



National Bank of Moldova

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# ANNUAL REPORT

2001

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# 1. Economic Situation of the Republic of Moldova

## World Economy in 2001

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In 2001 the world economy recorded only moderate growth. The USA, Germany and Japan economies revealed some early indicators of recession, although there were certain signs of recovery observed at the end of the year in the North-American economy.

According to estimates, real growth in the world economy was around 2.4% (as compared to 4.7% in 2000) and accounted for the lowest level during the last decade. The biggest decline in growth was registered in developed countries (from 3.9% to 1.1%). The tragic events of September 11th 2001 in the United States exacerbated the already existent serious imbalances related to the world economic environment.

The lower growth rate of the world economy in 2001 was largely due to the changes in economic developments of the USA, which recorded an economic growth of 1.2% (as compared to 4.1% in 2000).

Reduced inflation as a result of lower oil and energy prices and contained inflationary expectations allowed central banks in developed countries to stimulate economic growth through the relaxation of monetary policy by reducing the base interest rate and by increasing money supply. During 2001, the US Federal Reserve Bank reduced the base rate from 6.0% to 1.75% reaching the lowest level for the last 40 years. In 2001, inflation in the USA constituted 1.6% (3.4% in 2000). The unemployment rate rose to 4.8% (4.0% in 2000).

European Union countries experienced in 2001 an overall economic growth of 1.6% (as compared to 3.3% in 2000). Economic growth in Great Britain was 2.2%; Italy – 1.8%; France – 1.9% and in Germany – 0.6%. Growth in 2002 is expected to be below the potential of European economy.

In 2001 the annual inflation rate in Euro zone registered 2.0%: in Germany – 1.5%; France – 1.4%; Italy – 2.2%; Finland – 2.3% and in the Netherlands – 5.1%.

The unemployment rate in Euro zone in 2001 was 8.4%. This indicator for the 15 countries of the European Union constituted 7.8%: in Austria – 3.9%; Great Britain – 5.2%; Germany – 8.0%; France – 8.9%; Finland – 9.3% and in Spain – 12.8%.

Central and Eastern European countries also experienced a weaker economic growth of 4.0% as compared to the previous year. At the same time, economic growth in the Czech Republic, Slovakia, Romania and Lithuania was more accelerated as compared to 2000. Over 2001 inflation rate followed the observed downward trend.

Real GDP growth in 2001 was as follows: in Latvia – 6.3%; in Romania – 5.3%; in Lithuania – 5.0%; in Estonia – 4.9%; in Bulgaria – 4.8%; in Hungary – 3.8%; in the Czech Republic – 3.6% and in Slovakia – 3.5%.

Inflation in 2001 in this region was as follows: in Lithuania – 2.0%; in Latvia – 3.5%; in Poland – 3.6%; in Estonia – 4.2%; in the Czech Republic – 4.7%; in Hungary – 6.8% and in Romania – 30.3%. The unemployment rate in 2001 reached 5.5% in Hungary; 7.7% in Latvia; 8.6% in Romania; 12.0% in Estonia; 12.5% in Lithuania and 16.8% in Poland.

The Russian economy showed an increase by 5.0% of the real GDP. Inflation at year-end was 18.6% and the unemployment rate – 8.9%.

In Ukraine annual inflation constituted 6.1%. GDP in 2001 increased by 9.0% compared to 5.9% in 2000. The unemployment rate at year-end was 3.7%.

A weaker global economic demand reflected in a lower international trade growth rate. Developed countries' trade balances underwent noticeable changes, characterized by the reduction of positive trade balances of exporting countries (first of all of Japan) as a result of lower US trade balance deficit.

## **Real Sector<sup>1</sup>**

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Economic policies of countries in transition have the objectives of financial stability and macroeconomic growth, national currency stability and living standards' improvement. The transition process, started in 1991, led to a considerable GDP decline (until 2001 – by 55.9%), living standards' deterioration and social inequality aggravation. The basis of Moldova's recovery was laid out in 1997, when GDP increased by 1.6% and the inflation rate at year-end constituted 11.2%. Yet, the 1998 regional financial crisis had postponed this process until 2000 and 2001.

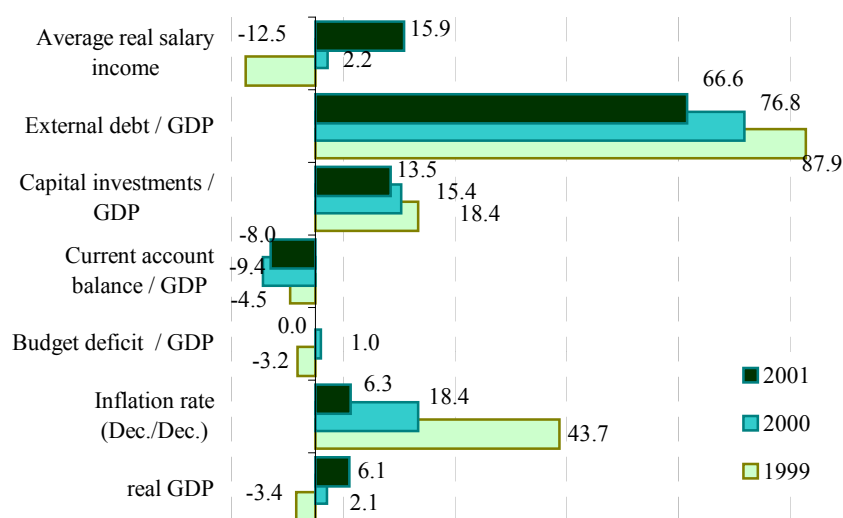
At the end of 2001 Gross Domestic Product registered an increase of 6.1% as a result of higher industrial output (14.2%), larger agricultural

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<sup>1</sup> Based on information received from the Department of Statistics and Sociology of the Republic of Moldova

output (4.0%) and a 6.3%-inflation rate at year-end as compared to 18.4% in 2000 (chart 1).

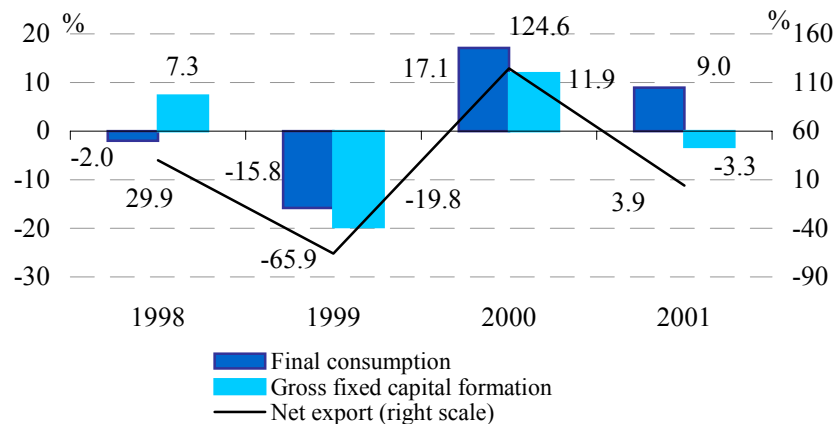
Chart 1. Macroeconomic indicators, %



(of households – by 11.9%), gross capital formation reduced by 8.8% and net exports increased by 4.0% (chart 2).

