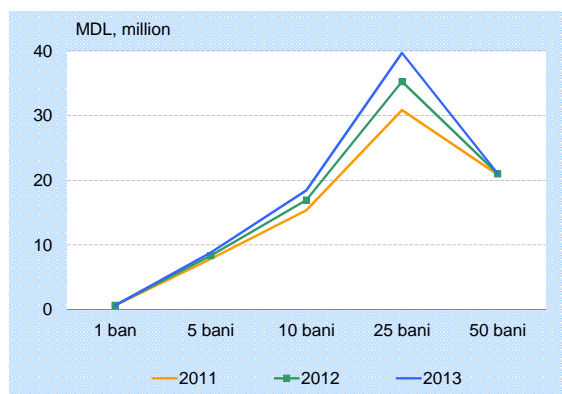
Source: NBM

Chart 3.63: Structure of banknotes in circulation by face value as the end of 2013 (in terms of value)



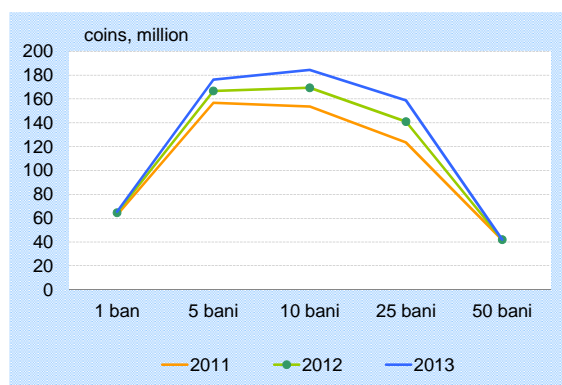
Source: NBM

Chart 3.64: Evolution of coins in monetary circulation (in terms of value)



Source: NBM

Chart 3.65: Evolution of coins in monetary circulation (in terms of quantity)



Source: NBM

project will be conducted in two phases: modernizing the IT infrastructure and modernizing the technological and application platform, respectively. In 2013, the first phase was successfully completed, a new generation infrastructure has been implemented, which is based on a more robust, optimized and reliable architecture. The second phase of the project will be carried out during 2014.

In a major project conducted within the NBM – transforming the operational business processes and modernizing the banking information system of the NBM, various important activities to improve IT governance framework were carried out. At first, by reviewing and completing the IT standards, the main emphasis was put on the need to develop the architectural concept of the organization - „Enterprise architecture”, according to the best practices, such as TOFAG methodology. This fact will allow the NBM to ensure a long development of its information system, so that it would be able to provide all the support necessary to achieve the strategic objectives of the NBM. Other benefits are: an improved level of interoperability at the level of systems, reducing the IT infrastructure complexity, reusing of the system components, lower costs of development and maintenance etc.

3.11 Cash operations

At the end of 2013, cash in circulation, in terms of value, amounted to MDL 19045 million, by 30.83 percent higher than that recorded at the end of 2012, when it amounted to MDL 14557 million.

Banknotes and coins in circulation

Banknotes in circulation at the end of 2013, in terms of value, amounted to MDL 18942 million, by 30.9 percent more than at the end of 2012 (Chart 3.60).

Cash in banknotes in circulation at the end of 2013, in terms of quantity, according to the face value structure, accounted for 278 million banknotes, by 23.55 percent more than in 2012 (Chart 3.61).

The quantitative increase of banknotes in circulation was due to increased share of banknotes with the face value of MDL 20, MDL 50, MDL 100, MDL 200 and MDL 1000 of the total banknotes in circulation.

Structurally, the banknotes at the end of period constituted, in terms of quantity, as follows: MDL 1 – 73.0 million banknotes,

MDL 5 - 14.1 million banknotes, MDL 10 - 33.3 million banknotes, MDL 20 - 23.0 million banknotes, MDL 50 - 44.0 million banknotes, MDL 100 - 44.8 million banknotes, MDL 200 - 40.5 million banknotes, MDL 500 - 4.4 million banknotes and MDL 1000 - 1.0 million banknotes (Chart 3.62, Chart 3.63).

Divisional coins in circulation at the end of 2013, in terms of value, amounted to MDL 88.6 million, by 7.8 percent more than the same period of 2012.

Cash in divisional coins in circulation at the end of 2013, in terms of quantity, according to the structure of the face value, accounted for 626.8 million coins, by 7.4 percent more than in late 2012.

The quantitative increase in the divisional coins in circulation was due to the increased share of divisional coins in circulation with the face value 5 bani, 10 bani and 25 bani in total coins in circulation. As regarding the face value structure, at the end of period, the coins, in terms of quantity, accounted for 5 bani - 28.1 percent, 10 bani - 29.4 percent, and 25 bani - 25.3 percent, while in terms of value these accounted for 9.93 percent, 20.80 percent and 44.8 percent respectively.

Cash issuance, withdrawal and processing

During 2013, the National Bank of Moldova issued cash in the total amount of MDL 6701 million, by 52.01 percent more compared to 2012.

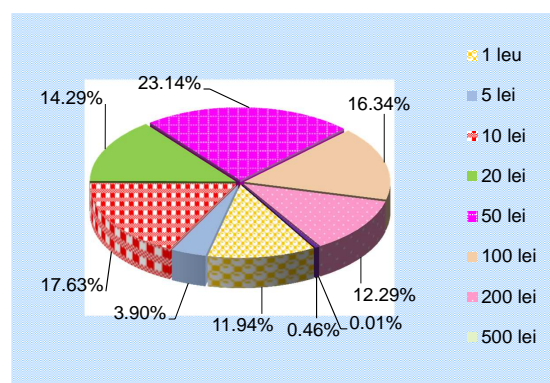
The banknotes issued in 2013, which in terms of value amounted to MDL 6684.8 million, by 51.88 percent more compared to 2012, while in terms of quantity amounted to 107.7 million banknotes, by 40.96 percent more than in 2012.

The increased quantity of banknotes issued in circulation was due to the increased share of banknotes of MDL 10, MDL 20, MDL 50, MDL 100, MDL 200 and MDL 1000 in total banknotes issued in 2013.

According to the face value structure, the banknotes issued in 2013, in terms of quantity, were as follows: MDL 1 - 12.9 million banknotes, MDL 5 - 4.2 million banknotes, MDL 10 - 19.0 million banknotes, MDL 20 - 15.4 million banknotes, MDL 50 - 24.9 million banknotes, MDL 100 - 17.6 million banknotes, MDL 200 - 13.2 million banknotes, MDL 500 - 0.01 million banknotes, MDL 1000 - 0.5 million banknotes (Chart 3.66).

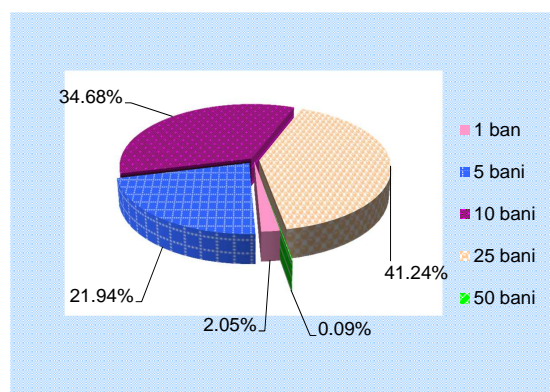
Coins issued in 2013, in terms of value, amounted to MDL 6.4 million, by about 3.0 percent less than in 2012, and in terms

Chart 3.66: Banknotes issued in 2013 (in terms of quantity)



Source: NBM

Chart 3.67: Coins issued in 2013 (in terms of quantity)



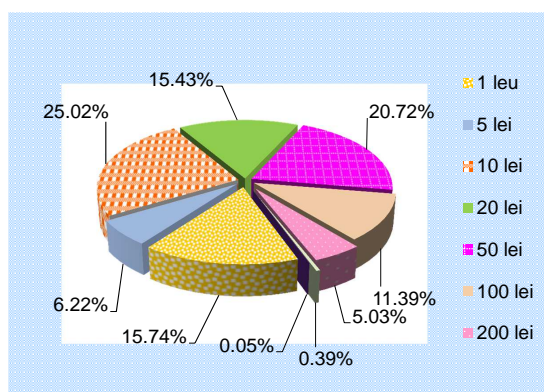
Source: NBM

of quantity constituted 43.0 million coins, by about 3.0 percent less than in 2012.

The quantitative decrease of coins issued into circulation is due to the coins with face value of 1 ban, 10 bani and 50 bani, which accounted for 48.9 percent, 5.7 percent and 15.4 percent than in 2012.

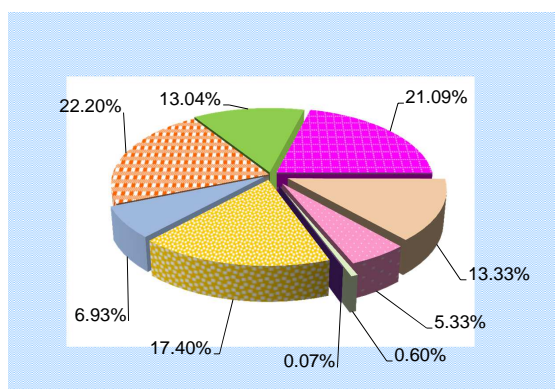
According to face value structure, the coins issued in 2013, in terms of quantity, were as follows: 1 ban – 0.88 million coins, 5 bani – 9.4 million coins, 10 bani – 14.9 million coins, 25 bani – 17.7 million coins and 50 bani – 0.04 million coins (Chart 3.67).

Chart 3.68: Banknotes withdrawn from circulation in 2013 (in terms of quantity)



Source: NBM

Chart 3.69: Banknotes withdrawn from circulation in 2012 (in terms of quantity)



Source: NBM

During 2013, the National Bank of Moldova withdrew from circulation, through licensed banks, banknotes in the amount of MDL 2.2 million, by about 16.0 percent more than in 2012, and in terms of their quantity, there were withdrawn 55.0 million banknotes, by about 28.0 percent more than in 2012 (Chart 3.68, Chart 3.69).

In order to preserve the quality and integrity of banknotes in circulation, the National Bank of Moldova processed 115.4 million banknotes in 2013, verifying both their authenticity and quality. As a result, about 42.3 million banknotes were identified as unfit for circulation. The attrition rate was 1.6 percent slightly lower than in 2012.

National currency counterfeiting

In 2013, the number of counterfeited banknotes in national currency identified by the experts accounted for 2239 banknotes, decreasing by about 30.0 percent compared to 2012. The number of counterfeited banknotes to the number of authentic banknotes in circulation at the end of the reporting period, which totaled – 278 million banknotes, the number of counterfeits remains very low and represents 0.0008 percent.

Counterfeiters showed predilection for the banknotes with the face value of MDL 100, totaling 1499 banknotes, MDL 50 - 364 banknotes, MDL 1000 – 82 banknotes and MDL 200 - 69 banknotes of the total amount of counterfeits found in 2013.

As for comparison, the number of counterfeit banknotes found in 2012 totaled 3231 banknotes, the highest number of counterfeit banknotes was recorded for the banknotes of MDL 100, which accounted for 2552 banknotes, MDL 50 - 392 banknotes and MDL 1000 - 113 banknotes (Chart 3.70, Chart 3.71).

In order to combat counterfeiting of the national currency, the National Bank of Moldova recommends further to be alert to the

possibility of fraud, to verify the authenticity of banknotes and coins, and in case of identifying counterfeits to withdraw them from circulation and to notify the Ministry of Internal Affairs.

At the same time, the NBM through cooperation with the Ministry of Internal Affairs provides licensed banks specialized courses on methods of finding and withdrawing from circulation of counterfeits.

Commemorative coins and banknotes issuance

Pursuant to the Law no.548 – XIII of 21 July 1995 on the National Bank of Moldova, the Decision of the Council of Administration of the National Bank of Moldova no.10 of 24 January 2013 on the issuance of commemorative coins, the Decision of the Government of the Republic of Moldova no.137 of 22 March 2013 on the issuance of commemorative coins, the National Bank of Moldova issued 13 commemorative coins in 2013, with various themes, including 2 gold and 11 silver coins. The mintages were different, according to the metal of which they were minted, in total being issued 2000 gold coins and 18000 silver coins (Table A. 29).

Table A.29 shows in detail the commemorative coins issued in 2013.

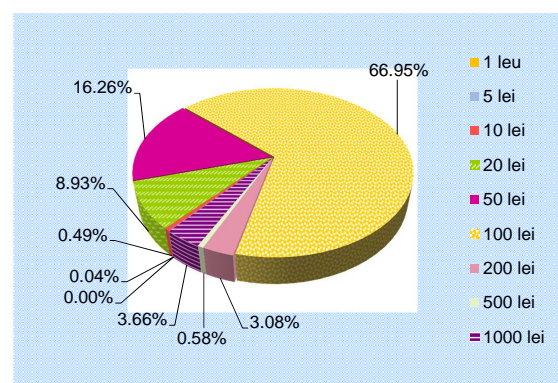
On November 29, 2013, the National bank of Moldova put into circulation, as payment and in numismatic order, a commemorative banknote celebrating the 20th anniversary since the introduction of the national currency in the Republic of Moldova. Commemorative banknotes were issued in limited edition of 200000 copies.

3.12 Internal Audit

In 2013, the audit activities continued to focus on the assurance and advisory missions aimed at improving internal control systems and risk management.

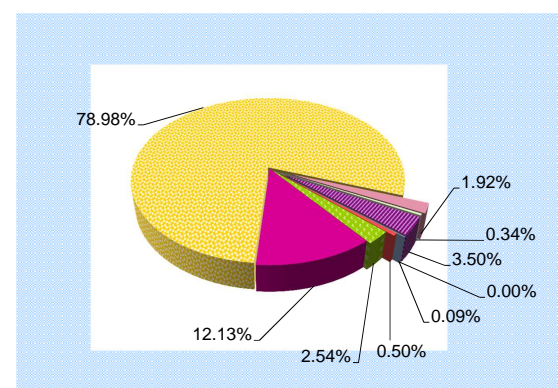
The priorities of audit activity were defined in the Internal Audit Strategic Plan 2013-2017, developed based on risk analysis (SWOT analysis: Strengths, Weaknesses, Opportunities, Threats). Therefore, Annual Audit Plan 2013 and Individual programs of audit missions were developed based on a complex process of identification and assessment of risks, including the risk of fraud. In 2013, the audit area covered risk-bearing fields with a major significance in achieving the institution's objective.

Chart 3.70: Structure of counterfeited banknotes by their face value identified in 2013 (in terms of quantity)



Source: NBM

Chart 3.71: Structure of counterfeited banknotes by their face value identified in 2012 (in terms of quantity)



Source: NBM

Structurally, this included: a) national currency (21 percent), b) acquisitions, logistics and administration (18 percent), c) financial statements and budget execution of the NBM (13 percent), d) management of foreign exchange reserves (12 percent), e) services and IT processes (8 percent), f) other processes (28 percent).

During 2013, the internal audit body (the Internal Audit Department, IAD) carried out audit missions and follow-up missions, which involved a series of activities related to planning, documentation and reporting of audit results. There were also conducted “unexpected audits” (inventories, announced controls) on high risk areas. As a result, there were issued reports and made recommendations aimed at optimizing and/or development of procedural rules, operational processes, organizational structure, information system of the NBM etc.

As a consultant and/or observer, the IAD staff took part during the analyzed period in several activities and major projects of the NBM. In terms of compliance, credibility, transparency and efficiency of the control system and risk management, there were approved the financial statements, the NBM budget execution and draft normative acts.

The year 2013 marked the initiation of the digital signature application, indispensable attribute of electronic document on audit documents sent to recipients – structural subdivisions, the Council of Administration of the NBM, aimed at optimizing the storage of documents in security conditions and reducing paper consumption.

In December 2013, the Council of Administration of the National Bank of Moldova approved the *Action Plan of the National Bank of Moldova for preventing and combating fraud and corruption*⁴⁰. This document is an update of the previous actions plan, including measures in the short and medium term.