Within the components of GDP, final consumption constituted 104.4% and gross capital formation – 20.0%. The negative balance of net exports of goods and services totaled 24.4% of GDP and pointed to a large excess of imports over exports.

Chart 2. GDP components dynamics



In 2001 nominal GDP amounted to 19019.3 million lei. This figure included production of goods (40.7% of the total value) and of services (48.8% of the total value). Gross production of goods and services increased in comparable prices by 9.1% and 2.4% respectively and net taxes on goods and imports – by 10.8%.

GDP expenditure components showed a different mix in real terms: final consumption significantly increased by 9.0%

The total value of **industrial output** in current prices amounted in 2001 to 10348.0 million lei, which is 14.2% more (in average prices of the previous year) than in 2000.

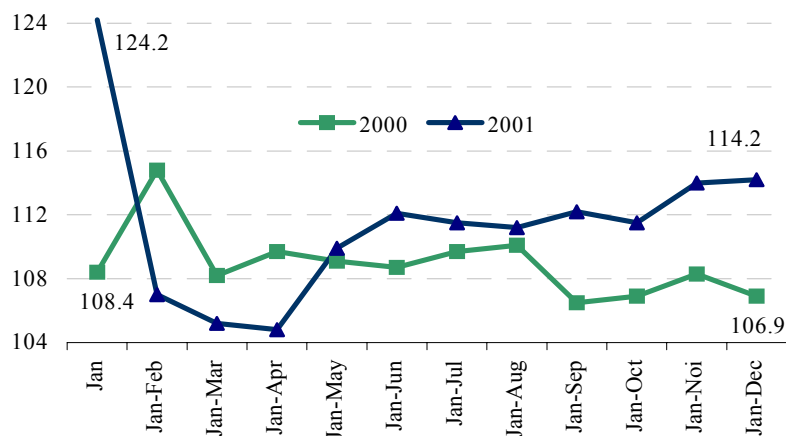
The industrial output of enterprises and organizations subject to monthly statistical

recording totaled 8406.4 million lei in current prices and increased by 14.2% in previous year average prices (chart 3).

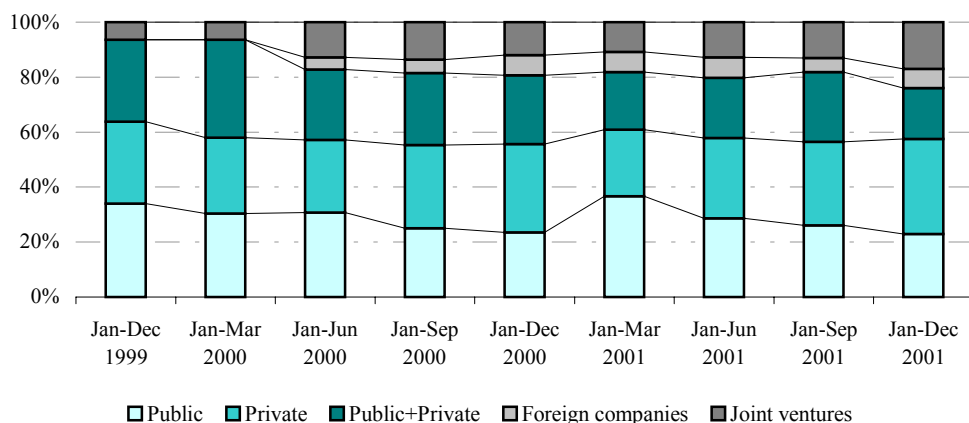
All the three basic economic sectors recorded increases. The value of manufacturing industry, which is the predominant sector (81.9% of total industrial output), rose by 14.7% in real terms. The operation of quarries

and the supply of electricity, gas, steam and water increased by 8.1% and 11.5% respectively.

**Chart 3. Industrial output growth rate** (% as compared to corresponding period of previous year)



**Chart 4. Industrial output structure (by ownership)**



In main industrial branches were attained sizeable results. The value of food processing industry (57.2% of total industrial output) grew in real terms by 16.3%, of which: wine industry – by 24.2%, sugar industry – by 30.9%, fruit and vegetable processing industry – by 8.1%. The increased value of industrial production in the context of labor force drop by 2.8% led to a growth in productivity of 17.4%.

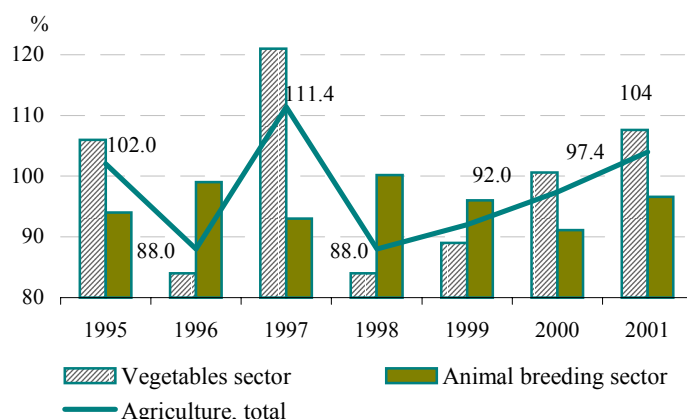
Generally, industrial output recorded positive developments for all forms of property: industrial output within public property increased by 6.5%, within private sector property – by 20.2%; within mixed property (public and private) – by 4.7%; within foreign property – by 4.5% and within joint ventures with foreign capital – by 29.6% (chart 4).

In 2001 the value of total shipments of goods amounted to 8361.4 million lei and constituted 99.5% of industrial output (subject to monthly recording). Producers' industrial output stocks increased by 17.5% during 2001 and totaled 865.4 million lei.

**Agricultural output**, as according to estimates, amounted to 9141.0 million lei in 2001, increasing by 4.0% in comparable prices of 2000 due to the larger vegetable output by 7.6%. Livestock products declined by 3.4% (chart 5).

The results of the vegetable production sector (70.3% of total agricultural output) indicate producers' success in adjusting to market demand and re-directing of arable areas towards profitable activities. As

Chart 5. Agricultural output dynamics



a result, the harvest of cereals and beans exceeded the results of the previous year by 67.0% due to larger average harvest of wheat (by 39.0%); barley (by 86.0%); and beans (by 2.6 times).

Livestock products over 2001 declined by 3.4% as compared to 2000 following the reduction by 8.0% in cattle and poultry breeding and by 0.2% for dairy produce, while eggs production increased by 7.0%.

In 2001 the private component of the agricultural sector continued to grow.

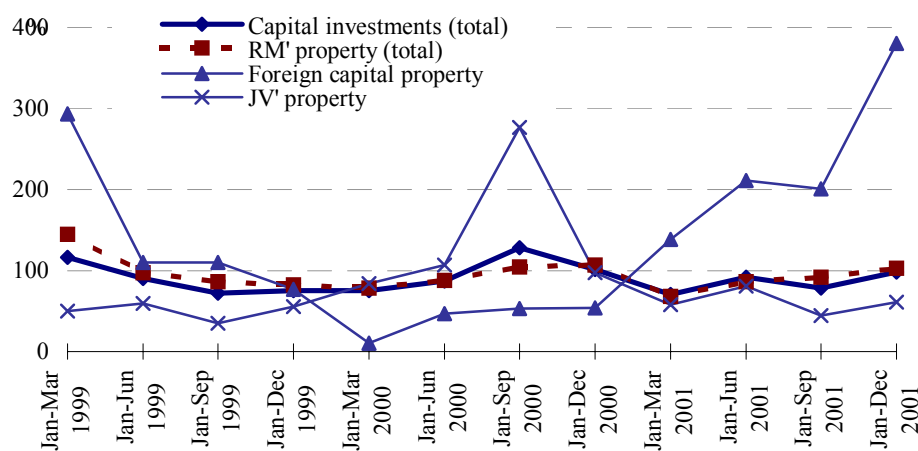
This sector produced 75.0% of total agricultural output in 2001. The number of landowners increased by 9.0% during the year. Since the beginning of the privatization process, 685,000 persons have applied for separate agricultural land for setting up farms. Out of this figure, 82.0% received land under private property title.

**Investment in fixed capital** in 2001 amounted to 1621.5 million lei, or by 2.0% less than in the previous year. Larger investments, as compared to the similar period of 2000, were observed in joint property (by

62.0%), private property (by 10.0%) and property with foreign capital participation (by 3.8 times). Investment in fixed capital for public property and joint ventures with foreign capital was below the level of the previous year by around 5.0% and 39.0% respectively (chart 6).

According to property forms, investments were allocated as follows: public property –

Chart 6. Capital investments dynamics (% as compared to corresponding period of previous year)



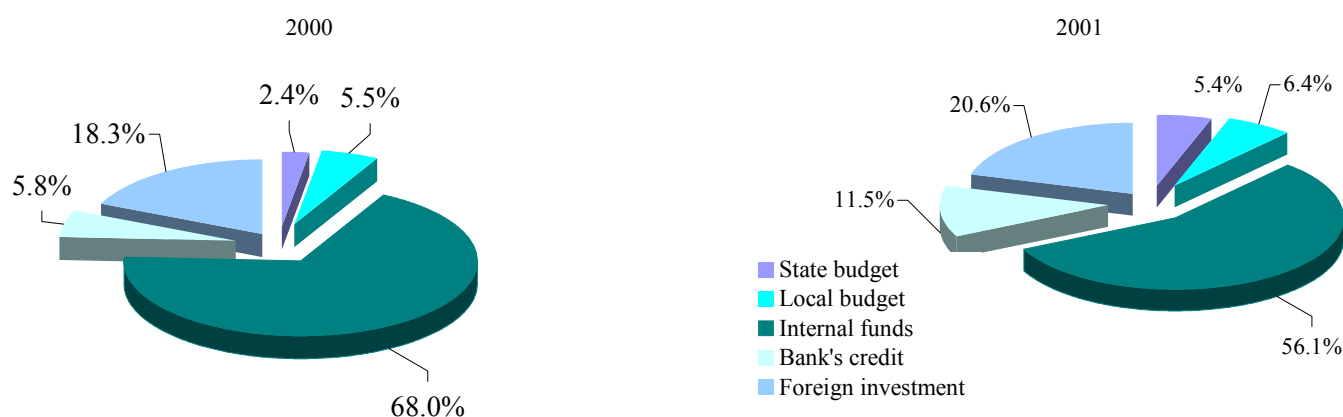


43.3% of total investments; private property - 17.1% and mixed property (without foreign capital) – 7.7%. Investments' allocations in foreign property constituted 11.6% and in joint ventures – 20.3% of the total.

According to sources of investment, self-funding predominated in 2001 and represented 56.1% of total value (908.0 million lei), or 11.9 p.p. below the level of 2000.

The second most important source of funds was foreign investment, accounting for 20.6% of total investments (333.7 million lei), or 2.3 p.p. more than in 2000. At the same time, the share of investments via bank loans increased from 5.8% in 2000 to 11.5% in 2001. Investments on account of state and local budgets represented 5.4% and 6.4% respectively (chart .7).

Chart 7. Structure of capital investments sources (%)



Productive investments accounted for 70.0% of total investments (1134.8 million lei), representing only 80.0% of the 2000 value. The most important sources for productive investments in 2001 were: self-funding by economic agents – 63.4% and foreign investments – 28.7% of total investments.

Investments in the non-productive sector amounted to 486.6 million lei and exceeded the level recorded in 2000 by 98.0%. The most significant investment sources for this sector in 2001 were as follows: self-funding – 38.7% and bank loans – 33.0% of total investments.

During the reported year investment in fixed assets amounted to 1296.8 million lei, of which productive investments represented 81.5% (or 1056.5 million lei).

**Long- and short-term accounts receivable** as on 30 September 2001 amounted to 22302.0 million lei (chart 8) and increased by 15.5% as



compared to the end of 2000. Short-term accounts receivable constituted 93.7%, increasing by 10.3%.

**Long- and short-term accounts payable** of enterprises as on the same date increased as compared to the end of 2000 by 11.0% and totaled

45002.0 million lei. Short-term accounts payable were the major component - 73.7%; this value increased by 11.6%. Commercial bills related claims and trade advances noted the largest increase during the last years: by 15.6% and 11.7% accordingly.

At the overall level, short- and long-term accounts payable have doubled short- and long-term accounts receivable. The energy industry held

the largest share of short-term accounts payable – around 9744.0 million lei or 46.6% of the total. At the same time, short-term accounts receivable of the energy industry totaled 13418.0 million lei or 40.5% of the total (chart 9).

Chart 8. Accounts receivable and accounts payable of enterprises

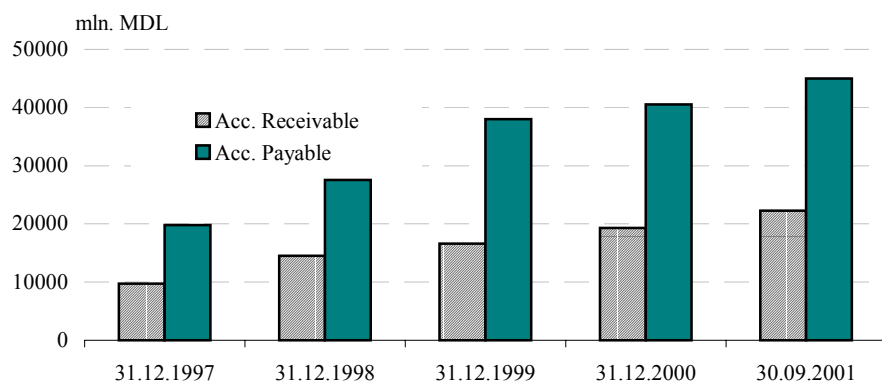
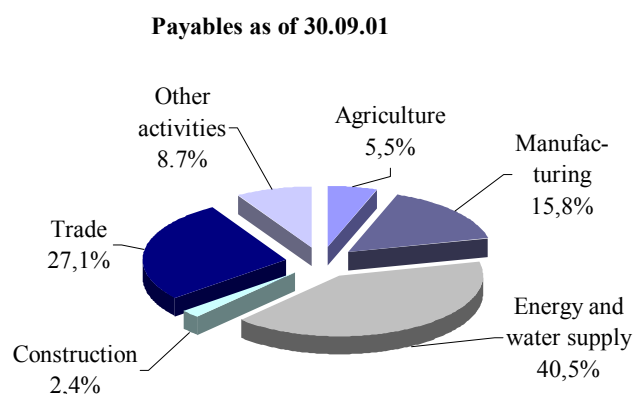
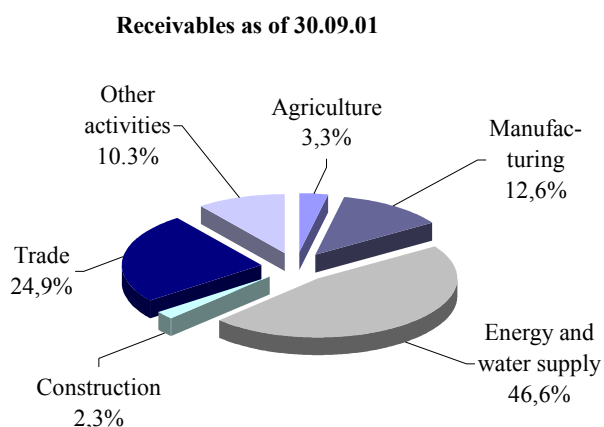