In order to support the implementation process of antifraud policy of the National Bank of Moldova, in the second half of 2013, there was held the event *Antifraud Week*, extended at the level of licensed banks of the Republic of Moldova. The international conference “*Fraud does not have borders. Programs, methods and antifraud technologies*”, II-d edition, opened the event, after which followed a wide range of educational activities aimed at identifying, preventing and combating banking frauds, such as: workshops based on fraud scenarios, broadcasting antifraud messages on-line, informative messages, education questionnaire etc.

⁴⁰The Action Plan of the National Bank of Moldova for preventing and combating fraud and corruption is also available on the official website of the NBM at http://www.NBM.md/md/nbm_organization

In this context, there was developed the *Methodological implementation guide of antifraud policy and programs in the banks of the Republic of Moldova*⁴¹, approved by the Decision of the Council of Administration of the National Bank of Moldova no.260 of December 19, 2013. As information and generalizing support, the methodological guide was conceived in accordance with the best international practices and includes a set of recommendations for banks on the principles and procedures for optimal organization of activity with impact on the efficient management of fraud risks.

In order to ensure a continuous quality improvement of internal audit function, during 2013 there were applied a range of methods and techniques for systemic review of the activity in terms of compliance and performance against the requirements of rigor.

At the same time, in the reporting year, the IAD staff attended various trainings programs and workshops/ seminars/ international and national conferences. The Internal Audit Department's training program aimed at developing the staff capacity to use more actual techniques and instruments in audit practice. Thus, there were organized workshops and presentations, where necessary with the NBM staff participation and the addressed topics targeted: (i) IAD - mission, vision, role, (ii) Conflict of interest, (iii) IDEA product program (Interactive Data Extraction and Analyses) - introduction to functionality, (iv) Audit instruments for extracting, processing and data analysis, (v) Matrix RACI (Responsible, Accountable, Consulted and Informed) for internal audit process, (vi) Management of time and priorities, principles, techniques and instruments.

3.13 International Cooperation of the Republic of Moldova

International Monetary Fund (IMF)

On July 28, 1992 the Republic of Moldova has accepted the IMF Statute and on August 12, 1992 has become a member of the IMF. As fiscal agent of the Republic of Moldova within the IMF, the NBM is empowered to perform, on behalf of the Republic of

⁴¹The Methodological implementation guide of antifraud policy and programs in the banks of the Republic of Moldova is also available on the official website of the NBM at http://www.bnm.md/md/supervision_regulation

Moldova, all operations and transactions authorized according to the IMF Statute.

After the entry into force of the reforms provided by the Fourteenth General Review of Quotas and Reform of the Executive Board initiated by the IMF (Resolution no.66-2 of 15 December 2010 of the Board of Governors of the International Monetary Fund), the Republic of Moldova will increase its IMF quota of subscription from the current value of SDRs 123.2 million to SDRs 172.5 million.

As on 31 December 2013, the decision to increase the quotas of the Republic of Moldova to the IMF did not enter into force. This was due to the non-completion within the IMF of the Fourteenth General Review of Quotas and Reform of the Executive Board by the reason of accumulation of an insufficient number of votes from the states-members of the IMF to accept the Amendment to the IMF Statute on the reform of the Executive Board. In this context, at the end of 2013, the quotas of subscription of the Republic of Moldova to the IMF constituted SDRs 123.2 million (about USD 189.7 million) the equivalent amount of 0.05 percent of the IMF capital. The voting power of the Republic of Moldova within the IMF is of 1973 votes, which represents 0.08 percent of total number of votes.

The last program of the IMF with the Republic of Moldova, finished at the end of April⁴² 2013, was initiated following the signing on January 14, 2010 by the authorities of the Republic of Moldova of the Memorandum on economic and financial policies for 2010-2012. This program combined two funding mechanisms in concessional terms (Extended Credit Facility (ECF)) and, respectively, in non-concessional terms (Extended Fund Facility (EFF)) granted to the Republic of Moldova in total value equal to the equivalent of SDRs 369.6 million (300 percent of quota) was conducted during the last three years (January 2010 – April 2013).

Under the last funding program supported by the IMF, the Republic of Moldova received SDRs 320.0 million (about USD 577.15 million), of which SDRs 225.0 million were received by the National Bank of Moldova and, respectively, SDRs 95.0 million – by the Ministry of Finance. The tranches disbursement was due to the program evaluations conducted within the IMF missions and the objectives achievement of the Memorandum on economic and financial policies for 2010-2012 (Table A.30).

⁴²Initially, the IMF program with the Republic of Moldova was established for the period of January 2010 - January 2013 and was subsequently extended until April 2013 in order to provide Moldovan authorities more time to achieve the objective of the program.

During 2013, the cooperation of the NBM with the IMF took place in the context of post-monitoring visit, following the program completion supported by the IMF and the annual bilateral consultations under Article IV of the IMF Statute.

The IMF mission of post-program monitoring of the Republic of Moldova was conducted in September 18 – October 1, 2013 and aimed at analyzing the economic situation of the Republic of Moldova and examining the cooperation needs to develop policies of ensuring the macroeconomic stability in our country. Keeping inflation under control and the consolidation of international reserves level are among the program's achievements.

On October 3 – 4, 2013, the representatives of the IMF and World Bank have conducted in the Republic of Moldova a preparatory mission for further implementation of the Financial Sector Assessment Program – FSAP, scheduled for early 2014, following the authorities' request of the Republic of Moldova.

During the meetings of the IMF and World Bank experts with the authorities' representatives of the Republic of Moldova, there were established the fields related to financial market that will be subject to FSAP evaluation, out of which the financial sector supervision, corporate governance, crisis management, and capital market development. The financial sector of the Republic of Moldova has been evaluated within the previous FSAP mission in 2007.

In 2013, total payments for loans serving, granted by the IMF to the NBM, accounted for SDRs 15.77 million (equivalent of USD 24.06 million), out of which the principal amount of the loan was SDRs 14.17 million (equivalent of USD 21.61 million), and the payments for interest and fees on loans constituted SDRs 1.60 million (equivalent of USD 2.45 million).

European Union (EU)

European Integration remains the irreversible internal and external objective on the agenda of the Republic Moldova. The Partnership and Cooperation Agreement between the Republic Moldova and the European Union represents the legal framework of collaborative relationships with the European Union.

The negotiations on the establishment of the Deep and Comprehensive Free Trade Agreement and the European Union (DCFTA), which is part of the Association Agreement between the European Union and the Republic of Moldova were finalized towards the end of the first semester of 2013.

Negotiations were held in the VII rounds and were the fastest negotiations between the European Union and a Member State of the Eastern Partnership.

The DCFTA Agreement will approach the economy of our country to that of the European Union and will contribute to the significant improvement of mutual access of goods and services. This document will ensure the optimization of the institutional and legislative framework, increase the real competitiveness in economic sectors, and create a stable and predictable climate for the business environment and the consumers of the Republic of Moldova. At the same time, DCFTA does not mean only extensive trade relations, but also the creation of attractive conditions for investment in the Republic of Moldova.

On 28 - 29 November 2013, the third Summit of Eastern Partnership was held in Vilnius, within which the Republic of Moldova initialled the Association Agreement with the European Union. This forum brought together heads of State or Government from 28 Member States of the EU and Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine. The Agreement initialling represented the beginning of a long-term strategic partnership with the European Union, which could lead over the years to effective integration of the Republic of Moldova into the communitarian bloc.

In the context of cooperation between the Republic of Moldova and the EU, the NBM representatives attended in November 2013 the XIV meeting of the Cooperation Committee between the Republic of Moldova and the European Union, where there were discussed the developments recorded during 2013 of Moldova – EU communitarian relations. During 2013, there were also conducted the meetings of the subcommittees of cooperation between the Republic of Moldova and the EU - “Economics, Finance, Statistics” and “Trade and Investment”, which are sectorial work meetings at expert level that are held periodically. The meeting agendas included a range of topics related to the development of macroeconomic indicators, the implementation of measures related to business environment and other aspects of economic development of the country in different sectors.

During 2013, the Republic of Moldova benefited from EU financial assistance for budget support.

Thus, under the *Program for budget support related to the energy sector reform*, the European Commission transferred in October the second tranche of EUR 11.6 million in the state budget. This program is one of the five budget support operations, amounting

to EUR 216.0 million, under implementation in different areas of the Republic of Moldova.

The European Commission has allocated all means provided under the *Budget Support Program - Economic Stimulation in Rural Areas* for the Republic of Moldova, the last tranche in value of EUR 13.0 million was transferred in October. In 2010-2014, the EU total support within the Budget Support Program - Economic Stimulation in Rural Areas amounted to EUR 72.0 million. The main objectives of the program are improving the economic policies at national and sector level; increasing business activities in rural areas; increasing the transparency, responsibility and systems efficiency of public financial management.

At the same time, the European Commission transferred in November the first tranche of EUR 15.0 million to our country, of which EUR 60.0 million intended for justice reform.

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

During 2013, the National Bank of Moldova participated in the 26th Annual Conference of BSCEE Group members. The conference aimed at exchanging experiences between the banking supervisors from South-Eastern Europe. The main discussions were focused on topics related to the non-performing loans management, new regulations on liquidity (Basel III), and changes in the organization of the EU banking supervision framework.

At the same time, the National Bank of Moldova has accepted in 2013 the membership of the Banking Regulation and Supervision Agency of Turkey in BSCEE, following the request by the BSCEE Secretariat of the BSCEE Group members' opinion on Turkey's intention to become member of BSCEE.

During 2014, as member of BSCEE, the NBM examined and accepted the new wording of the Agreement on the organization and governing rules of the BSCEE and Operational Statute of the BSCEE Secretariat, which contain the actual provisions related to the admission requests of new members in BSCEE and aspects of consultations with the BSCEE Secretariat to organize various instructive events for banking supervisors from Central and Eastern Europe.

External technical assistance and cooperation with other international institutions, central banks and state agencies of other states

In order to strengthen the capacities in the field of licensing, supervision and regulation of banks, the National Bank of Moldova continued during 2013 the development of the cooperation relations with the supervisory authorities of other countries as to exchange information. Thus, the National Bank of Moldova has collaborated with the National Bank of Romania, National Bank of Bulgaria, National Bank of Ukraine, Central Bank of the Russian Federation and Central Bank of Albania in the field of the authorization process.

Given the objective of European integration of the Republic of Moldova, the NBM benefited during 2013 from a series of trainings organized by the Financial Supervision Authority of Poland. The training activities conducted by a team of Polish experts from the Financial Supervision Authority of Poland, aimed at providing assistance and sharing of experience in the harmonization process of the financial-banking legislation with the EU legislation to implement commitments undertaken under the Association Agreement initialled between the Republic of Moldova and the European Union.

Financial stability continues to be one of the main concerns of the National Bank of Moldova. In this context, the U.S. Treasury Department offered to the NBM technical assistance to improve early warning mechanisms aimed at evaluating emerging risks in the banking sector, in other economic sectors as well as outside the country. These studies allow the early detection of crisis and taking the necessary measures to solve them.

The impact of the recent financial crisis has confirmed the need to introduce firm and appropriate mechanisms in the central banks' practice to identify preventively the factors that may negatively influence the economic balances. In this context, the National Bank of Moldova continued during 2013 to develop and implement new mechanisms for crisis prevention and management in order to ensure adequate monitoring of risks and proper functioning of the banking sector. Thus, the National Bank of Moldova has received technical assistance from the World Bank to develop a new model of stress test (stimulating crisis scenarios) to assess the liquidity risk. This model will allow quantifying the liquidity risk for each bank and for the entire banking sector.

At the same time, a great attention is paid to the field of preventing and combating money laundering and terrorist financing. Thus, the National Bank of Moldova has received

assistance in the development process of banking supervision (offsite and onsite) from the U.S. Treasury Department (under the 4th visit), in order to improve the onsite control mechanism and to adjust the national regulations in force related to money laundering prevention and terrorist financing combat. This assistance has contributed to the improvement of domestic regulations and increase of the efficiency of onsite inspection procedures in this field.

The above-mentioned institution has also offered technical assistance to optimize the onsite supervision process, coming up with proposals and recommendations for selecting, by statistical sampling methods, the loans portfolio for the onsite inspections.

During 2013, the National Bank of Moldova has received consultancy from a banking expert of the European Commission on the preparation of documentation and undertaking relevant measures prior to obtain assistance under the Twinning project. The assistance aimed at drafting the Twinning Fiche for the project “Strengthening the institutional capacity of the National Bank of Moldova in banking regulation and supervision in the context of implementing Basel II/III requirements”.

The economic development depends largely on the organization and management of economic processes, which is possible with a system that would meet the developed countries' requirements. The reporting system has is essentially important for economic growth end stabilization, which must be adjusted to the European requirements and development trends. Thus, the adoption of the International Financial Reporting Standards (IFRS) ensures authentic, transparent and comparable financial information. In this regard, the National Bank of Moldova received in 2013 technical assistance in bookkeeping field from the U.S. Treasury Department, in order to ensure understanding and correct implementation of the International Financial Reporting Standards.

The National Bank of Moldova has an active role in supervising the international transfers' market in the payment system of the Republic of Moldova. These actions include monitoring of developments on the market of money remittances services and evaluating the compliance of the payment system with international standards in field. A *Cooperation Agreement with the International Organization for Migration mission in the Republic of Moldova* has been signed to strengthen the capacities of national providers of funds transfer services, diversify the ways of carrying out international money transfers and facilitate remittances transfer to the Republic of Moldova by using official channels, increase the level of financial

inclusion. This agreement is aimed to increase financial literacy of users of international money transfer services increase the transparency of the conditions to provide international money transfer services as well as to strengthen the capacities of national providers of money transfer services to diversify the ways of carrying out international money transfers.

In order to improve the financial market infrastructure, the National Bank of Moldova has received during 2013 technical assistance from the International Monetary Fund for payments system and securities settlement system areas.

One of the basic attributions of the National Bank of Moldova is maintenance and management of state foreign exchange reserves. During 2013, the NBM continued to participate in RAMP program (Reserves Advisory and Management Program) provided by the World Bank. This program focused on improving the regulatory framework related to the management of foreign exchange reserves, using new technical solutions in the effective management of foreign exchange reserves, implementing strategic allocation of assets as well as using the thorough and comprehensive indexing for portfolio management in the USD and EUR.

The level of financial inclusion of the population is an important factor for effective management of finances, improving the individual financial behaviors and ensuring sustainable economic growth. Thus, the financial literacy is a key element to strengthen consumer confidence in the domestic banking sector. The National Bank of Moldova is aimed at supporting the promotion process of financial education, in this regard, participating in many meetings during 2013.

In October 2012 – September 2013, the consulting Company Developing Markets Associates Limited (DMA) implemented in the Republic of Moldova a flagship project launched by the European Bank for Reconstruction and Development (EBRD) to support the financial inclusion of the remittances recipients, which was attended by the National Bank of Moldova. During 2013, in the context of promoting financial literacy among the young generation of the country, the National Bank of Moldova representatives participated in the IVth International Aflatoun Meeting in Nairobi, Kenya, organized by Aflatoun, Child Savings International in collaboration with Investing in Children and their Societies (ICS Kenya) and in the second regional meeting of the European Central Bank and the Child and Youth Finance International (CYFI) for Europe and Central Asia held in Frankfurt, Germany.

In December 2013, the Council of Administration of the NBM has approved the decision of adherence of the National Bank of

Moldova to the European Association for Banking and Financial History, as a member with full rights. The European Association for Banking and Financial History promotes the effective management of the European financial sector that, consequently, contributes to ensuring its international competitiveness and to increasing financial and economic stability in the region. Thus, the adherence of the National Bank of Moldova to the European Association for Banking and Financial History will offer to the NBM employees the opportunity to become acquainted with the best European practices in the banking and financial field.