Chart 9. Structure of enterprises' receivables and payables by activities



With a view to developing and implementing restructuring plans, in 2001 the Council of Creditors declared moratorium to 22 economic agents and initiated rescheduling debts' procedures for 30 economic agents.

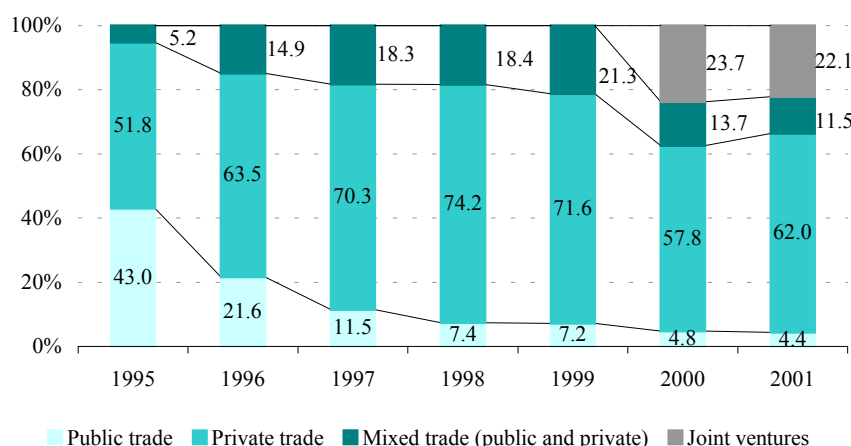
As of December 31, 2001, 112 enterprises from different economic sectors were operating under Memorandum Agreement. As a result,

these entities managed to repay overdue bills totaling 1119.0 million lei (96.0% of liabilities). Payments by economic agents within energy industry towards creditors constituted 74.0% of liabilities.

*The value of retail sales* in 2001 amounted to 7661.6 million lei, representing a real growth of 18.2%.

Retail sales through entities subject to monthly recording totaled 3766.2 million lei and exceeded by 5.3% in real terms the level recorded in the previous year. The value of foodstuffs sold by trading entities increased by 5.8% and through catering – by 4.3%.

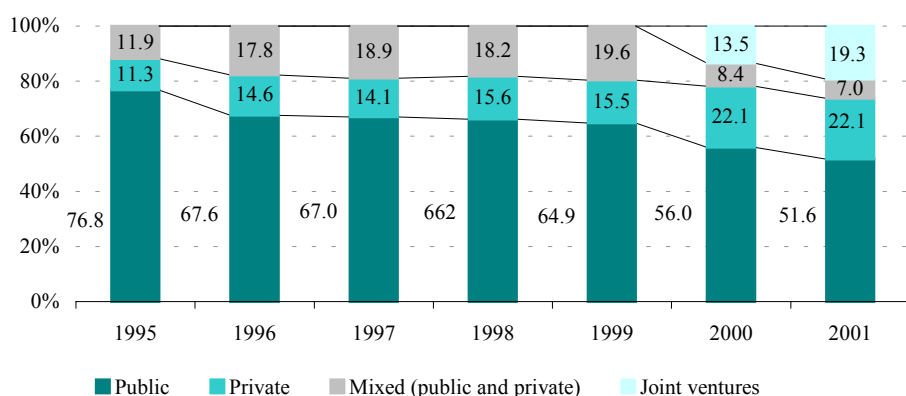
Chart 10. Structure of retail trade by ownership



the level of 2000 (chart 10).

Retail goods inventories amounted as of 31.12.2001 to 559.8 million lei and exceeded the value recorded at the end of 2000 by 19.6%. This value covers 45 days worth of sales.

Chart 11. Structure of services rendered to population (by ownership)



was due to the larger consumption of services rendered through legal entities referring to all types of property; yet, public entities still accounted for the largest share – 51.6% of total services, exceeding by 18.6% the level of 2000 (chart 11).

As according to property forms, a positive trade growth rate of 13.1% was only recorded by private trading entities. The privatization process fostered an increase in the trade value in the private sector, which weight increased by 4.2 p.p. as compared to the previous year. Sales within units referring to other types of property reduced and fell below

The turnover within the sector of *consumer services provided to the public* increased by 19.4% in real terms and amounted to 3273.7 million lei. Services rendered by the organized sector exceeded by 13.1% the value recorded in 2000 and totaled 2746.4 million lei. This growth

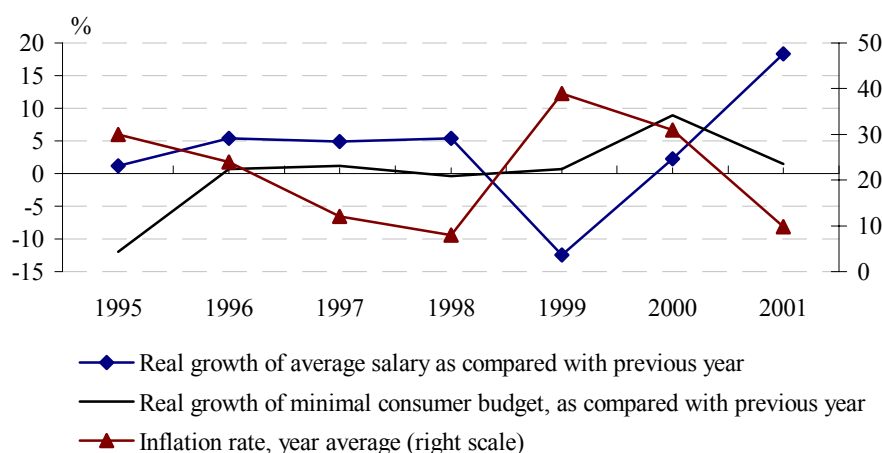
**Average labor force** amounted in the reported year to 672.3 thousand persons, or by 41.3 thousand persons less than at the beginning of the year. The largest staff cuts were recorded in agriculture, industry, construction and trade.