In the context of cooperation with other central banks, it should be mentioned that on April 18-19, 2013 the representatives of the National Bank of Moldova made a study visit to the Central Bank of Finland, aimed at sharing the experience of the Bank of Finland in the field of human resources management, in particular of the performance management at the intuition level and its replication at employees level. There was also studied the system of salary, training, motivation and retention of employees of the Bank of Finland. The results of this visit are used in the development of the performance evaluation system of the NBM employees, system to be implemented during 2014.

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

During 2013, there were held 54 meeting of the Council of Administration of the National Bank of Moldova, where 279 decisions have been examined and adopted with regard to the activity of the financial and banking sector, and normative acts have been approved and amended in the following fields:

- Monetary and Foreign Exchange Policy of the NBM;
- Payments System Oversight Policy of the Republic of Moldova;
- Accounting Policy of the National Bank of Moldova;
- Banking Regulation and Supervision;
- Bookkeeping;
- Balance of Payments.

During 2013, 49 general decisions (according to Table A.37 and Table A.38 of the annex) of the Council of Administration of the National Bank of Moldova have been submitted for publication in the Official Monitor of the Republic of Moldova.

3.15 The legislative activity in 2013

Foreign exchange regulation

In 2013, the NBM's activities related to foreign exchange regulation were mainly focused on adopting and/or amending its normative acts related to the functioning of the interbank foreign exchange market of the Republic of Moldova, establishing the official exchange rate of the Moldavian Leu (MDL), conducting foreign exchange operations both through licensed banks, through non-resident banking service providers, as well as through normative acts related to reporting by banks to the NBM on the foreign exchange operations.

On March 1, 2013 the Regulation on the performance of transactions on the interbank foreign exchange market of the Republic of Moldova, whose basic provisions relate to:

- defining notions used in the context of interbank foreign exchange market operations;
- general principles for performing transactions on the interbank foreign exchange market of the Republic of Moldova, in particular through the unique trading platform;
- the rules of carrying out interbank foreign exchange auctions;
- the peculiarities of publishing the information on bank's quotations, interbank foreign exchange transactions and of access to such information.

Thus, the legal framework required for the transition to the use of Bloomberg information system as a unique trading platform was created, as well as for conducting foreign exchange operations during interbank foreign exchange auctions. This ensures a greater transparency of the interbank foreign exchange transactions and the possibility of on-line monitoring of the domestic foreign exchange market situation by the NBM.

Due to the amendments to the *Regulation on the Setting of the Official Exchange Rate of Moldovan Leu against Foreign Currencies* operated in 2013, the followings has been achieved:

- switching to the Bloomberg information system for fixing the cross-rates of foreign currencies against U.S. dollar;
- optimization of the spectrum of foreign currency sale/purchase transactions against MDL, whose volumes and exchange rates are used to determine the official exchange rate against the U.S. dollar;
- exclude the necessity of printing and signing the informative bulletin regarding the official exchange rate of MDL against foreign currencies. As a result of storing in the information system of the NBM, the information on the official exchange rate will be published on the official website of the NBM;
- amendment of the list of foreign currencies against which the Moldovan Leu is quoted by the NBM (in connection with Latvia's transition to the Euro, the Latvian lats were excluded);
- changing the ratio of the amounts of foreign currency purchased and sold by the bank against MDL (by supplementing it with information on the type of purchase/ sale transaction of foreign currency against MDL (spot, forward, swap, etc.) in order obtain the necessary information to conduct a deeper analysis of the foreign exchange market developments.

With the entry into force of the Law no.114 of May 18, 2012 on payment services and electronic money, along with licensed banks, other resident non-bank payment service providers, for example, payment associations, associations issuing E-money and postal services providers can provide payment services. In this regard, the legal framework in the field of the foreign exchange regulation was adjusted, certain normative acts being modified, namely the Regulation on conditions and procedures for performing foreign exchange operations, Regulation on the authorization of foreign exchange operations by the NBM and the Instruction on external commitments. Basic changes relate to:

- the rules to receive/make payments and transfers within the foreign exchange operations by residents and non-residents have been changed, including those subject to notification/authorization under the Law on foreign exchange regulation, so that they become applicable not only in the conduct of foreign exchange operations through / by licensed banks, but also by resident non-bank payment service providers. The same principle is applied to the requirements of the documents to be

presented to the resident service providers (RSP providers) by residents and non-residents for payments and transfers within the foreign exchange operations;

- allowing RSP providers to implement their own regulations aimed at ensuring compliance with the foreign exchange legislation by residents and non-residents carrying out foreign exchange operations, using payment instruments that allow remote access to the resources from accounts;
- peculiarities of receiving/making payments and transfers within foreign exchange operations by licensed banks and non-bank RSP providers;
- ways of conducting foreign exchange operations in the Republic of Moldova, including those made by non-bank RSP providers. In this respect, the general provisions according to which these operations need to be carried out in accordance with the internal regulations of RSP providers have been introduced as to ensure the transparency of conditions for conducting foreign exchange operations, including those related to foreign exchange. It should be mentioned that, according to the Law no.114 of May 18, 2012, non-bank RSP providers engage in foreign exchange operations in close connection with payment services and electronic money provided to their clients;
- the provisions relating to the processes of notification / authorization and conduct of foreign currency operations, which are unique in the case of foreign currency operations mentioned both through licensed banks and non-bank RSP providers, have been amended. At the same time, the list of documents required for the notification / authorization of foreign exchange operations was amended.

In addition, there have been made other amendments meant to improve the legal framework related to performing foreign exchange operations, including those subject to notification / authorization.

Thus, the establishment of the legal framework related to the manner and conditions of the payments / transfers related to foreign operations made by residents and non-residents, including those subject to notification and authorization both by licensed banks and non-bank RSP providers.

In 2013, a series of normative acts related to foreign exchange regulation were repealed, including:

- Instruction on international postal money orders, which is subject to amendments made to the above-mentioned provisions, first to the Regulation on conditions and procedures for performing foreign exchange operations, which sets the unique rules to receive / make payments / transfers by both residents and non-residents through licensed banks and non-bank payment service providers, including providers of postal services;
- Instruction on performing foreign exchange settlements as a result of transactions concluded at the Universal Commodity Exchange of Moldova with the participation of non-residents. The repeal of the instruction was determined by the fact that the payments / transfers in foreign currency between residents in the Republic of Moldova has been provided in the Law on foreign exchange regulation.

In 2013, the activity related to the optimization of the reporting regulatory framework by banks to the NBM related to foreign exchange was continued, namely:

- licensed banks have switched to a new system of financial reporting, to the NBM, (SIRBNM) *The report on licensed bank cash transactions in foreign currency and traveler's checks in foreign currency*;
- In order to avoid the duplication of data reported by banks to the NBM, the *Report on international transfers by individuals* was repealed.

Prudential regulation

National Bank of Moldova carries out the banking supervision function, which aims to ensure the proper functioning of the financial sector of the Republic of Moldova based on strong and competitive market-oriented relations and preventing system dependent risks. To this end, in 2013, under the powers and rights conferred by the Law on the National Bank of Moldova, a number of measures relating to prudential regulations were undertaken.

According to the Instruction on procedure of elaboration and submission by banks of the reports for prudential purposes, (Decision of the Council of Administration of the National Bank of Moldova no. 279 of December 01, 2011, Official Monitor of the Republic of Moldova no.216-221, Art.2008 of December 09,

2011), banks shall present a set of prudential reports on loans, bank exposures, relations with affiliated persons, attracted deposits, calculation of total regulatory capital, risk weighted capital adequacy, liquidity, other information describing the activity of the bank.

In order to improve the methods of banking supervision, the aforementioned instruction has been subject to a number of amendments and additions. The instruction was supplemented by a set of reports that provide information on the list of affiliated persons, the portfolio of the letters of credit and guarantees, tangible assets transmitted into possession or acquired in exchange for credits reimbursement, "large" deposits. The information in these reports allows off-site risk monitoring, to which the bank is subject in relation to loan commitments, letters of credit and guarantees issued, tangible assets transmitted into possession or acquired in exchange for the reimbursement of credits or debts, sight and term deposits from the 30 largest depositors etc.

Furthermore, in order to improve the reporting methods and to promote electronic reporting a range of information that was presented on paper was standardized and provided in electronic format (Decision of the Council of Administration of the National Bank of Moldova no. 64 of April 04, 2013).

By the Law no. 31 of March 7, 2013 on amending and supplementing certain normative acts (Official Monitor of the Republic of Moldova no.69-74 of 2013, Art.223), the Law no. 550-XIII of 21 July 1995 on financial institutions was amended. Following the entry into force on April 5, 2013 of the aforementioned law, the NBM has taken a number of steps to improve the regulatory framework for the activities of banks and their owners.

According to Article 15 paragraph (6) and Article 15⁷ of Law on Financial Institutions, persons resident in jurisdictions that do not implement the international standards of transparency, cannot directly or indirectly hold equity shares in the share capital of the banks. The law stipulates that the list of such jurisdictions shall be established by the normative acts of the National Bank of Moldova. To this end, the Council of Administration of the National Bank of Moldova approved the list of jurisdictions that do not implement the international standards of transparency.

In drawing up that list, the document of the Financial Action Task Force (FATF) (High-risk or uncooperative jurisdictions, FATF, February 22, 2013), the order of the Centre for Fighting Economic Crimes and Corruption no. 118 of November 20,

2007 on the approval of the Guide on suspicious activities or transactions, which fall under the Law on prevention and combating money laundering and terrorism financing (Annex no.3), were examined and taken into account.

Establishing a list of jurisdictions that do not implement the international standards of transparency will protect the integrity of the banking system and will lead to further consolidation of the domestic banking system and increase public confidence towards banks (Decision of the Council of Administration of the National Bank of Moldova, no. 91 of May 2, 2013).

Reforming the ownership-related legal framework, in the context of transparency of the ownership structure of banks, required the creation of an effective regulatory framework for direct and indirect holding of qualifying holdings in the share capital of the bank.

In this respect, the Regulation on holding equity interest in the capital of banks has been approved, detailing the legal framework by establishing a set of requirements for banks owners.

Thus, the regulation defines key concepts such as "dominant influence over the person", "close links", "persons acting in concert", determines the requirements and restrictions on the acquisition of qualifying holdings and regulates the conditions to obtain prior permission of the National Bank for acquisition or increase of the qualifying holding in the share capital of the bank, by establishing requirements for the set of documents to be submitted.

At the same time, given the important role of bank owners and their influence in determining the strategic direction of the bank, the Regulation details the assessment criteria of the potential acquirer, establishing simultaneously the instruments of ownership assessment process. The assessment aims to assure the supervisory authority of the compliance of the reputation, qualifications and experience and financial situation of the potential acquirer to ensure the future financial stability of the bank. In addition, the Regulation contains the list of documents required for the application of its provisions, as well as their templates.

Furthermore, there have been established provisions related to the continuous monitoring of the shareholders, which provides premises to protect the integrity throughout the existence of a bank. Simultaneously, to facilitate monitoring if any changes in the ownership structure of banks, the Regulation sets forth the acts required for the notification of the National Bank of

Moldova on the disposal or reduction of the equity interest in the bank's share capital under the limits of 5%, 20%, 33%, and 50%. The Regulation stipulates measures that can be taken by the National Bank of Moldova in the case of purchases made without prior permission and the noncompliance of equity interest holders in the bank capital with the legislation requirements relating to "fit and proper" criteria.

Accordingly, the aforementioned provisions are part of a broader process of reforming the regulatory framework that governs the bank's shareholders and allows monitoring their quality, inopportune changes in structure, prompt intervention of the National Bank and applying necessary instruments to avoid instability, disruption and to reduce risks in the banking system (Decision of the Council of Administration of the National Bank of Moldova no. 127 of June 27, 2013).

Regulation on the calculation of voting rights and registration of the transfer of ownership of bank shares was approved. The purpose of this regulation is to establish the legal framework relating to voting rights and registration of the transfer of ownership of bank shares.

The regulation determines the calculation method of the voting rights, the situations that are taken into account in that calculation, and the cases when the voting rights shall not be taken into account in the calculation. According to the regulation, a statement on concerted activity or inactivity of the shareholder shall be attached to the transmission order submitted to the registrar/nominal holder for the registration of ownership, regardless of the share concerned, using the templates attached to the regulation (Decision of the Council of Administration of the National Bank of Moldova no. 130 of July 04, 2013).

Following the amendments to the Law on financial institutions, which allow expanding the types of financial activities undertaken by the bank (pursuant to Article 26 letter n) and to reduce risks to which banks are subject when carrying out new activities or services, the Regulation on licensing of banks was improved, by establishing requirements related to the possibility of carrying out other activities or services, as long as they are within the financial field. In this respect, there has been established the procedure for obtaining the permission of the National Bank of Moldova to acquire the right to conduct the activity or service expressly determined by the bank, as well as the set of requirements for the application, the set of documents necessary to be submitted to the National Bank Moldova, as well as requirements with regard to the status, the decision making process and the way of notification. Thus,

banks may carry out activities or services only after obtaining the permission of the National Bank, registering the amendments and completions to the Statute of the bank at the State Registration Chamber, and re-issuing the bank license/authorized copy of the bank's license (Decision of the Council of Administration of the National Bank of Moldova no. 107 of May 30, 2013).

In order to provide a single framework for reporting the statements consolidated in accordance with IFRS, the Instruction on FINREP financial situations at individual level, applicable to banks has been developed.

According to this instruction, FINREP consolidated financial statements of the bank controlling the entity in which it has invested or holding investments in associated entities or joint venture shall be prepared obligatorily as defined in IFRS. The instruction provides for a set of consolidated reports (FINs) on the financial situation of the group of entities included in the consolidation perimeter and contains basic information on assets, liabilities and equity of the bank; revenues and expenditures associated with the bank's activity for certain report positions; classification of financial assets; loan commitments; guarantees and other financial commitments etc.

Reports as of December 31 of each year shall be submitted annually, no later than May 30 following the reporting year. The first reporting according to the draft-instruction will be carried out for the situation as of December 31, 2013, along with the submission of the reports for the situation as of December 31, 2012, for a comparative analysis (Decision of the Council of Administration of the National Bank of Moldova no. 133 of July 11, 2013).

In order to improve the ongoing promotion system in banks of people that correspond to the fit and proper principle, the Regulation on requirements to bank administrators was amended and supplemented. Thus, the requirements for professional experience and knowledge necessary to exercise the functions of the Board member, president, vice president, member of the executive body and administrator of a bank's branch, including trainings in economics or law performed within international organizations, multilateral development banks or international financial and banking groups, as well as those related to practical experience in a banking supervisory authority.

Considering the provisions of Articles 37⁶, 38², 38⁴ of the Law on Financial Institutions, the requirements for the appointment of the special administrator and the liquidator of the bank in

process of liquidation were established. In establishing the assessment criteria, the peculiarity of designation (appointment) by the National Bank was taken into account.

However, some amendments or additions were made as a result of the generalization of the supervisory practice and bringing the terms used in the regulation in line with those specified in the legislation (Decision of the Council of Administration of the National Bank of Moldova no.220 of November 14, 2013).

In order to diversify and minimize the risks assumed by licensed banks under the bank's exposure to their correspondent banks and to avoid excessive risk in the banking sector, NBM has adjusted the normative acts related to exposures and classification of assets and conditional commitments, by broadening the concept of exposure in the context of qualification of interbank assets as exposures (irrespective of their due date, including "Nostro" accounts), as well as by extending the asset classification, namely placements and overnight loans that did not exceed the one day reimbursement term.

Taking into account the peculiarity of certain assets and to avoid interruption of payments and to facilitate the proper functioning of financial markets and related infrastructure, the list of assets that are exempt from exposure has been extended, namely placements with banks which investment rating is not lower than BBB-/Baa3 and banks that are simultaneously resident of countries with such rating, as well as other positions relating to transfers made within a few days. Banks shall comply with the new requirements within a grace period until June 30, 2014.

The concept of "concerted activity" has also been reviewed by changing the position of the control (from 25% to 20%), which will enter into effect as from June 30, 2014. Until June 30, 2015, banks shall determine new groups and comply with the maximum limits set out by the regulation.

The new provisions of the Regulation on "large" exposures touch on the provisions of the Regulation on bank transactions with its affiliated persons. In this context, the Regulation on bank transactions with its affiliated persons has been adjusted properly, namely to avoid the risks associated with the exposures of banks in the interbank placements.

The amendments to the Regulation on "large" exposures require amendments to the Regulation on assets and conditional commitments classification. Thus, the exemption from classification of placements and overnight loans, which did not exceed the one-day reimbursement term, was canceled.

Therefore, placements and overnight loans will be subject to classification according to the afore mentioned regulation (Decision of the Council of Administration of the National Bank of Moldova no.240 of December 9, 2013 on the approval and amendment of certain normative acts of the NBM).

In order to prevent and combat money laundering and terrorism financing, as well as to implement the provisions of the Law no.190-XVI of July 26, 2007 on preventing and combating money laundering and terrorism financing, particularly in the monitoring process of transactions and activities of bank clients, the Recommendations on monitoring by banks of transactions and activities of clients to prevent and combat money laundering and terrorism financing have been developed and approved. The recommendations aim to provide methodological guidance to banks in the creation of effective internal mechanisms to monitor the transactions and activities of their clients. The objective is to be achieved by improving their programs on preventing and combating money laundering and terrorist financing and facilitating the process of transactions monitoring, determining the scope and nature of the business relationship, the interpretation of ordinary nature of clients activity, as well as complex and unusual transactions. The recommendations include the main components of an effective transactions monitoring system, such as checking clients and payments in real time and continuously analyzing the transactions in order to find unusual activities, both manually and automatically. At the same time, the draft of the Recommendations contain methods for determining the nature of the business relationship, the ordinary nature of the activity, and the way of determining complex transactions (Decision of the Council of Administration of the National Bank of Moldova no.256 of December 19, 2013).

It should be noted that the achievement of these Recommendations will ensure compliance with the recommendations of the Council of Europe experts in the field of money laundering prevention and terrorist financing combat (MONEYVAL) from the 4th Report on the assessment of the Republic of Moldova.

Payment systems regulation

Following the entry into force of the *Law no.114 of May 18, 2012 on payment services and electronic money*, which transposed two EU directives (Directive 2007/64/EC on payment services in the internal market and the Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the business of

electronic money), the regulatory framework required for the implementation of the Law on payment services and electronic money has been established.

In particular, in 2013 the following normative acts have been aligned to the provisions of the Law no. 114 of May 18, 2012: *Regulation on payment cards*, the *Regulation on credit transfer*, and *Regulation on the activity of payment service providers within money remittance systems*, by the Decision of the Council of Administration of the National Bank of Moldova no.157 of August 01, 2013.

At the same time, in order to facilitate the understanding of the potential investors of the Law no. 114 of May 18, 2012, as well as to detail the licensing conditions associated with payment services, the NBM has produced the *Regulation on the activity of non-bank electronic money issuers and non-bank payment service providers*, approved by the Decision of the Council of Administration of the National Bank of Moldova no. 123 of June 27, 2013.

Furthermore, the amendments and supplements of the *Regulation on Automated Interbank Payment System* have been developed and approved, referring to the regulation of the aspect related to the interaction of the Governmental e-payments service (MPay) with the Automated Interbank Payments System.

In 2013, the draft *Law on the amendment and completion of some legislative acts* has been developed, intended to promote cashless payments, combat tax evasion in the framework of the working group consisting of representatives of the National Bank of Moldova, Ministry of Economy, Ministry of Finance, Main State Tax Inspectorate, and Ministry of Labor, Social Protection and Family.

The draft law provides for the achievement of a series of measures, which are based on the best international practice, namely increasing the degree of financial intermediation, extension of the acceptance of cashless payments, limiting the use of cash, and elimination of discrimination concerning transactions by electronic payment instruments. It should be noted that during the meeting presenting the draft law, conducted at the NBM on July 5, 2013, the representatives of the institutions concerned have unanimously supported the draft law, understood its importance to the national economy and agreed on its promotion by the Ministry of Finance, together with the Ministry of Economy.

3.16 National Bank of Moldova employees and professional development

According to the Strategic plan of the National Bank of Moldova, the Human Resources Department is responsible for the achievement of two of the ten strategic objectives: optimizing human resources management and corporate culture development.

In 2013, this optimization took place through several staff structural reorganizations, without employees losing their jobs.

As of 31 December 2013, the NBM payroll was completed at the level of 93.62 percent (470 permanent employees).

In 2013, 52 people were employed, 39 resigned, 35 employees were promoted and 31 employees were transferred to similar positions in other subdivisions. 20 students completed their internship at the NBM, out of which 3 were employed by the NBM at the end of their internship. In late 2013, the first edition of induction tour took place, which aimed to facilitate the integration of new employees within the institution.

The average age of a NBM employee is 39.8 years. Nearly two-thirds are women (63.4 percent) and nearly one-third (36.6 percent) are men. At the level of heads of subdivisions, the situation is currently 50/50 percent. Almost 63 percent (296 employees) have children and 65 percent (306 employees) are part of syndicates. Average year of service of employees is 9 years and 8 months. The most majority of employees completed higher education - 80.64 percent, with the exception of technical staff. There are 10 employees who hold a PhD degree in economics or technical sciences (2.13 percent), 76 employees have Master's Degree (16.17 percent), and other 293 employees have higher education (62.34 percent). During 2013, nine employees completed their postgraduate studies.

Over the year, 171 employees participated in 214 trainings abroad and 121 employees took part trainings organized in the Republic of Moldova, both those related to their area of activity (42 employees), as well as ACAP certifications, language competence development courses (English and French) and communication skills (public speaking) courses, which contribute to their personal and professional growth and greater work motivation. Employees who participated in

training courses abroad benefited from sponsorship from international organizations. For certain trainings in the country, the employees contributed with a token payment, most of the expenses being covered by the NBM.

In 2013, several events that contributed to the strengthening of the corporate culture were organized, such as the organization of football, volleyball, table tennis championships, sports competitions of banking and insurance institutions, celebrating the Bank Worker's Day, celebration of Christmas holidays with the employees and their children, organization of trips to local touristic sites and abroad for educational and team-building purposes with a financial contribution from the employees.

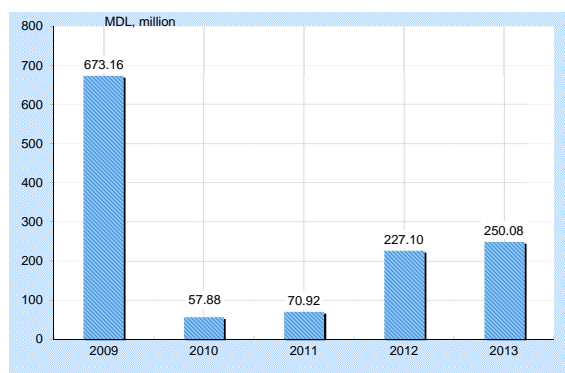
In 2013, the fourth edition of a survey of employees has been organized, which evaluated their rate of satisfaction on various aspects of work, level of involvement, etc.

3.17 Analysis of the financial situation of the National Bank of Moldova for 2013

General considerations

In accordance with the Law on the National Bank of Moldova no.548-XIII of July 21, 1995, the fundamental objective of the National Bank of Moldova is to achieve and maintain price stability. The basic functions of the NBM are provided in the *Law on the National Bank of Moldova*. In accordance with the legal provisions, the NBM operations are performed in order to promote and support the monetary and foreign exchange policy in the state, to ensure the continuing stability of the banking system, national currency issuance, foreign exchange reserves management etc. Accordingly, maximizing the profit from the activity of the NBM is not a purpose itself and cannot serve as an impediment to achieve its fundamental objective and functions.

Chart 3.72: Evolution of profit available for distribution during 2009-2013



Source: NBM

Profit available for distribution

The financial results of the NBM are directly dependent on the need to conduct monetary and foreign exchange operations in order to achieve the fundamental objective and fulfill the basic

functions of the NBM. The evolution of the level of the profit available for distribution during 2009-2014 is shown in Chart 3.72.

According to the *Law on the National Bank of Moldova*, the amount of profits available for distribution is distributed in the amount of 50.0 percent for the increase of statutory capital and the amount of 50.0 percent is transferred to the state budget.

According to the financial statements, the NBM recorded a profit available for distribution in the amount of MDL 250.08 million at the end of 2013, which is characterized mainly by the following developments as compared 2012 (MDL 227.10 million):

Events that had a positive impact on the profit available for distribution:

- The increase of income from foreign exchange reserves management with about MDL 124 million due to higher interest-related income on securities and foreign currency investments and higher income from operations in foreign currency.
- The reduction of expenditures related to the sterilization operations with about MDL 48 million due to the reduction of interest rate on the NBC.
- The reduction of expenditures related to the required reserves with about MDL 13 million over the same period of 2012, determined by the decrease in interest rates applied to maintain the required reserves in MDL, which ranged from 1.50 percent to 0.50 percent in 2013, while in 2012 they ranged from 5.66 percent to 1.50 percent.

Events that had a negative impact on the profit available for distribution:

- The decrease of income from the amortization of the discount on State Securities with about MDL 46 million, due to holding state securities in the NBM portfolio with lower interest rates during 2013 compared with 2012. The average interest rate in 2013 was 4.52 percent (2012 - 6.56 percent). However, the average balance of State Securities in the NBM portfolio decreased in 2013, accounting for MDL 2063.4 million (2012 - MDL 2196.0 million).

- Increased costs for national currency production, including its transportation and storage, with about MDL 84 million more than in 2012, following the production of a larger volume of currency. Thus, during 2013, the expenses of national currency production accounted for MDL 107 million (in 2012 – MDL 23 million).
- Increase in interest-related expenses on deposits accepted from the Ministry of Finance with about MDL 15 million, due to the application of higher interest rates during 2013 compared with 2012. The average interest rate for sight deposits accepted from the Ministry Finance in 2013 was 1.98 percent (in 2012 - 1.04 percent). However, the average monthly balance of sight deposits increased, representing MDL 1274.01 million (in 2012- MDL 992.87 million).

The impact of the aforementioned events on the profit available for distribution is presented in Table A.31 by activities of the National Bank of Moldova conducted during 2013.

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

The persistence of excess liquidity in the banking system prompted the National Bank to use liquidity absorbing instruments throughout 2013. During the reporting period, the average daily balance of liquidity sterilization operations was MDL 3713.8 million (in 2012 – MDL 3751.9 million). At the same time, the costs of sterilization operations through the issuance of National Bank Certificates decreased, accounting for about MDL 145 million in 2013 compared to MDL 193 million in 2012. The decrease in the expenditure from the amortization of the discount on NBM certificates was due to the decrease in the interest rate of NBM certificates. The average interest rate on NBM certificates placed in 2013 was 3.89 percent (in 2012 – 5.05 percent). NBM certificates were issued at the NBM base rate, decreasing from 4.50 percent in January 2013 to 3.50 percent in December 2013.

The monetary policy instruments applied by the National Bank during 2013 generated a net loss of MDL 109.69 million, representing a decrease of 5.48 percentage points compared to 2012 (Table A.32).

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

Foreign exchange reserves of the State held by the NBM rose by 12.15 percent as of December 31, 2013 or by USD 305.63 million compared to December 31, 2012 (from USD 2515.00 million to USD 2820.63 million), invested mainly in instruments in USD and EUR. The increase of the share of foreign exchange reserves generated an income growth related to the management of the foreign exchange reserves and other foreign currencies operations by MDL 110 million in 2013, reaching the level of MDL 522.38 million (compared to MDL 412.28 million in 2012).

The impact of foreign exchange reserves management operations on the financial activity of the National Bank is presented in Table A.33.

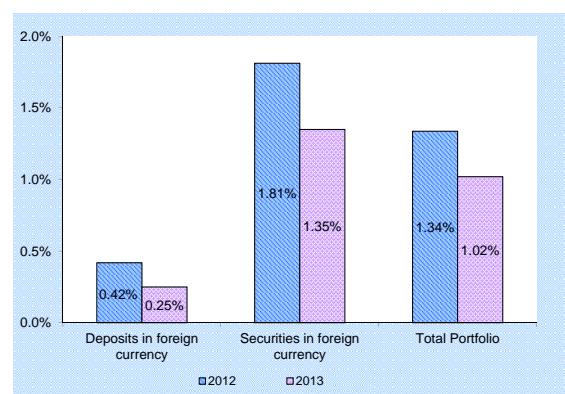
Although the management of foreign exchange reserves generated higher income in 2013 than in 2012, the profitability of foreign exchange reserves fell in comparison with 2012. One factor that influenced the decrease in profitability of foreign currency reserves is the decrease in the yield of state securities and foreign currency deposits, as shown in (Chart 3.73). Thus, the profitability of the state securities issued by non-residents decreased from the level of 1.8121 percent in 2012 to 1.3453 percent in 2013, due to negative developments of the profitability rates in the capital market as a result of a deepening political climate instability, the suspension of the U.S. government, as a result of disagreements on fiscal policy and public debt ceiling of the U.S., and the slowing growth in key emerging economies. The securities issued by non-residents but held by the NBM in its portfolio are mainly represented by the securities issued by the Government agencies from the USA, EU, UK and securities issued by supranational institutions.

The share of securities issued by non-residents in the total investment portfolio in the analyzed period amounted 63.70 percent (2012 - 61.18 percent).

The weighted average rate of term deposits profitability decreased from 0.4192 percent in 2012 to 0.2480 percent in 2013 (Chart 3.73).

It should be mentioned that in accordance with best international practices and the *Law on the National Bank of*

Chart 3.73: Evolution of the foreign exchange reserves profitability in 2013 compared to 2012



Source: NBM

Moldova, the reserve assets are selected based on safety of basic amounts and liquidity criteria. Thus, only after ensuring these two criteria, the instruments profitability in which the state foreign exchange reserves are invested shall be taken into account.

The evolution of the official foreign exchange rate of the MDL against the currencies in which the foreign exchange reserves are held had a significant impact on the financial situation of the National Bank of Moldova. Its dynamics and the average annual values are shown in Table A.34.

At the end of 2013, foreign exchange rate fluctuations resulted in an amount of MDL 1989.97 million of unrealized income from the exchange differences, while lower prices for state securities in international markets led to unrealized losses from the revaluation of investment securities in the amount of approximately MDL 73.08 million. Unrealized losses did not affect the size of the profit available for distribution, as according to the *Law on the National Bank of Moldova*, unrealized losses from revaluation of securities in 2013 were covered from the reserve created from unrealized gains of previous years.

At the end of 2012, foreign exchange rate fluctuations resulted in recording unrealized income from the exchange differences in the amount of MDL 846.01 million, from which unrealized income from the exchange differences on revaluation of foreign currency stocks - MDL 714.82 million and from the revaluation of securities investment - MDL 131.19 million, which were transferred to the respective accounts.

Capital and reserves

The activities conducted by the National Bank during 2013 in order to fulfill its basic duties had an impact on the bank's balance sheet structure (Table A.35).

The situation of capital and reserves is reflected in Table A.36.

On December 31, 2013, the debit balance of general reserve fund decreased by MDL 125.04 million, as a result of recording a profit available for distribution in the amount of MDL 250.08 million and of its use in the amount of 50 percent for statutory capital increase, according the *Law on the National Bank of Moldova*. Thus, the debit balance of the general reserve fund totaled 471.36 million MDL on December 31, 2013 (2012 – MDL 596.40 million).

The debit balance of the general reserve fund recorded at the end of 2009 - 2012 was not covered by the Ministry of Finance during 2010 - 2013 by issuing state securities in accordance with the *Law on the National Bank of Moldova*.

As on December 31, 2013, bank capital and reserves recorded a positive level in the total amount of MDL 2813.76 million, increasing as compared to December 31, 2012 amid registration of unrealized income from exchange differences on revaluation of foreign currency stocks in the amount of MDL 1989.97 million and from the revaluation of securities investment – MDL 73.08 million, which were transferred to the respective accounts.