This decrease of labor force in the national economy was due to continuous external migration and the larger number of self-employed persons and family associations in agriculture, trade and services.

At the end of 2001 the Office of Labor Force registered 27.6 thousand **unemployed persons**, which is by 1.3 thousand persons less than in 2000. As according to estimates of the International Labor Bureau, the

number of unemployed persons amounted to around 105.0 thousand persons. The overall unemployment rate reached 6.3%.

Chart 12. Average salary and minimal consumer budget dynamics



The **nominal average employee wage** in the national economy in 2001 was 27.6% higher than in the previous year and totaled 519.2 lei. In real terms, the average wage increased by 15.9% (chart 12), but recorded an uneven evolution in different sectors of the economy. Significant increases in wages were registered

in education, health and agriculture during the year. Yet, wages within these sectors remained below the average employee wage in the national economy.

Overall arrears on wages amounted as of 31.12.2001 to 411.2 million lei, which is by 31.4 million lei less than at the end of 2000. Arrears of wages within budget financed institutions increased by 3.2 million lei and amounted to 150.5 million lei.

The **minimum consumer budget** for 2001 increased by 1.5% in real terms and amounted to 1052.8 lei. Foodstuffs held the major share of 42.7%, non-food articles and services held 28.2% and 29.1% respectively. The nominal average wage covered only 49.3% of the minimum consumer budget.

## Evolution of Prices and Public Living Standards

As a result of supply and demand established equilibrium and following cost reductions, the rate of consumer prices' growth in 2001 was the lowest in the last ten years. The inflation rate at the year-end constituted 6.3% as compared to 18.4% in 2000 (chart 13). During the year inflation remained contained: the average monthly rate was 0.5% (table 1).

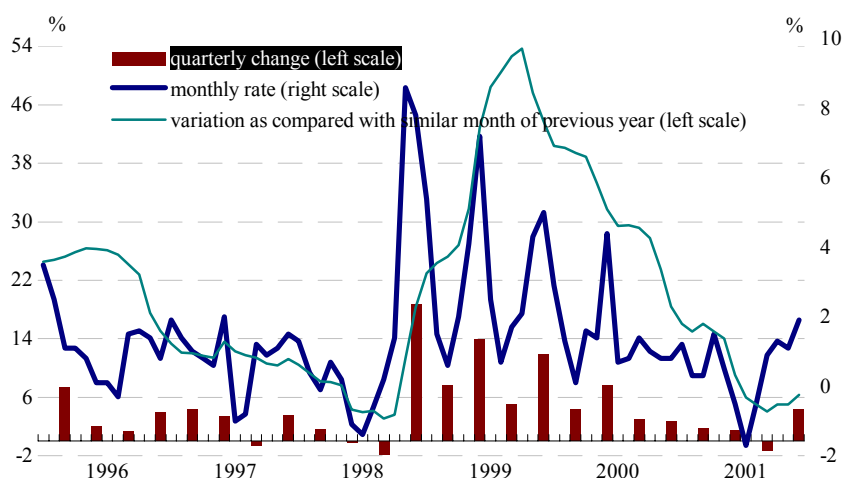
Table 1. Annual and monthly inflation rate, %

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual	Monthly average
1999	5.4	1.5	0.6	2.0	4.1	7.2	2.5	0.7	1.7	2.1	4.3	5.0	43.7	3.05
2000	2.9	1.3	0.1	1.6	1.4	4.4	0.7	0.8	1.4	1.0	0.8	0.8	18.4	1.4
2001	1.2	0.3	0.3	1.5	0.5	-0.5	-1.7	-0.5	0.9	1.3	1.1	1.9	6.3	0.5

Prices for non-food articles recorded the largest increase – by 7.9% and exceeded the consumer price index growth rate by 1.6 p.p. Although foodstuffs' and services' prices registered a lower increase – by 6.1% and 4.5% respectively, a range of

products and services of major importance to public consumption exhibited accelerated price increases.

Chart 13. CPI dynamics



In 2001 foodstuffs' prices increased as follows: for fresh fish – by 40.2%; for meat and meat tinned products – by 26.2%, including for pork – by 35.5% and for vegetable oil – by 25.9%. Significant reductions were recorded in prices for vegetables – by 22.6%; for potatoes – by 22.3%; and for wheat and corn

flour – by 16.2% and 7.6% respectively. Within non-food articles significant increases were recorded by prices for knitwear – by 13.5%; for footwear – by 13.3%, especially for children's footwear – by 13.7%; for ready-made clothes - by 12.5% and for textiles – by 9.3%.

Services' prices essentially rose as follows: for catering – by 14.8%; for communal services – by 6.3%, including for water and sewerage – by 36.0% and electricity – by 8.2%. Housing repairs and maintenance

became more expensive by 10.0%; furniture manufacture and repairs increased by 11.1%.

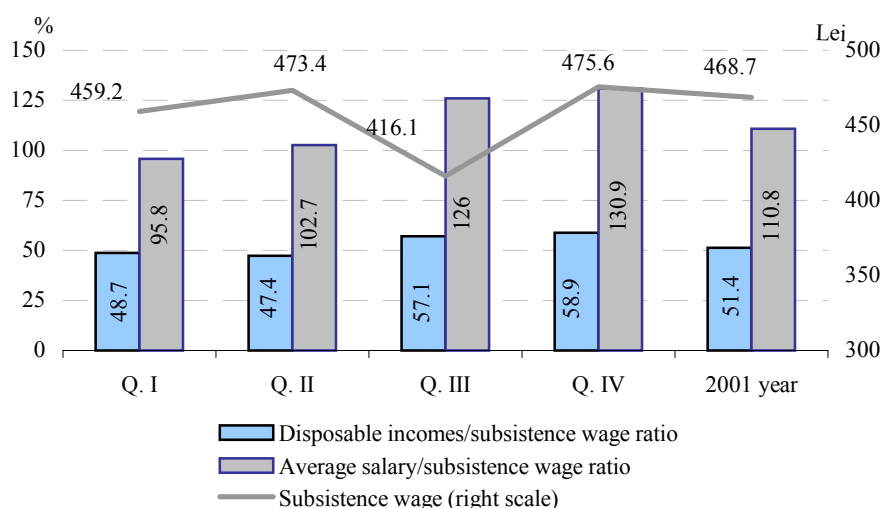
Industrial prices in the domestic market rose by 5.7% as compared to December 2000; a slower increase as compared to consumer prices' growth. The largest price increases were recorded in oil and grease production – by 36.3%; for milling products – by 30.0%; meat production, meat processing and canning – by 26.0%. Price increases were also recorded within quarries exploration - by 10.5% and manufacturing industry – by 6.0%.

The main components of *living standards* of population are considered from the viewpoint of income and expenditure balance within the framework of social and economic analysis, minimum of subsistence, living conditions and disposal of long-term goods.

Table 2. Poverty level in 2001

	Q. I	Q. II	Q. III	Q. IV	2001
Subsistence wage (monthly average for 1 person), Lei	459.2	473.4	416.1	475.6	468.7
Disposable incomes (monthly average for 1 person), Lei	223.8	224.4	237.6	280.1	240.9
Disposable incomes / subsistence wage ratio, %	48.7	47.4	57.1	58.9	51.4
Poverty rate, %	87.2	87.1	81.9	80.4	85.2

Chart 14. Social indicators correlation



average disposable income constituted 51.4% of the minimum of subsistence (chart 14).

The minimum of subsistence represents the value of a minimum consumer budget for goods and services required to satisfy basic necessities, health maintenance and human life.

As according to the study of a typical household budget, the value of the minimum of subsistence in 2001 amounted to 468.7 lei (table 2). The evolution of this index was largely determined by seasonal fluctuations in prices for foodstuffs included in the food basket and by the modification of consumer expenditures' structure.

Thus, the nominal average employee wage in the national economy in 2001 recorded a continuous upward trend and exceeded the minimum of subsistence by 10.8%, while

According to the same study of a typical household budget, in 2001 the income of 85.2% of total population was below the minimum of subsistence. The disposable income of every second person was twice below this index. The category of disadvantaged persons (2/3 of rural population) included persons whose disposable income was under the minimum of subsistence.

## Public Sector Finances<sup>2</sup>

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The *consolidated budget* in 2001 included as follows: budget revenues – 4803.3 million lei, budget expenditures – 4846.9 million lei and budget deficit – 38.6 million lei.

Consolidated budget revenues during 2001 totaled 4324.9 million lei or 89.9% of projections. Expenditures amounted to 4325.9 million lei or 89.3% of projections. The consolidated budget cash deficit amounted to 1.0 million lei.

Consolidated budget revenues increased by 222.5 million lei or by 5.4% as compared to 2000.

Tax collections totaled 3437.0 million lei or 89.1% of projections. The weight of these revenues in total revenues constituted 79.5% as against 75.2% in 2000.

Within fiscal revenues direct taxes accounted for 25.9% and indirect taxes – 74.1%.

Non-tax revenues amounted to 652.7 million lei or 82.8% of projections. This represented 15.1% of the consolidated budget revenues.

The National Bank of Moldova net income transfer amounted to 229.6 million lei or 35.2% of non-tax revenues.

Privatization proceeds and sales of state property amounted to 88.7 million lei or 57.6 % of projections.

Consolidated budget expenditures allocated to the social sector totaled 1795.0 million lei (excluding transfers to the state social insurance budget) or 41.5% of total expenditures; foreign debt service payments amounted to 797.2 million lei (18.4%); capital investments totaled 205.9 million lei (4.8%).

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<sup>2</sup> based on information submitted by the Ministry of Finance of the Republic of Moldova



Total *state budget* revenues in 2001 amounted to 2914.4 million lei or 86.1% of annual projections. At the end of the year the budget was allocated a grant from the Government of Netherlands in an amount of USD 10.0 million (130.9 million lei).

Actual budget expenditures in 2001 amounted to 2937.6 million lei or 86.1% of annual projections.

In 2001 the state budget cash deficit was 23.2 million lei as compared to 26.2 million lei as according to the Law on the Budget for 2001.

The resources to finance the budget deficit and to repay external loans were as follows: revenues from sales of state securities – 147.1 million lei, loans from the National Bank of Moldova – 231.2 million lei; external loans (World Bank) – 66.2 million lei; available funds on account as of 01.01.2002 – 175.5 million lei.

Revenues raised in 2001 for *budgets of territorial administrative units* amounted to 1403.9 million lei or 98.6% of the annual approved projections, excluding transfers from the state budget and grants (393.6 million lei).

Expenditures of territorial administrative budgets totaled 1767.7 million lei or 92.6% of annual approved value.

Generally, budgets of territorial administrative units were executed with a cash surplus of 29.8 million lei, considering extended credits in an amount of 7.6 million lei to the local budgets from state budget.

As of December 31, 2001, *domestic public debt* totaled 2400.5 million lei and conformed to the limit set in the Law on the Budget (2402.0 million lei).

Out of total domestic public debt, loans granted by the National Bank of Moldova amounted to 1507.1 million lei; issued state securities – to 893.4 million lei (including NBM holdings of SS – 400.0 million lei).

As compared to December 31, 2000, domestic public debt increased by 378.3 million lei or by 18.7%. This growth was due to the larger value of issued state securities in the domestic market (147.1 million lei) and loans extended by the National Bank of Moldova (231.2 million lei).



## External Debt

The external debt of the Republic of Moldova as of 31.12.2001 amounted to USD 1243.6 million, surpassing by USD 30.0 million or by 2.5% the level at the end of 2000. External debt constituted 84.1% of GDP, which is USD 342 per capita.

Public external debt (including Governmental direct debt, NBM debt on IMF facilities and Government guaranties on legal entities' external liabilities) totaled USD 967.5 million, decreasing by 2.7% as compared to the previous period. Private non-guaranteed debt that includes loans concluded by commercial banks and legal entities increased by 25.8% as compared to the end of 2000 and amounted to USD 276.1 million. The share of private debt in total external debt rose to 22.2%. Recent years developments have accentuated the tendency of reorientation of external liabilities from the public sector to the private one: as a result, the share of public debt in total external debt declined further (from 90.5% in 1998 to 77.8% in 2001) (table 3).

Table 3. External debt stock (mln. USD)

	1998	weight, %	1999	weight, %	2000	weight, %	2001	weight, %
<b>Public external debt,</b>	<b>1002.7</b>	<b>90.5</b>	<b>934.0</b>	<b>87.8</b>	<b>994.1</b>	<b>81.9</b>	<b>967.5</b>	<b>77.8</b>
of which:								
Loans from IMF	176.4	15.9	175.4	16.5	154.0	12.7	145.9	11.7
Governmental direct debt	749.4	67.6	672.1	63.2	758.0	62.4	736.1	59.2
Loans	526.5		597.1		593.0		567.7	
Securities	222.9		75.0		165.0		168.4	
Governmental guaranteed debt	76.9	7.0	86.5	8.1	82.1	6.8	85.5	6.9
<b>Private non-guaranteed debt</b>	<b>105.4</b>	<b>9.5</b>	<b>129.8</b>	<b>12.20</b>	<b>219.5</b>	<b>18.1</b>	<b>276.1</b>	<b>22.2</b>
Loans	105.4	9.5	129.8	12.20	219.5	18.1	276.1	22.2
<b>Total external debt</b>	<b>1108.1</b>	<b>100.0</b>	<b>1063.8</b>	<b>100.00</b>	<b>1213.6</b>	<b>100.0</b>	<b>1243.6</b>	<b>100.0</b>
<b>Debt for energy resources</b>	<b>332.8</b>		<b>412.7</b>		<b>324.9</b>		<b>304.2</b>	

The evolution of state external debt in 2001 was determined as follows:

1) The non-extension of financing from international organizations and, as a result, drawings by the public sector (including guaranties) totaled only USD 42.8 million, of which the amount of USD 11.9 million was disbursed by the International Monetary Fund (IMF), USD 9.5 million – by the International Development Agency (IDA), USD 11.0 million – by the European Bank for Reconstruction and Development (EBRD) and USD 10.4 million was disbursed within previously initiated World Bank projects and other loans. Credit means used by the public sector in 2001 were by USD 19.3 million less than in 2000;

2) four previously concluded loans have been rescheduled in an amount of USD 13.7 million and their repayment was postponed until later periods;

3) the debt/equity swap of 3 loans in the amount of USD 10.0 million;

4) parent companies from abroad largely credited their subsidiaries in Moldova.