Other reserves comprise reserve income from the revaluation of state securities that recorded a positive result in the amount of MDL 1.50 million and the negative differences from revaluation of monetary gold worth MDL 8.17 million, which generated the decrease of other reserves of the bank to the amount MDL 6.67 million (in 2012 – MDL 2.17 million).

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Appendix A

Statistical tables

Table A.1: Balance of payment–main aggregate (USD, million)

	2009	2010	2011	2012	2013 pr.
CURRENT ACCOUNT	-446.67	-451.34	-784.47	-495.28	-384.67
Goods and services i	-1988.54	-2282.96	-2872.04	-2945.06	-2981.13
Goods	-1948.79	-2219.45	-2869.44	-2923.98	-2978.58
Export (FOB), of which	1326.93	1590.43	2277.05	2228.06	2470.17
Alcoholic beverages	157.26	175.84	177.81	210.65	226.75
Import (FOB), of which:	-3275.72	-3809.88	-5146.49	-5152.04	-5448.75
energy (excluding electricity)	-652.99	-732.77	-1046.76	-1039.51	-1045.45
Services	-39.75	-63.51	-2.60	-21.08	-2.55
export	673.11	700.31	881.47	936.32	1028.69
import	-712.86	-763.82	-884.07	-957.40	-1031.24
Income	321.24	504.70	571.52	839.78	884.71
inflow, of which:	592.06	766.98	926.75	1051.80	1160.07
income of residents from labor	563.42	742.96	899.03	1012.53	1114.76
outflow, of which:	-270.82	-262.28	-355.23	-212.02	-275.36
distributed dividends and profits from direct investments	-134.65	-124.65	-153.28	-123.01	-134.08
reinvested income and branches undistributed profit	11.56	-14.55	-86.72	11.01	-9.42
income on other investments	-62.39	-48.25	-59.45	-63.25	-74.41
Current transfers	1220.63	1326.92	1516.05	1610.00	1711.75
inflow, of which:	1323.99	1416.32	1614.71	1711.52	1854.20
personal transfers	635.21	608.47	701.37	773.79	860.96
outflow	-103.36	-89.40	-98.66	-101.52	-142.45
CAPITAL AND FINANCIAL ACCOUNT	369.41	373.72	696.77	420.19	296.20
Capital account	-17.54	-28.36	-29.50	-33.80	-44.72
Financial account	386.95	402.08	726.27	453.99	340.92
Direct investment, of which	201.57	204.39	267.64	155.36	203.08
in the national economy	208.33	207.90	288.21	175.14	231.31
equity capital and reinvested earnings	150.00	171.53	230.62	133.54	170.89
intragroup loans	58.33	36.37	57.59	41.60	60.42
Portfolio investment, of which:	-5.87	1.00	-0.03	21.34	9.71
Assets**	-0.30	-4.84	-5.16	6.98	-0.36
equity securities	-0.30	-0.47	0.13	-0.18	-0.06
debt commitments	-	-4.37	-5.29	7.16	-0.30
Liabilities**	-5.57	5.84	5.13	14.36	10.07
equity securities	2.39	5.84	5.07	14.36	10.07
debt commitments	-7.96	-	0.06	-	-
Financial derivatives –banks (net)	0.34	-0.63	0.19	-0.24	0.11
Other investment	-9.64	491.69	736.58	775.16	411.86
Assets*	-210.56	75.51	90.82	225.62	-109.23
trade loans	44.86	21.24	-74.30	98.15	69.26
loans	4.20	-7.39	1.99	-4.96	-37.79
currency and deposits	-259.62	61.66	163.13	131.88	-240.30
other assets	-	-	-	0.55	99.60
Liabilities**	200.92	416.18	645.76	549.54	521.09
trade loans	60.70	99.09	200.72	31.50	57.61
long-term loans	-10.03	286.21	313.26	440.43	139.86
usage	312.23	632.91	734.81	860.85	690.97
reimbursement	-322.26	-346.70	-421.55	-420.42	-551.11
short-term loans	-49.95	5.92	18.13	1.93	45.88
deposits of non-residents within the national banking system	-46.64	-69.59	47.69	-5.45	226.12
other liabilities	62.64	94.55	65.96	81.13	51.62
SDR allocation	184.20	-	-	-	-
State reserve assets*	200.55	-294.37	-278.11	-497.63	-283.84
Errors and omissions	77.26	77.62	87.70	75.09	88.47
Informative:					
Foreign money transfers for individuals through banks from Moldova	1182.02	1244.14	1443.47	1494.23	1608.98

*() increase, (+) decrease; for state reserve assets- valued at average quarterly rate. ** (+) increase, () decrease;

Note: Data for 2013 is provisional.

Source:NBM

Table A.2: Dynamics of foreign trade in services

	2009	2010	2011	2012	2013	2013 / 2012
	USD, million				%	
Services	-39.75	-63.51	-2.60	-21.08	-2.55	12.1
<i>Credit</i>	673.11	700.31	881.47	936.32	1028.69	109.9
<i>Debit</i>	-712.86	-763.82	-884.07	-957.40	-1031.24	107.7
Transport	-3.29	-40.10	-21.99	-18.37	12.11	-65.9
<i>Credit</i>	253.48	244.46	343.04	363.13	410.33	113.0
<i>Debit</i>	-256.77	-284.56	-365.03	-381.50	-398.22	104.4
Travel	-70.52	-87.60	-104.79	-118.96	-120.23	101.1
<i>Credit</i>	172.52	172.71	194.96	212.52	226.21	106.4
<i>Debit</i>	-243.04	-260.31	-299.75	-331.48	-346.44	104.5
Communication services	66.06	87.92	92.50	99.88	86.20	86.3
<i>Credit</i>	105.21	126.05	134.96	140.04	137.81	98.4
<i>Debit</i>	-39.15	-38.13	-42.46	-40.16	-51.61	128.5
Other services	-32.00	-23.73	31.68	16.37	19.37	118.3
<i>Credit</i>	141.90	157.09	208.51	220.63	254.34	115.3
<i>Debit</i>	-173.90	-180.82	-176.83	-204.26	-234.97	115.0

Source: NBM

Table A.3: Income

	2009	2010	2011	2012	2013	2013 / 2012
	USD, million				%	
Income	321.24	504.70	571.52	839.78	884.71	105.4
<i>Credit</i>	592.06	766.98	926.75	1051.80	1160.07	110.3
<i>Debit</i>	-270.82	-262.28	-355.23	-212.02	-275.36	129.9
Compensation for residents' labor	497.12	683.61	863.22	984.99	1075.74	109.2
<i>Credit</i>	563.42	742.96	899.03	1012.53	1114.76	110.1
<i>Debit</i>	-66.30	-59.35	-35.81	-27.54	-39.02	141.7
Income from investment	-175.88	-178.91	-291.70	-145.21	-191.03	131.6
<i>Credit</i>	28.64	24.02	27.72	39.27	45.31	115.4
<i>Debit</i>	-204.52	-202.93	-319.42	-184.48	-236.34	128.1
Income from direct and portfolio investment	-120.63	-134.18	-237.66	-87.77	-130.45	148.6
<i>Credit</i>	21.50	20.50	22.31	33.46	31.48	94.1
<i>Debit</i>	-142.13	-154.68	-259.97	-121.23	-161.93	133.6
Dividends and distributed profits	-133.70	-121.09	-150.17	-119.94	-134.19	111.9
<i>Credit</i>	2.14	6.26	6.36	6.31	6.61	104.8
<i>Debit</i>	-135.84	-127.35	-156.53	-126.25	-140.80	111.5
Reinvested income and undistributed profit (-) / loss (+)	11.56	-14.55	-86.72	11.01	-9.42	-
<i>Debit</i>	11.56	-14.55	-86.72	11.01	-9.42	-
Interest	1.51	1.46	-0.77	21.16	13.16	62.2
<i>Credit</i>	19.36	14.24	15.95	27.15	24.87	91.6
<i>Debit</i>	-17.85	-12.78	-16.72	-5.99	-11.71	195.5
Income from other investment	-55.25	-44.73	-54.04	-57.44	-60.58	105.5
<i>Credit</i>	7.14	3.52	5.41	5.81	13.83	de 2.4 ori
<i>Debit</i>	-62.39	-48.25	-59.45	-63.25	-74.41	117.6

Source: NBM

Table A.4: Current transfers

	2009	2010	2011	2012	2013	2013 / 2012
	USD, million					%
Balance of current transfers	1220.63	1326.92	1516.05	1610.00	1711.75	106.3
<i>Credit</i>	1323.99	1416.32	1614.71	1711.52	1854.20	108.3
<i>Debit</i>	-103.36	-89.40	-98.66	-101.52	-142.45	140.3
Grants and technical assistance	246.62	273.02	274.70	290.49	322.67	111.1
<i>Credit</i>	247.56	274.35	276.83	292.26	326.10	111.6
<i>Debit</i>	-0.94	-1.33	-2.13	-1.77	-3.43	193.8
Education and staff training	28.47	42.02	45.10	47.71	49.49	103.7
<i>Credit</i>	28.96	42.72	45.50	47.84	49.73	104.0
<i>Debit</i>	-0.49	-0.70	-0.40	-0.13	-0.24	184.6
Humanitarian aid	21.42	40.97	26.49	31.91	21.45	67.2
<i>Credit</i>	21.43	40.99	26.54	31.91	21.45	67.2
<i>Debit</i>	-0.01	-0.02	-0.05	-	-	-
Fees in international organizations	-5.00	-4.94	-5.59	-6.76	-8.15	120.6
<i>Credit</i>	0.02	0.06	0.17	0.10	0.12	120.0
<i>Debit</i>	-5.02	-5.00	-5.76	-6.86	-8.27	120.6
Personal transfers	627.24	589.23	685.98	760.35	837.55	110.2
<i>Credit</i>	635.21	608.47	701.37	773.79	860.96	111.3
<i>Debit</i>	-7.97	-19.24	-15.39	-13.44	-23.41	174.2
Other current transfers	301.88	386.62	489.37	486.30	488.74	100.5
<i>Credit</i>	390.81	449.73	564.30	565.62	595.84	105.3
<i>Debit</i>	-88.93	-63.11	-74.93	-79.32	-107.10	135.0

Source: NBM

Table A.5: External assets and liabilities, net flow (USD, million)

	2009	2010	2011	2012	2013
Financial account	386.95	402.08	726.27	453.99	340.92
External assets*	-17.15	-227.84	-213.03	-285.05	-421.78
Direct investment	-6.76	-3.51	-20.57	-19.78	-28.23
Portfolio					
investment	-0.30	-4.84	-5.16	6.98	-0.36
Financial derivatives	-0.08	-0.63	-0.01	-0.24	-0.12
Other investments	-210.56	75.51	90.82	225.62	-109.23
trade loans	44.86	21.24	-74.30	98.15	69.26
loans	4.20	-7.39	1.99	-4.96	-37.79
currency and deposits	-259.62	61.66	163.13	131.88	-240.30
Other assets	-	-	-	0.55	99.60
Reserve assets	200.55	-294.37	-278.11	-497.63	-283.84
External liabilities	404.10	629.92	939.30	739.04	762.70
Direct investment	208.33	207.90	288.21	175.14	231.31
Portfolio					
investment	-5.57	5.84	5.13	14.36	10.07
Financial derivatives	0.42	-	0.20	-	0.23
Other investments	200.92	416.18	645.76	549.54	521.09
trade loans	60.70	99.09	200.72	31.50	57.61
loans	-59.98	292.13	331.39	442.36	185.74
currency and deposits	-46.64	-69.59	47.69	-5.45	226.12
other liabilities	62.64	94.55	65.96	81.13	51.62
SDR allocations	184.20	-	-	-	-

* (-) increase

Source: NBM

Table A.6: Direct investments in the national economy and abroad, flows (USD, million)

	2009		2010		2011		2012		2013	
	inflow	outflow	inflow	outflow	inflow	outflow	inflow	outflow	inflow	outflow
Direct investment	376.94	175.37	358.62	154.23	440.10	172.46	350.51	195.15	348.07	144.99
in national economy	373.55	165.22	358.53	150.63	440.06	151.85	350.10	174.96	348.05	116.74
<i>share capital</i> *	209.53	47.97	186.33	29.35	187.24	43.34	210.12	65.57	183.86	22.39
banking sector	25.45	-	34.03	-	7.64	-	12.21	18.60	32.64	7.48
other sectors	184.08	47.97	152.30	29.35	179.60	43.34	197.91	46.97	151.22	14.91
<i>reinvested earnings and undistributed profits</i>	-11.56	-	14.55	-	86.72	-	-11.01	-	9.42	-
banking sector	-21.48	-	-24.66	-	10.91	-	5.26	-	8.81	-
other sectors	9.92	-	39.21	-	75.81	-	-16.27	-	0.61	-
<i>other capital</i> **	175.58	117.25	157.65	121.28	166.10	108.51	150.99	109.39	154.77	94.35
claims to foreign investors	10.28	0.10	2.71	6.80	7.27	20.48	0.03	9.83	5.62	18.36
liabilities to foreign investors	165.30	117.15	154.94	114.48	158.83	88.03	150.96	99.56	149.15	75.99
Abroad	3.39	10.15	0.09	3.60	0.04	20.61	0.41	20.19	0.02	28.25

*including real estate purchases by non-resident individuals and legal entities

**other capital includes only loans to other sectors, bank loans are included in „other investments“

Source: NBM

Table A.7: External loans (USD, millions)

	2009		2010		2011		2012		2013	
	received	reimbursed	received	reimbursed	received	reimbursed	received	reimbursed	received	reimbursed
Loans of the monetary authorities (NBM from IMF)	-	14.86	61.34	8.41	135.37	6.16	154.64	16.13	-	21.61
Governmental loans	41.19	44.60	212.05	45.91	112.80	62.31	152.98	53.58	100.76	64.06
Bank loans	100.04	154.97	156.98	123.13	242.51	152.43	310.32	281.55	269.76	231.30
<i>long-term</i>	98.04	106.79	154.21	120.36	199.46	127.63	157.59	119.22	219.03	204.29
<i>short-term</i>	2.00	48.18	2.77	2.77	43.05	24.80	152.73	162.33	50.73	27.01
Loans of other sectors	184.98	171.76	219.33	180.12	302.89	241.28	440.43	264.75	398.86	266.67
<i>long-term</i>	173.00	156.01	205.31	172.02	287.18	225.45	395.64	231.49	371.18	261.15
<i>short-term</i>	11.98	15.75	14.02	8.10	15.71	15.83	44.79	33.26	27.68	5.52
TOTAL	326.21	386.19	649.70	357.57	793.57	462.18	1058.37	616.01	769.38	583.64

Source: NBM

Table A.8: Gross external debt of the Republic of Moldova, at the end of period (USD, millions)