International financial organizations continued to lead the list of creditors (table 4): the stock of loans provided by these entities amounted to USD 562.6 million at the end of the year and constituted 45.2% of total debt. IMF and World Bank credits constituted 25.9% and 52.2% respectively of total multilateral loans; other loans were provided by EU, EBRD and the International Fund for Agricultural Development (IFAD).

Table 4. External debt of Moldova by creditors (mln. USD)

	1998	weight, %	1999	weight, %	2000	weight, %	2001	weight, %
<b>Loans from IMF</b>	<b>176.4</b>	<b>15.9</b>	<b>175.4</b>	<b>16.5</b>	<b>154.0</b>	<b>12.7</b>	<b>145.9</b>	<b>11.7</b>
<b>Governmental direct debt</b>	<b>749.4</b>	<b>67.6</b>	<b>672.1</b>	<b>63.2</b>	<b>758.0</b>	<b>62.4</b>	<b>736.1</b>	<b>59.2</b>
multilateral credits	285.0	25.7	345.6	32.5	356.2	29.3	344.3	27.7
bilateral credits	190.1	17.2	203.4	19.1	209.8	17.3	200.1	16.1
other credits	51.4	4.6	48.1	4.5	27.0	2.2	23.3	1.9
long-term governmental bonds	222.9	20.1	75.0	7.1	165.0	13.6	168.4	13.5
<b>Governmental guaranteed debt</b>	<b>76.9</b>	<b>7.0</b>	<b>86.5</b>	<b>8.1</b>	<b>82.1</b>	<b>6.8</b>	<b>85.5</b>	<b>6.9</b>
multilateral credits	52.4	4.7	65.4	6.1	63.3	5.2	67.7	5.4
other credits	24.5	2.3	21.1	2.0	18.8	1.6	17.8	1.4
<b>Private non-guaranteed debt</b>	<b>105.4</b>	<b>9.5</b>	<b>129.8</b>	<b>12.2</b>	<b>219.5</b>	<b>18.1</b>	<b>276.1</b>	<b>22.2</b>
multilateral credits	7.3	0.7	5.2	0.5	2.2	0.2	4.7	0.4
other credits	98.1	8.8	124.6	11.7	217.3	17.9	271.4	22.2
<b>Total external debt</b>	<b>1108.1</b>	<b>100.0</b>	<b>1063.8</b>	<b>100.0</b>	<b>1213.6</b>	<b>100.0</b>	<b>1243.6</b>	<b>100.0</b>

Bilateral credits constituted 16.1% of total external debt; their share reduced by 1.2 p.p. as compared to the previous year.

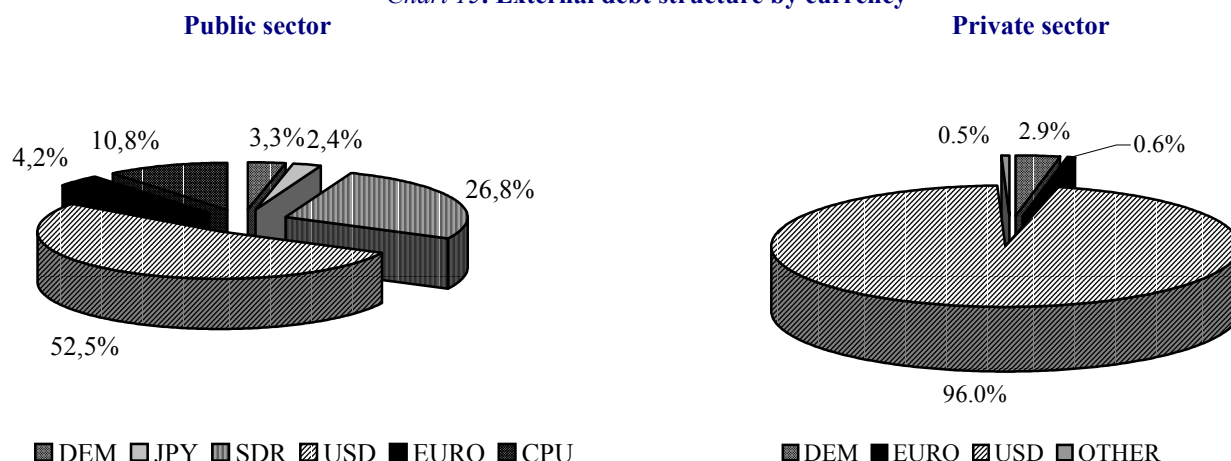
Medium- and long-term credits accounted for the largest share of total debt – 98.1%; within these, long-term credits (5 to 10 and 10 to 20 years) predominated (table 5).

Table 5. External debt by sectors and maturity (mln. USD)

		External debt by maturity		External debt by economic sectors			
		medium- and long-term	short-term	Government	Monetary authorities	Banking sector	Others
1997	1058.0	1041.9	16.1	699.2	234.1	24.5	100.2
1998	1108.1	1078.9	29.2	749.4	176.4	43.9	138.4
1999	1063.8	1043.9	19.9	672.1	175.4	22.2	194.2
2000	1213.6	1204.8	8.8	758.0	154.0	15.7	285.9
2001	1243.6	1220.0	23.6	736.1	145.9	16.4	345.1

Within the external debt portfolio classified by currency (chart 15), liabilities in USD predominated with 52.5% in the public sector and 96.0% in the private sector. The second largest share of external debt in the public sector is held in SDR with 26.8% and in the private sector – in DEM with 2.9%. Currency pull units loans constituted 10.8% of the public sector external liabilities and included three loans from the World Bank.

Chart 15. External debt structure by currency



External debt indicators are as follows (table 6):

- the ratio of external debt / GDP reduced from 94.2% at the end of 2000 to 84.1% at the end of 2001;
- the ratio of actual public debt service payments / exports of goods and services remained at the same level as in the previous year and constituted 16.1%;
- actual government debt service payments accounted for 29.2% of consolidated budget revenues and exceeded by 7.9 p.p. the level of the previous year.

Table 6. Moldova's external debt indicators

	Unit	1997	1998	1999	2000	2001
Total external debt	mil. USD	1058.0	1108.1	1063.8	1213.6	1243.6
Gross Domestic Product	mil. USD	1928.8	1697.9	1170.8	1288.4	1478.2
Exports of goods and services	mil. USD	1057.4	795.6	615.8	644.3	739.2
External debt / GDP	%	54.9	65.3	90.9	94.2	84.1
External debt / per capita	USD	290	304	292	334	342
Drawings to the public sector	mil. USD	188.9	71.9	199.2	62.1	42.8
Public debt service payments	mil. USD	166.5	226.8	206.6	109.6	102.5
Actual public debt service payments	mil. USD	130.8	163.1	176.2	102.9	118.7
Actual Governmental debt service payments	mil. USD	99.9	88.5	103.4	70.2	98.0
Drawings by the public sector / Actual public debt service payments	%	144.4	44.1	113.0	60.4	36.1
Actual public debt service payments / Exports of goods and services	%	12.4	20.5	28.6	16.0	16.1
Actual Governmental debt service payments / Consolidated budget revenues	%	15.7	17.5	35.1	21.3	29.2

## Balance of Payments

The external sector has an ongoing steady impact upon national economy, resulting in a high ratio of both exports and imports of goods and services to GDP (50.0% and 75.3% accordingly). These ratios remained at the level of the previous year, reflecting similar rates of growth in nominal GDP denominated in USD and of exports of goods and services: exports exceeded imports' growth rate by only 1.8 p.p.