	2009	2010	2011	2012	2013
Governmental sector	957.50	1116.18	1157.92	1265.59	1305.17
<i>long-term</i>	<i>957.50</i>	<i>1116.18</i>	<i>1157.92</i>	<i>1265.59</i>	<i>1305.17</i>
Loans	773.63	934.90	977.77	1084.14	1123.89
SDR allocations	183.87	181.28	180.15	181.45	181.28
Monetary authorities	153.33	204.24	327.05	467.34	445.07
<i>long-term</i>	<i>153.33</i>	<i>204.24</i>	<i>327.05</i>	<i>467.34</i>	<i>445.07</i>
Loans	153.33	204.24	327.05	467.34	445.07
Banks	457.60	406.62	544.11	570.97	845.89
<i>short-term</i>	<i>189.98</i>	<i>113.18</i>	<i>184.17</i>	<i>169.32</i>	<i>423.38</i>
Loans	10.60	10.60	28.85	18.85	42.57
Currency and deposits	179.38	101.97	148.99	144.80	371.33
Other debt liabilities	-	0.61	6.33	5.67	9.48
<i>long-term</i>	<i>267.62</i>	<i>293.44</i>	<i>359.94</i>	<i>401.65</i>	<i>422.51</i>
Loans	267.62	293.44	359.94	401.65	422.51
Other sectors	1905.46	2100.09	2372.80	2662.09	2908.13
<i>short-term</i>	<i>1137.97</i>	<i>1320.76</i>	<i>1543.14</i>	<i>1658.07</i>	<i>1782.38</i>
Loans	13.07	18.85	18.93	30.62	52.84
Trade loans	683.96	775.72	947.34	987.77	1050.26
Other debt liabilities	440.94	526.19	576.87	639.68	679.28
Arrears	67.13	93.35	121.80	127.94	140.01
Other	373.81	432.84	455.07	511.74	539.27
of which the debt for energy	372.19	419.64	453.45	505.67	537.66
<i>long-term</i>	<i>767.49</i>	<i>779.33</i>	<i>829.66</i>	<i>1004.02</i>	<i>1125.75</i>
Loans	767.49	779.33	829.66	1004.02	1125.75
Direct investment: intra-group lending	853.19	883.97	957.03	1017.77	1108.42
Commitments to foreign investors	853.19	883.97	957.03	1017.77	1108.42
Arrears	75.20	84.26	93.57	95.87	104.08
Loans from foreign investors	777.99	799.71	863.46	921.90	1004.34
TOTAL	4327.08	4711.10	5358.91	5983.76	6612.68

Source: NBM

Table A.9: Public external debt, publicly guaranteed and private non-guaranteed debt, at the end of the period (USD, million)

	2009	2010	2011	2012	2013
Public and publicly guaranteed debt	1139.79	1348.68	1521.35	1762.56	1774.92
<i>Short-term</i>	<i>0.10</i>	<i>0.03</i>	-	-	-
Other debt liabilities	0.10	0.03	-	-	-
Arrears (principal and interest)	0.10	0.03	-	-	-
of which: public corporate debt and ATU*	0.10	0.03	-	-	-
<i>Long-term</i>	<i>1139.69</i>	<i>1348.65</i>	<i>1521.35</i>	<i>1762.56</i>	<i>1774.92</i>
Loans	955.82	1167.36	1341.20	1581.11	1593.64
of which: public corporate debt	20.43	21.86	47.04	46.47	38.09
SDR allocation from IMF	183.87	181.28	180.15	181.45	181.28
Private non-guaranteed debt	3187.29	3362.42	3837.56	4221.20	4837.76
<i>Short-term</i>	<i>1327.84</i>	<i>1433.91</i>	<i>1727.31</i>	<i>1827.40</i>	<i>2205.76</i>
Loans	23.67	29.45	47.78	49.47	95.40
Currency and deposits	179.38	101.97	148.99	144.80	371.33
Trade loans	683.96	775.72	947.34	987.77	1050.26
Other debt liabilities	440.83	526.77	583.20	645.36	688.77
Arrears (principal and interest)	67.03	93.32	121.80	127.94	140.01
Other	373.80	433.45	461.40	517.42	548.76
<i>Long-term</i>	<i>1006.26</i>	<i>1044.54</i>	<i>1153.22</i>	<i>1376.03</i>	<i>1523.58</i>
Loans	1006.26	1044.54	1153.22	1376.03	1523.58
<i>Direct investment: intra-group lending</i>	<i>853.19</i>	<i>883.97</i>	<i>957.03</i>	<i>1017.77</i>	<i>1108.42</i>
Commitments to foreign investors	853.19	883.97	957.03	1017.77	1108.42
Arrears	75.20	84.26	93.57	95.87	104.08
Loans from foreign investors	777.99	799.71	863.46	921.90	1004.34
TOTAL	4327.08	4711.10	5358.91	5983.76	6612.68

*administrative-territorial units

Source: NBM

Table A.10: Foreign loans and SDR allocations, at the end of period
(USD, million)

	2009	2010	2011	2012	2013
Monetary authorities	153.33	204.24	327.05	467.34	445.07
IMF	153.33	204.24	327.05	467.34	445.07
Direct state debt	944.20	1106.09	1134.85	1239.93	1286.62
<i>International bodies</i>	<i>688.36</i>	<i>855.53</i>	<i>920.06</i>	<i>1039.33</i>	<i>1107.07</i>
IBRD and AIDA	441.16	479.41	508.16	562.94	568.70
EBRD	1.46	0.49	3.49	14.41	32.74
IFAD	37.18	42.31	45.42	54.24	63.84
BDCE	12.91	12.34	13.30	17.82	27.73
IEB	11.78	16.49	24.15	62.03	86.48
IMF	183.87	304.49	325.54	327.89	327.58
<i>Bilateral creditors</i>	<i>255.84</i>	<i>250.56</i>	<i>214.79</i>	<i>200.61</i>	<i>179.55</i>
USA	53.82	51.24	48.65	46.07	43.48
Japan	23.50	23.40	21.23	16.25	10.38
Russian Federation	121.30	109.09	96.89	84.68	70.06
Romania	9.40	9.40	9.40	8.06	6.71
Germany	38.67	33.99	31.29	30.31	28.64
Poland	-	15.00	-	-	-
Austria	-	-	-	9.04	15.21
TurKey	7.93	7.14	6.35	5.56	4.76
other	1.22	1.30	0.98	0.64	0.31
Guaranteed debt assumed by state	13.30	10.08	7.63	5.64	3.55
<i>Other creditors</i>	<i>13.30</i>	<i>10.08</i>	<i>7.63</i>	<i>5.64</i>	<i>3.55</i>
Administrative-territorial units debt	-	-	15.44	20.02	15.00
<i>International bodies</i>	<i>-</i>	<i>-</i>	<i>11.43</i>	<i>11.32</i>	<i>13.95</i>
IFC	-	-	5.00	4.69	7.07
IEB	-	-	6.43	6.63	6.88
<i>Other creditors</i>	<i>-</i>	<i>-</i>	<i>4.01</i>	<i>8.70</i>	<i>1.05</i>
Public corporate debt	20.53	21.90	31.60	26.45	23.09
<i>International bodies</i>	<i>9.45</i>	<i>8.74</i>	<i>16.39</i>	<i>16.50</i>	<i>5.66</i>
EBRD	9.31	8.61	14.80	14.86	5.66
IEB	0.14	0.13	1.59	1.64	-
<i>Other creditors</i>	<i>11.07</i>	<i>13.16</i>	<i>15.21</i>	<i>9.95</i>	<i>17.43</i>
State guaranteed private debt	8.43	6.37	4.78	3.19	1.59
<i>International bodies</i>	<i>8.43</i>	<i>6.37</i>	<i>4.78</i>	<i>3.19</i>	<i>1.59</i>
EBRD	8.43	6.37	4.78	3.19	1.59
State non-guaranteed private debt	1950.14	2051.28	2279.83	2571.20	2867.41
International bodies	160.36	235.67	307.84	350.27*	352.02
Other creditors	1789.78	1815.61	1971.99	2220.93*	2515.39
TOTAL	3089.93	3399.96	3801.18	4333.77	4642.33

*revised data

Source: NBM

Table A.11: The evolution of credit indebtedness of the banks to the NBM in 2013 (MDL, million)

Purpose of credits	Balance as of 31.12.2012	Credits granted in 2013	Credits paid-off in 2013	Balance as of 31.12.2013
Credits granted for the protection of the integrity of the banking system	279.4	0	93.1	186.3
Credits granted for lending the cooperative housing	10.7	0	2.6	8.1
Total	290.1	-	95.7	194.4

Source: NBM

Table A.12: Total turnover of the domestic foreign exchange market operations (purchases/sales of the foreign currency against MDL) (equivalent in USD, million)

	NBM	Domestic foreign exchange transfer market					Domestic foreign exchange cash market			Domestic foreign exchange market
		Resident banks	Non-resident banks	Legal entities	Miscellaneous	Total	Foreign exchange offices of licensed banks	Foreign exchange entities	Total	
Equivalent in USD, million										
2012	350.1	1947.0	39.3	6416.2	1395.0	10147.6	3278.9	910.3	4189.2	14336.8
2013	803.0	8635.6	61.5	7390.9	1316.0	18207.0	3519.1	1062.0	4581.1	22788.1
Share, %										
2012	2.4	13.6	0.3	44.8	9.7	70.8	22.9	6.3	29.2	100
2013	3.5	37.9	0.3	32.4	5.8	79.9	15.4	4.7	20.1	100
Growth rate compared to the previous year, %										
2013	2.3 times	4.4 times	56.5	15.2	-5.7	79.4	7.3	16.7	9.4	59.0

Source: Reports on purchases and sales operations of foreign currency made by licensed banks and the NBM data; Report on foreign exchange operations conducted by the foreign exchange office; Report on foreign exchange operations conducted by foreign exchange points near hotels.

Table A.13: Structure of turnover of foreign exchange transactions on domestic foreign exchange market

	Foreign exchange transfer market		Foreign exchange cash market		Total foreign exchange market		In total
	purchases	sales	purchases	sales	purchases	sales	turnover
2012	<i>Share, %</i>						
USD	55.2	63.1	31.9	31.5	43.7	59.2	51.4
EUR	41.3	34.7	53.3	56.5	47.3	37.4	42.3
RUB	3.4	2.0	13.9	8.2	8.5	2.8	5.7
Other currencies	0.1	0.2	0.9	3.8	0.5	0.6	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2013	<i>Share, %</i>						
USD	61.7	63.8	30.4	31.0	51.4	61.0	56.2
EUR	34.8	33.2	48.9	54.4	39.4	35.0	37.2
RUB	3.5	2.8	19.7	10.4	8.8	3.5	6.2
Other currencies	0.0	0.2	1.0	4.2	0.4	0.5	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

Table A.14: The main sources of foreign currency purchase by the licensed banks from Moldova in the domestic foreign exchange market (the equivalent in USD, million)

Foreign currency purchases on the foreign exchange market against MDL, including SWAP foreign exchange operations from:								
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	Miscellaneous	Total
<i>Equivalent in USD, millions</i>								
2012	20.0	970.3	5.5	1952.2	2.1	3196.0	553.7	6699.8
2013	249.2	4310.8	4.9	2360.5	2.2	3470.4	483.6	10881.6
<i>Share, %</i>								
2012	0.3	14.5	0.1	29.1	0.0	47.7	8.3	100.0
2013	2.3	39.6	0.0	21.7	0.0	31.9	4.5	100.0
<i>Growth rate, compared to the previous year, %</i>								
2013	12.5 times	4.4 times	-10.9	20.9	4.8	8.6	-12.6	62.4

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

Table A.15: The main selling directions of foreign currency by licensed banks of the Republic of Moldova on the domestic foreign exchange market (equivalent in USD, million)

Foreign currency purchases on the foreign exchange market against MDL, including SWAP foreign exchange operations from:								
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	Miscellaneous	Total
<i>Equivalent in USD, millions</i>								
2012	330.1	976.7	33.8	4463.9	0.0	498.4	423.8	6726.7
2013	553.8	4324.8	56.6	5030.4	0.0	545.4	333.5	10844.5
<i>Share, %</i>								
2012	4.9	14.5	0.5	66.4	0.0	7.4	6.3	100.0
2013	5.1	39.9	0.5	46.4	0.0	5.0	3.1	100.0
<i>Growth rate, compared to the previous year, %</i>								
2013	67.8	4.4 times	67.5	12.7	0.0	9.4	-21.3	61.2

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

Table A.16: Net balance of purchases/sales operations of foreign currency against MDL (equivalent in USD, million)

	Net balance							Total
	NBM	Resident banks	Non-resident banks	Legal entities	Foreign exchange offices	Individuals	Miscellaneous	
Equivalent in USD, millions								
Quarter I	0.0	0.2	1.3	-609.9	0.6	561.4	24.8	-21.6
Quarter II	-21.3	-8.0	-14.0	-638.3	0.6	644.7	30.9	-5.5
Quarter III	-220.9	0.4	-12.5	-629.2	0.8	837.5	40.4	16.5
Quarter IV	-67.9	1.0	-3.0	-634.3	0.1	654.0	33.8	-16.3
2012	-310.1	-6.4	-28.3	-2511.7	2.1	2697.6	129.9	-26.9
Quarter I	-20.9	0.6	-8.9	-573.6	0.6	570.5	58.3	26.6
Quarter II	-13.0	-17.8	-17.7	-730.9	0.5	735.5	37.0	-6.4
Quarter III	-228.5	2.7	-20.2	-705.1	1.0	930.9	39.0	19.8
Quarter IV	-42.2	0.5	-4.9	-660.3	0.1	688.1	15.8	-2.9
2013	-304.6	-14.0	-51.7	-2669.9	2.2	2925.0	150.1	37.1

Source: NBM

Table A.17: Balance sheet assets in foreign currency of banks (equivalent in USD, million)

	Balance as of 31.12.2012	Share in total %	Balance as of 31.12.2013	Share in total %	Change as against 31.12.2012, %
Granted loans	1240.2	63.0	1308.9	50.2	5.5
Disposable funds in foreign currency	392.9	20.0	846.5	32.4	2.2 ori
Required reserves in foreign currency	189.4	9.6	206.4	7.9	9.0
Other assets in foreign currency	43.6	2.2	154.0	5.9	3.5 ori
Assets linked to foreign exchange rate	103.1	5.2	94.4	3.6	-8.4
Total of balance sheet assets in foreign currency	1969.2	100.0	2610.2	100.0	32.6

Source: NBM

Table A.18: Loans in foreign currency granted by banks (equivalent in USD, million)

	Balance as of 31.12.2012	Share in total %	Balance as of 31.12.2013	Share in total %	Change as against 31.12.2012, %
EUR	715.6	57.7	769.8	58.8	7.6
USD	524.6	42.3	534.6	40.8	1.9
RUB	0.0	0.0	4.5	0.4	-
Total	1240.2	100.0	1308.9	100.0	5.5

Source: NBM

Table A.19: Disposable funds in foreign currency of the licensed banks (equivalent in USD, million)

	Balance as of 31.12.2012	Share %	Balance as of 31.12.2013	Share %	Change as against 31.12.2012, %
„Nostro” accounts opened abroad					
opened abroad	194.5	49.5	284.9	33.7	46.5
Cash	96.3	24.5	101.3	12.0	5.2
Placements and overnight credits	62.0	15.8	373.4	44.1	6.0 times
Placements abroad of licensed banks					
licensed banks	37.6	9.6	84.1	9.9	2.2 times
State securities	2.5	0.6	2.8	0.3	12.0
Total	392.9	100.0	846.5	100.0	2.2 times

Source: NBM

Table A.20: Disposable funds in foreign currency of licensed banks, by types of currency (equivalent in USD, million)

	Balance as of 31.12.2012	Share %	Balance as of 31.12.2013	Share %	Change as against 31.12.2012, %
EUR	201.2	51.2	265.9	31.4	32.2
USD	156.5	39.8	542.3	64.1	3.5 times
RUB	30.8	7.9	33.8	4.0	9.7
Other currencies	4.4	1.1	4.5	0.5	2.3
Total	392.9	100.0	846.5	100.0	2.2 times

Source: NBM

Table A.21: Balance sheet liabilities in foreign currency of licensed banks (equivalent in USD, million)

	Balance as of 31.12.2012	Share %	Balance as of 31.12.2013	Share %	Change as against 31.12.2012, %
Clients term deposits	885.6	45.5	973.2	38.5	9.9
Clients current accounts	271.8	13.9	374.1	14.8	37.6
Clients various deposits	186.9	9.6	186.4	7.4	-0.3
Received loans	476.9	24.5	472.4	18.7	-0.9
Term deposits of banks from abroad	50.6	2.6	196.3	7.7	3.9 times
LORO" accounts of banks from abroad	0.4	0.0	0.2	0.0	-50.0
Other liabilities in foreign currency, including:	75.6	3.9	328.2	12.9	4.3 times
- overnight deposits and loans granted to residents	0.0	0.0	134.4	5.3	-
- bother liabilities	75.6	3.9	193.8	7.6	2.6 times
Total	1947.8	100.0	2530.8	100.0	29.9

Source: NBM

Table A.22: Total deposits in foreign currency of bank's clients (equivalent in USD, million)

	Balance as of 31.12.2012	Share %	Balance as of 31.12.2013	Share %	Change as against 31.12.2012, %
EUR	888.7	66.1	966.9	63.0	8.8
USD	436.5	32.5	551.9	36.0	26.4
RUB	16.5	1.2	12.0	0.8	-27.3
Other currencies	2.6	0.2	2.9	0.2	11.5
Total	1344.3	100.0	1533.7	100.0	14.1

Source: NBM

Table A.23: Conditional assets and liabilities of licensed banks in foreign currency (equivalent in USD, million)

	Balance as of 31.12.2012	Share %	Balance as of 31.12.2013	Share %	Change as against 31.12.2012, %
Conditional assets in foreign currency					
Current purchases	404.1	98.2	335.2	94.9	-17.1
Purchases on term	4.0	1.0	16.9	4.8	4.2 times
Other conditional assets	3.4	0.8	1.1	0.3	-67.6
Total conditional assets	411.5	100.0	353.2	100.0	-14.2
Conditional liabilities in foreign currency					
Current sales	413.0	98.9	346.4	86.4	-16.1
Sales on term	4.0	1.0	54.3	13.5	13.6 times
Other conditional liabilities	0.4	0.1	0.2	0.1	-50.0
Total conditional liabilities	417.4	100.0	400.9	100.0	-4.0
Conditional assets – Conditional liabilities	-5.9		-47.7		
(Conditional assets – Conditional liabilities)/TRC (%)	-1.0		-8.0		

Source: NBM

Table A.24: Limits on investments and constraints imposed by the NBM in the management of investment risk process

Risks	Methods of reducing risks
Credit risk	<ul style="list-style-type: none"> * Investing in secure counterparties with high credit quality, set by international rating agencies Standard & Poor's, Moody's, and FitchIBCA (it shall be used the minimum rated average rated rating by the three agencies). * Establishing a minimum acceptable rating of counterparties authorized to conduct transactions. * Establishing limits on countries, sectors and investment instruments, counterparties / individual issuers, limits in terms of investment term. * Daily monitoring of investment limits and compliance with credit limits. * Credit risk quantification, using default coefficients determined by the Standard & Poor's rating agency for each type of rating and maturity.
Market Risk	<ul style="list-style-type: none"> * Daily and monthly monitoring of the market risk is performed through the evaluation at market price of the unrealized incomes/ losses from the fluctuation of exchange rates and from the prices change of state securities. * Market risk related to the portfolio of investment state securities is managed and monitored in base of the methodology of value-at-risk (VAR and CVAR), which estimates the potential economic losses based on a number of parameters and assumptions for various changes in market conditions. * Monitoring of interest rate and determining of price sensibility of state securities from investments portfolios to interest rates changes is evaluated by PV01. * Establishing by the Council of Administration of the NBM of normative foreign exchange composition of the investments portfolios which aims the coverage of foreign exchange risk and portfolio optimization by an appropriate correspondence of foreign exchange composition of the assets and liabilities and by an investment horizon acceptable for ensuring the continuity of current external obligations servicing and implementing the state monetary and foreign exchange policies. Normative foreign exchange composition is determined based on a comprehensive analysis of: foreign exchange composition of imports of goods and services, external debt, foreign exchange to perform interventions, etc. Foreign exchange composition of reserves can range in limits of +/- 10% of the normative foreign exchange composition. * Establishing by the Investment Committee of the NBM of foreign exchange structure of each sub-portfolio and the admissible deviations. * Complying the normative foreign exchange composition and foreign exchange structure of each sub-portfolio.
Liquidity risk	<ul style="list-style-type: none"> * Ensuring liquidity through sight deposits and by investing in securities with high liquidity and low risk. * Daily monitoring of liquidity risk is carried out by the use of some market benchmarks set for investments sub-portfolios indexed by type of investments and investments currency. The used benchmarks are market indexes, recognized and used worldwide for the comparative evaluation of performance and risks related to the investments portfolios. * The NBM investment policy allows active management of the reserves, with instruments and duration deviations limited to +/- 20% as compared to benchmark.

Source: NBM

Table A.25: Dynamics of the structure of assets in the banking sector of the Republic of Moldova (%)

Indicator	31.12.2012		31.12.2013		Dynamics 31.12.2013/ 31.12.2012	
	MDL, million	share in total assets (%)	MDL, million	share in total assets (%)	mil. lei	+/- (%)
Cash and cash equivalents	14364.6	24.7	24346.1	32.0	9981.5	69.5
Financial assets held-for-trading	185.2	0.3	173.5	0.2	-11.7	-6.4
Financial assets designated as at fair value through profit or lossa	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets available for sale	340.9	0.6	491.8	0.6	151.1	44.3
Loans and receivables	36223.4	62.3	43728.6	57.4	7505.2	20.7
Investments held to maturity	3406.7	5.9	3815.5	5.0	408.8	12.0
Tangible assets	1695.4	2.9	1950.7	2.6	255.3	15.1
Intangible assets	252.1	0.4	264.7	0.4	12.6	5.0
Claims on taxes	104.0	0.2	74.7	0.1	-29.3	-28.2
Other assets	869.4	1.5	714.3	0.9	-155.1	-17.8
Fixed assets and disposal groups classified as held for sale	726.8	1.2	624.1	0.8	-102.7	-14.1
TOTAL ASSETS	58168.5	100.0	76184.0	100.0	18015.5	31.0

Source: NBM

Table A.26: Dynamics of credit portfolio structure of the banking system of the Republic of Moldova, by branches

Branches	As of 31.12.2012		As of 31.12.2013		Dynamics 31.12.2013/ 31.12.2012	
	MDL,million	Share in total loans (%)	MDL,million	Share in total loans (%)	MDL,million	(%)
Loan granted to agriculture	2159.2	6.2	2221.6	5.3	62.4	2.9
Loan granted to agriculture	3705.8	10.6	4062.0	9.6	356.2	9.6
Loans granted to construction sector	1526.0	4.4	1525.6	3.6	-0.4	0.0
Consumer loans	2039.2	5.8	2615.1	6.2	575.9	28.2
Loans granted to energy industry	1475.4	4.2	1031.6	2.4	-443.8	-30.1
Overnight and overdraft loans granted to banks	0.0	0.0	0.0	0.0	0.0	0.0
Loans granted to banks	37.8	0.1	84.9	0.2	47.1	124.7
Loans granted to financial institutions from the state budget	0.6	0.0	0.0	0.0	-0.6	-100.0
Loans granted to National House of Social Insurance / National House of Health Insurance	8.0	0.0	0.0	0.0	-8.0	-100.0
Loans granted to Government	0.0	0.0	0.0	0.0	0.0	0.0
Loans granted to administrative-territorial units/ institutions subordinated to administrative-territorial units	48.0	0.1	107.6	0.3	59.6	123.9
Loans granted to productive industry	2919.4	8.3	3060.6	7.3	141.2	4.8
Loans granted to commerce	12843.0	36.7	16870.1	40.0	4027.1	31.4
Loans granted to non-bank financial sector	851.6	2.4	1103.1	2.6	251.5	29.5
Loans granted to the purchase/construction of buildings	1460.1	4.2	1810.6	4.3	350.5	24.0
Loans granted to non-profit organizations	132.5	0.4	112.9	0.3	-19.6	-14.8
Loans granted to individuals performing an activity	1271.3	3.6	1499.9	3.6	228.6	18.0
Loans granted to transport, telecommunications and network development	1837.3	5.3	2105.6	5.0	268.3	14.6
Other loans	2667.2	7.7	3966.0	9.4	1298.8	48.7
Total	34982.3	100	42177.3	100	7195.0	20.6

Source: NBM

Table A.27: Dynamics of liabilities structure of the banking sector of the Republic of Moldova (%)

Name	31.12.2012		31.12.2013		Dynamics	
	Carrying amount MDL, million	Share %	Carrying amount MDL, million	Share	MDL, million %	%
Financial liabilities held for trading	0.0	0.0	1.1	0.0	1.1	-
Financial liabilities designated as at fair value through profit or loss	0.0	0.0	0.0	0.0	0.0	-
Financial liabilities measured at amortized cost:	47438.4	98.5	63851.4	98.6	16413.0	34.6
<i>including clients deposits</i>	39915.1	82.9	55270.4	85.4	15355.3	38.5
Provisions	83.5	0.2	92.6	0.1	9.1	10.8
Debts on taxes	333.8	0.7	380.4	0.6	46.6	14.0
Other debts	299.9	0.6	427.4	0.7	127.5	42.5
TOTAL DEBTS	48155.6	100.0	64752.9	100.0	16597.3	34.5

Source: NBM

Table A.28: The evolution of payments settled through AIPS

Systemu	Year	Number (thousands of payments)		Value (MDL, million)		Average value per transaction (MDL, thousands)
		Total	Daily average	Total	Daily average	
AIPS	2012	12914.3	50.7	586774.6	2301.1	45.4
	2013	14101.7	55.3	688007.7	2698.1	48.8
Including:						
RTGS	2012	1010.6	4.0	544231.2	2134.3	538.5
	2013	1009.8	4.0	641049.7	2513.9	634.8
DNSS	2012	11903.7	46.7	42543.4	166.8	3.6
	2013	13091.9	51.3	46958.0	184.2	3.6

Source: NBM

Table A.29: Commemorative coins issued in 2013

Name	Face value	Metal	Weight (gr)	Diameter (mm)	Edition (ex.)
Seria Historical events					
20 years since the introduction of the national currency in the Republic of Moldova	200 lei	Gold 999.9/1000	15.5	40 x 28	1000
	100 lei	Silver 999/1000	28.28	40 x 28	2000
1900 years since the inauguration of Trajan's Column	100 lei	Silver 999/1000	31.1	37	2000
European year of citizens	100 lei	Silver 999/1000	31.1	37	1000
Series Alley of Classics from the Ștefan cel Mare și Sfint Public Garden in Chisinau					
Adrian Păunescu	100 lei	Gold 999.9/1000	7.8	24	1000
	50 lei	Silver 999/1000	13.0	28	1000
Series Personalities					
Alexandru Plămădeală – 125 years since birth	50 lei	Silver 999/1000	13.0	28	1000
Alexei Mateevici - 125 years since birth	50 lei	Silver 999/1000	13.0	28	1000
Series Holidays, culture, traditions of Moldova					
Guguță - literary character of Spiridon Vangheli's writing	100 lei	Silver 999/1000	13.0	28	2000
Plugușorul (The Little Plough)	50 lei	Silver 999/1000	16.5	30	2000
Series Monasteries of Moldova					
Monastery Țipova	50 lei	Silver 999/1000	16.5	30	2000
Series Red Book of Republic of Moldova					
Mute swan	50 lei	Silver 999/1000	16.5	30	2000
Southern Damselfly	50 lei	Silver 999/1000	16.5	30	2000

Source: NBM

Table A.30: IMF financial arrangements provided to the National Bank of Moldova

Facility	Amount approved until 31.12.2013	Amount disbursed until 31.12.2013	Share of disbursements in the total amount approved	Stock as of 31.12.2013	Stock as of 31.12.2013
	SDRs, million	SDRs, million	%	SDRs, million	SDRs, million
Extended Fund Facility (EFF)	319.80	236.62	73.99	149.12	229.65
Extended Credit Facility (ECF)	311.56	191.58	61.49	139.89	215.43

Source: NBM

Table A.31: Analysis of profit available for distribution in conjunction with the main activities of the NBM

	2013 Financial result	2012 Financial result	Difference 2013/2012	Absolute Difference
	MDL, thousands	MDL, thousands	%	MDL, thousands
Activities managed by the bank				
Monetary and credit operations	(109,688)	(116,044)	(5.48)	6,356
Foreign exchange reserves management	522,384	412,279	26.71	110,105
National currency issuance	(71,864)	16	(549.15)	(87,864)
Other operations, including operating costs	(90,752)	(69,153)	31.23	(21,599)
Profit available for distribution	250,080	227,098	10.12	6,998

Source: NBM

Table A.32: Net result from the monetary policy implementation

	2013	2012	Difference 2013/2012	Absolute Difference
	MDL, thousands	MDL, thousands	%	MDL, thousands
Standing Facilities	(1,966)	(5,197)	(62.17)	3,231
Required Reserves	(24,579)	(37,793)	(34.96)	13,214
Accounts and deposits of the Ministry of Finance	(29,820)	(17,709)	68.39	(12,111)
Open market operations	(144,953)	(193,169)	(24.96)	48,216
Leading activity and placement in state securities	91,630	137,824	(33.52)	(46,194)
Net result	(109,688)	(116,044)	(5.48)	6,356

Source: NBM

Table A.33: Net result obtained from the management of foreign exchange reserves held by the NBM

	2013	2012	Difference 2013/2012	Absolute Difference
	MDL, thousands	MDL, thousands	%	MDL, thousands
Securities in foreign currency	266,929	264,516	0.91	2,413
Deposits	23,775	36,598	(35.04)	(12,823)
IMF loans	(31,017)	(24,505)	26.57	(6,512)
Differences from foreign exchange rate	263,680	145,603	81.10	118,077
Commissions and fees	(983)	(9,933)	(90.10)	8,950
Net Result	522,384	412,279	26.71	110,105

Source: NBM

Table A.34: Evolution of the official exchange rate

	2013		2012	
	average on period	At the end of the year	average on period	At the end of the year
MDL/USD	12.5907	13.0570	12.1122	12.0634
MDL/EUR	16.7241	17.9697	15.5632	15.9967
MDL/GBP	19.7072	21.5015	19.1917	19.5150
MDL/JPY	0.1293	0.1241	0.1519	0.1406
MDL/XDR	19.1370	20.1078	18.5459	18.5955
MDL/XAU	570.2558	504.3804	649.0238	641.9843

Source: NBM

Table A.35: Share of significant balance sheet items (%) and the annual average rates related to the financial instruments (%)

	2013		2012	
	Share %	Annual average interest rate %	Share %	Annual average interest rate, %
ASSETS	100.00	-	100.00	-
Foreign assets	94.22	1.02	93.09	1.34
State securities	4.98	4.52	5.92	6.56
Loans granted (short/medium term)	0.67	/0.01	0.87	10.80/0.01
Other assets	0.13	-	0.12	-
Liabilities	100.00	-	100.00	-
National currency in circulation	45.62	-	41.53	-
Available funds of the Government, including:	3.93	-	5.41	-
<i>sight, MDL</i>	3.84	1.98	5.14	1.04
<i>term, MDL</i>	-	-	-	-
<i>sight, FCC</i>	0.09	-	0.27	-
Available funds of the banks, including:	16.85	-	17.05	-
<i>LORO accounts , including:</i>	10.08	-	8.78	-
Required reserves in MDL, paid	-	0.83	-	2.03
<i>required reserves in FCC, paid</i>	6.46	0.49	6.52	0.28
<i>Overnight deposits</i>	0.31	0.86	1.75	2.26
Certificates of the NBM (placed)	6.24	3.89	10.68	5.05
Loans received (EFF)	13.51	1.08	16.09	1.11
Other liabilities	7.11	-	7.01	-
Capital and reserves	6.74	-	2.23	-

Source: NBM

Table A.36: Capital and reserves

	31 December, 2013 MDL, thousands	31 December, 2012 MDL, thousands
Authorized capital	330,017	330,017
General reserve fund	(471,360)	(596,400)
Total statutory capital	(141,343)	(266,383)
Reserve of unrealized gains from exchange rate differences from the revaluation of foreign exchange stocks	2,733,942	743,974
Reserve of unrealized gains from the revaluation of investment securities	227,835	300,911
Other reserves	(6,672)	2,168
Total capital and reserves	2,813,762	780,670

Source: NBM

Table A.37: List of Decisions of the Council of Administration of the National Bank of Moldova submitted for publication in the Official Monitor of the Republic of Moldova in the first semester, 2013

No. d/o	No of DCA	Date of approval by the DCA	Decision of the CA	Published in the Official Monitor of the Republic of Moldova	
				number/article	date
1	7	24.01.2013	On the amendment and completion of the Regulation on the setting the official exchange rate of Moldovan Leu against foreign currencies	36-40/233	22.02.2013
2	8	24.01.2013	On the approval of the Regulation on the operations performed on the interbank foreign exchange market of the Republic of Moldova	36-40/234	22.02.2013
3	15	31.01.2013	On the NBM interest rates and required reserves ratio	27-30/131	08.02.2013
4	16	31.01.2013	On the NBM base rate on long-term loans	27-30/132	08.02.2013
5	18	31.01.2013	On the approval of the Instruction on information reporting related to the use of instruments and payment services	31-35/152	15.02.2013
6	19	31.01.2013	On the amendment of some normative acts of the National Bank of Moldova	42-47/248	01.03.2013
7	28	22.02.2013	On the amendment and completion of the Regulation on the open market operations of the National Bank of Moldova with state securities	42-47/249	01.03.2013
8	34	28.02.2013	On the NBM interest rates and required reserves ratio	49-55/319	08.03.2013
9	53	28.03.2013	On the NBM interest rates and required reserves ratio	69-74/392	05.04.2013
10	59	28.03.2013	On the amendment and completion of the Regulation on cash operations in the banks of the Republic of Moldova	116-118/795	24.05.2013
11	64	04.04.2013	On the amendment and completion of the Instruction on preparing and presenting the reports by banks for prudential purposes	83-90/444	19.04.2013
12	76	17.04.2013	On the amendment of the Instruction on the procedure of submission to the NBM of reports in electronic form by banks	92-95/503	26.04.2013
13	82	25.04.2013	On the NBM interest rates and required reserves ratio	97-103/576	03.05.2013
14	83	25.04.2013	On the NBM base rate on long-term loans	97-103/577	03.05.2013
15	91	02.05.2013	On the establishment of the list of jurisdictions that do not implement the international transparency standards	141-144/1036	05.07.2013
16	96	17.05.2013	On the approval of the Regulation on the placement and redemption of state securities in book-entry form	125-129/887	14.06.2013
17	103	30.05.2013	On the NBM interest rates and required reserves ratio	122-124/850	07.06.2013
18	107	30.05.2013	On the amendment and completion of the Regulation on the banks licensing	141-144/1037	05.07.2013
19	110	30.05.2013	On the amendment of the Regulation on CHIBOR and CHIBID reference rates	122-124/851	07.06.2013
20	120	27.06.2013	On the NBM interest rates and required reserves ratio	141-144/1038	05.07.2013
21	123	27.06.2013	On approval of the Regulation on the activity of electronic money issuers and non-bank payment service providers	173-176/1221	09.08.2013
22	127	27.06.2013	On the approval of the Regulation on holding equity interest in the capital of the bank	198-204/1419	13.09.2013

Source: NBM

Table A.38: List of Decisions of the Council of Administration of the National Bank of Moldova submitted for publication in the Official Monitor of the Republic of Moldova in the second semester, 2013

No. d/o	No of DCA	Date of approval by the DCA	Decision of the CA	Published in the Official Monitor of the Republic of Moldova	
				number/article	date
1	130	04.07.2013	On the approval of the Regulation on the calculation of voting rights and the registration of the transfer of ownership on banks' shares	198-204/1420	13.09.2013
2	131	08.07.2013	On putting into circulation of some commemorative coins as a means of payment and for numismatic purposes	146-151/1089	12.07.2013
3	133	11.07.2013	On the amendment and completion of the Instruction on FINREP financial situations at individual level, applicable to banks	152-158/1110	19.07.2013
4	136	11.07.2013	On the approval of the draft of the National Payments Council Statute	152-158/1111	19.07.2013
5	140	25.07.2013	On the NBM interest rates and required reserves ratio	167-172/1203	02.08.2013
6	141	25.07.2013	On the NBM base rate on long-term loans	167-172/1204	02.08.2013
7	157	01.08.2013	On the approval, amendment and completion and repeal of some normative acts of the National Bank of Moldova	191-197/1370	06.09.2013
8	159	01.08.2013	On the amendment and completion of the Regulation on the requirements for internal accounting documents	198-204/1421	13.09.2013
9	161	08.08.2013	On the approval of the Regulation on risks management related to the Book-Entry System of State Securities	177-181/1268	16.08.2013
10	162	08.08.2013	On the amendment and completion of the Regulation on the automated interbank payments system	182-185/1287	23.08.2013
11	168	19.08.2013	On the amendment and completion of the Instruction on reporting some foreign currency transactions by licensed banks	213-215/1464	27.09.2013
12	174	29.08.2013	On the NBM interest rates and required reserves ratio	191-197/1371	06.09.2013
13	180	05.09.2013	On the repeal of some normative acts of the National Bank of Moldova	198-204/1422	13.09.2013
14	185	26.09.2013	On the NBM interest rates and required reserves ratio	216-220/1490	04.10.2013
15	201	17.10.2013	On the amendment and completion of some normative acts of the National Bank of Moldova	297-303/1875	20.12.2013
16	212	31.10.2013	On the NBM interest rates and required reserves ratio	252-257/1688	08.11.2013
17	213	31.10.2013	On the NBM base rate on long-term loans	252-257/1689	08.11.2013
18	220	14.11.2013	On the amendment and completion of the Regulation on the requirements to banks administrators	4-8/46	10.01.2014
19	221	14.11.2013	On the amendment and completion of the Regulation on setting the official exchange rate of the Moldovan Leu against foreign currencies	304-310/1912	27.12.2013
20	222	21.11.2013	On the approval of the Regulation on the functioning of the interbank monetary market in national currency	276-280/1754	29.11.2013
21	223	21.11.2013	On putting into circulation some commemorative coins and one commemorative banknote as a means of payment and for numismatic purposes	276-280/1755	29.11.2013
22	228	28.11.2013	On the NBM interest rates and required reserves ratio	284-289/1824	06.12.2013
23	230	28.11.2013	On the repeal of some normative acts of the National Bank of Moldova	297-303/1876	20.12.2013
24	240	09.12.2013	On the approval, amendment and completion and repeal of some normative acts of the National Bank of Moldova	17-23/97	24.01.2014
25	256	19.12.2013	On the approval of the Recommendations on monitoring by banks the transactions and customers' activities to prevent and combat money laundering and terrorism financing	315-319/1938	31.12.2013
26	265	26.12.2013	On the NBM interest rates and required reserves ratio	315-319/1939	31.12.2013
27	275	26.12.2013	On the terms of submission of some reports by banks	315-319/1940	31.12.2013

Source: NBM

Table A.39: Major projects of the NBM in 2013

	Project	Initiation period	Objectives	Achievements	Next steps
1	Transform NBM	March 2012	To assess and transform the NBM business processes relating of banking operating, management of financial, material and human resources and to modernize the NBM banking IT system in order to achieve the objective of increasing the efficiency of the NBM operational activity. The aim of the Transform NBM Project focuses on a multidimensional transformation of the organization with the purpose to ensure maximum alignment to its strategic objectives. This approach is based on large-scale architectural model at the organization level (Enterprise Architecture), which, if implemented, provides correlation between the activity processes, organizational structure, staff, application systems, information technologies, etc. and the objectives of the organization.	In October 2013, the first phase of the project was completed, during which the situation was analysed in relation to the strategic vision of the bank's development and best practices of central banks. It was also defined the future target model of the NBM organization on aspects of activity processes, human resources, organizational structure and information technology. The target model will increase the efficiency of the bank's internal resources by automation and shortening processes time, accelerating the decision-making process, optimizing the documents circuit, promoting a corporate culture based on performance and others. To accomplish the bank's transformation, there was developed a detailed Action Plan that includes short-term measures for achieving fast performances and medium-term measures for implementing new information systems.	To announce an international open tender for the selection and implementation of certain modern and advanced information systems for the management of resources and banking operations conduct. The NBM technological modernization aims to support the bank's transformation in terms of both information technologies and the management and development of human resources and activity processes, in accordance with the NBM approved transformation plan. At the same time, there will be implemented the measures from the Action Plan for achieving rapid gains on medium and long term. The organizational structure of the bank will be also gradually adjusted in the following period as to achieve synergies by grouping similar activities and to simplify the hierarchical reporting structures. The project completion is scheduled for 2016.

2.	Implementation of a single trading platform for the monetary foreign exchange instruments by means of Bloomberg information system	October 2012	To ensure sustainable development of the monetary foreign exchange market, by strengthening trading processes on a unique platform, by technological modernization of processes, by ensuring more effectiveness, efficiency and transparency and by strengthening capacities of risks management.	Since March 2013, the trading process on domestic foreign exchange market has been automated through the unique trading platform and there was given access to information on rates and traded volumes. Since July 2013, the trading process of state securities and the calculation of CHIBOR&CHIBID rates by Bloomberg fixing agent have been automated. By the end of 2013, and particularly, since December 2013, the unique trading platform is used to negotiate interbank loans/deposits and for interbank transactions with state securities on the secondary market.	In 2014, there will be developed the trading process of monetary policy instruments of the NBM (NBM Certificates, Repo buying/selling operations, sales/purchases of state securities in/from the NBM portfolio, granting loans, attracting deposits) and the NBM Certificates on the secondary market.
3.	Organization of SS trading, with the term over 1 year, at the Stock Exchange (SE) <i>(join project with the National Commission for Financial Market)</i>	January 2013	To develop the state securities secondary market and to increase the state securities investors' base, and to increase the number and volume of transactions with SS.	There have been made amendments and completions to the regulatory framework and IT systems of the NBM, which will help to include the National State Securities Depository as a participant in the Book-Entry System (BES) managed by the NBM, in order to trade SS with a term over 1 year at the Stock Exchange.	The changes of the information systems, the participant quality of the National State Securities Depository in BES of the NBM will be put into operation in 2014, as well as the trading process of SS with a term over 1 year at the Stock Exchange.

4.	Implementation of works and services for the development of the NBM Electronic Reporting System (SIRBNM) as to ensure the implementation of statistical and prudential reports (Phase II)	November 2012	The objectives of this project are relating to the optimization of the reporting process and, respectively, of information flows to the NBM, to improve the quality of reported data, including relevance, integrity, opportunity, accuracy, accessibility, comparability and coherence, to reduce the costs and necessary efforts to ensure compliance by reporting entities with the optimization of data analysis report, reporting regulatory framework of licensed banks in the Republic of Moldova and, not least, with the alignment to the reporting requirements applied in the European Union.	In this regard, the necessary functionality to strengthen the statistical and prudential reporting in XBRL format was implemented during 2013, following the achievement of necessary preconditions for full switching to reporting process through SIRBNM by licensed banks, including the use of transport component of this system.	To include in SIRBNM the statistical and prudential reports submitted to the NBM.
5.	Central risk monitoring system	January 2013	A central risk monitoring system will provide sufficient operational information to the National Bank of Moldova, which will optimize the prudential regulation and strengthen the banking supervision within a macro prudential framework of banks' lending supervision, in accordance with modern principles of credit risk management, allow for the assessment of banks' ability to overcome financial stress events, and will help tracking bank solvency and macroeconomic stability, etc.	There have been carried out studies and researches with regard to central banks' practices in order to identify and analyse the main and specific aspects of the field. There was organized a study visit to the Central Bank of Italy, which revealed more aspects to be taken into account in the implementation of such solution, which are included in the functional requirements to the solution to be acquired. There was also held a working meeting with three licensed banks in order to identify potential impediments in the implantation of the Central risk monitoring system and to familiarize them with the information system functionality. There has been also organized a visit to the Credit History Bureaus of the Republic of Moldova.	To select the IT solution provider to implement the central risk monitoring system, as well as to implement the solution.

6.	Implementation of Basel II/III Agreement	June 2013	Implementation of the provisions of the Basel II/III Agreement will provide a more flexible prudential framework for setting the capital requirements (from a simplified level to a sophisticated level), proportionate to risk profile of the banking institutions. At the same time, the Basel II/III will significantly increase the banking system stability, allow identification of the nature of activity of each banking institution and its risk profile, as well as it will ensure the diversification of risks evaluation methods. As a result, the implementation of the Basel II/III Agreement requirements will stimulate the transparency and market discipline.	In 2013, the National Bank of Moldova has benefited from assistance of a banking expert of the European Commission within the Support project for implementing the agreements between the Republic of Moldova and the EU in the drafting process of the Twinning Fiche "Strengthening the NBM capacity in banking regulation and supervision in the implementation of the Basel Agreement provisions". The Fiche Project is being finalized on the basis of the European Commission proposals and objections.	To finalize the Twinning Fiche Project „Strengthening the NBM capacity in banking regulation and supervision in the implementation of the Basel Agreement provisions”.
7.	Promoting the non-cash payments and combating tax evasion (<i>jointly with the Ministry of Finance and Ministry of Economy</i>)	Quarter I 2013	The draft law for amending and supplementing certain legislative acts, developed based on the recommendations of the World Bank, provides for enhanced requirements for economic agents, and the degree of financial intermediation of the population, extension of the acceptance of cashless payments, limitation of cash use and the elimination of discrimination in the payments through the payments instruments.	Based on the recommendations of the World Bank in the report "Modernizing the payments system: Analysis of shadow economy in the Republic of Moldova and proposals for the introduction of tax incentives in the points of sale to promote electronic payments", was developed jointly with representatives of the Ministry of Finance, State Tax Inspectorate and the Ministry of Labour, Social Protection and Family, the draft Law for amending and supplementing certain legislative acts to promote cashless payments and combating tax evasion.	To promote the draft law by the Ministry of Finance, jointly with the Ministry of Economy.

8.	Establishing the National Payments Council (NPC)	Quarter III/2012 - Quarter III/2013	To support safe and stable operation of the payments system in the Republic of Moldova by promoting cashless payments in the Republic of Moldova and reducing cash in circulation; promoting operational efficiency, security and integrity of services and payment systems in the Republic of Moldova; promoting compliance of payment systems and services with the market demand and the needs of users and their accessibility to the entire population of the Republic of Moldova; promoting innovative nature of payments, safety of cashless payment instruments and their accessibility for users.	The National Payments Council was established in September 2013, which is composed of representatives from the private and public sectors, such as the National Bank of Moldova, Ministry of Economy, Ministry of Finance, Ministry of Communications and Information Technology, the State Tax Inspectorate, Centre of Electronic Government, the Moldovan Banks Association and the licensed banks.	
9.	Modernization of the NBM official website	November 2012	To launch the project of modernization and improvement of the structure, content and design of the NBM official website, which is one of the measures designed to achieve the strategic objective of external communication improvement. The NBM official website aims at providing access to the general public to accurate and operational information on the NBM activity and the situation of the banking system in the Republic of Moldova and it is considered to be one of the main instruments ensuring communication with stakeholders, contributing to the NBM image formation outdoors. Based on this, the project aims to conduct a comprehensive review of the structure and content, the web design, interactive elements, which will create necessary premises for optimizing the NBM communication with external parties.	The new structure of the website has been developed and the content of its categories has been prepared, by areas of activity of the NBM, which will be published on the new website. The service provider to modernize the NBM official website has been selected.	The NBM new official website will be finalised and put into operation in 2014.

10.	Implementation of PAT II solution (Portfolio Analytics Tool II) within the Consulting and Investment Management Agreement signed between the International Bank for Reconstruction and Development and the National Bank of Moldova.	February 2013	To strengthen the capacities of risk management related to the management of the NBM foreign exchange reserves and the capacities to monitor and analyse the performances of the investments portfolio.	The PAT II solution for areas of risk management and performance management of the investments portfolio in the management of foreign exchange reserves was put into operation in the second quarter of 2013.	
11.	Modernization of the NBM building	January 2013	To strengthen the NBM image by building a new facade of the office.	The facade design services have been contracted, the project is in process of elaboration.	To select the provider of facade construction and to start the renovation.