Table 7. Balance of payments of Moldova (USD million)

	1997	1998	1999	2000	2001
<b>CURRENT ACCOUNT</b>	<b>-274.82</b>	<b>-333.97</b>	<b>-52.47</b>	<b>-120.72</b>	<b>-118.00</b>
Balance of goods and services	<b>-376.35</b>	<b>-435.15</b>	<b>-166.85</b>	<b>-347.35</b>	<b>-374.03</b>
Trade Balance	<b>-348.01</b>	<b>-388.09</b>	<b>-134.70</b>	<b>-305.98</b>	<b>-326.33</b>
Exports (FOB)	889.63	643.58	474.84	476.48	567.24
Imports (FOB)	-1237.64	-1031.67	-609.54	-782.46	-893.57
of which:					
energy resources (excl. electricity)	-337.27	-244.61	-163.83	-192.05	-201.05
Balance of Services	<b>-28.34</b>	<b>-46.54</b>	<b>-30.11</b>	<b>-35.37</b>	<b>-47.70</b>
Exports	167.80	152.04	140.92	167.85	171.97
Imports	-196.14	-198.58	-171.03	-203.22	-219.67
Income (net)	<b>47.43</b>	<b>35.24</b>	<b>26.57</b>	<b>63.16</b>	<b>100.81</b>
of which:					
Compensation of employees	113.00	121.00	109.80	153.36	221.18
Interest payable on governmental loans	-33.55	-38.46	-39.08	-35.25	-33.47
Interest payable on governmental securities	-24.65	-27.42	-11.23	-10.80	-14.16
Current transfers (net)	<b>54.10</b>	<b>65.42</b>	<b>85.77</b>	<b>157.47</b>	<b>155.22</b>
<b>CAPITAL AND FINANCIAL ACCOUNT</b>	<b>283.69</b>	<b>353.22</b>	<b>66.04</b>	<b>99.67</b>	<b>99.5</b>
Capital transfers (net)	<b>-0.22</b>	<b>0.33</b>	<b>116.65</b>	<b>4.27</b>	<b>-2.02</b>
Direct investments (net)	<b>78.29</b>	<b>74.94</b>	<b>38.73</b>	<b>132.52</b>	<b>146.80</b>
of which: in national economy	78.74	74.20	38.79	132.60	146.86
Equity capital and reinvested earnings	70.44	58.70	40.70	85.15	122.81
Parent companies' credits	8.3	15.50	-1.91	47.45	24.05
Portfolio investments (net)	<b>233.57</b>	<b>-59.11</b>	<b>-140.06</b>	<b>92.46</b>	<b>0.38</b>
of which: Assets – debt securities	-	-	-	-	-3.12
Liabilities	233.57	-59.11	-140.06	92.46	3.5
Equity securities	3.66	6.51	5.48	2.58	3.5
Debt securities	229.91	-65.62	-145.54	89.88	0
Other investments (net)	<b>24.17</b>	<b>114.44</b>	<b>99.39</b>	<b>-82.80</b>	<b>-36.49</b>
Assets	4.91	-78.60	-127.71	-65.01	-40.57
Non-repatriated currency	-18.17	-51.94	-27.92	-7.21	-5.46
Advances for undelivered imports	...	-29.57 <sup>#</sup>	-59.03	-17.19	-15.94
Currency and deposits abroad	8.93	-12.37	-35.29	-27.08	-2.05
others	14.15	15.28	-5.47	-13.53	-17.12
Liabilities	19.26	193.04	227.10	-17.79	4.08
Long-term loans (net) *	11.54	-4.23	86.55	145.60	-9.31
Disbursed	141.86	170.48	261.15	279.53	87.54
Reimbursed	-130.32	-174.71	-174.60	-133.93	-96.85
Non-residents' deposits in the banking system	8.11	-5.47	-2.67	10.28	-2.96
Debt for energy resources **	-47.89	99.87	80.5	-86.23	-20.66
Others	47.5	102.87	62.72	-87.44	37.01
Reserve assets ***	<b>-52.12</b>	<b>222.62</b>	<b>-48.67</b>	<b>-46.78</b>	<b>-9.17</b>
Errors and omissions	-8.87	-19.25	-13.57	21.05	18.50

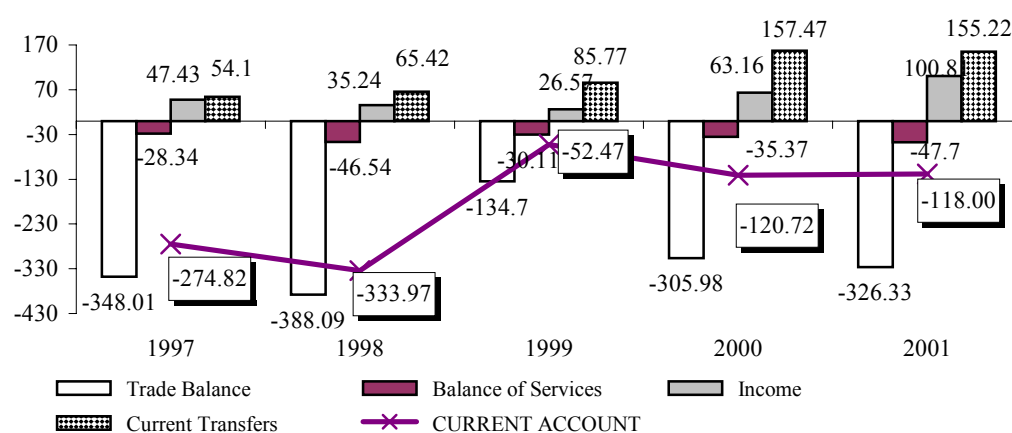
\* - incl. rescheduled loans; \*\* (+) – increase, (-) – decrease; \*\*\* (-) – increase, (+) – decrease;

# - data for QIII and QIV.

Over 2001 the external sector has developed along traditional trends, registering increases in both the deficit of trade for goods and services and in the positive balance of income and direct investments. Current transfers showed a distinct trend: following the continuous increase in the positive balance registered during the last four years, in 2001 these transfers slowly reduced (by 1.4%) as compared to the previous year (table 7).

Current account transactions resulted in a deficit of USD 118.0 million, which constituted 8.0% of GDP as compared to 9.4% in 2000 (chart 16). This deficit was mainly due to the goods and services trade development (negative balance of USD 326.33 million and USD 47.70 million respectively), slightly smoothed by the income balance and current transfers (positive balances of USD 100.81 million and USD 155.22 million accordingly). The surplus registered in current transfers and income balance covered 68.5% of the trade deficit in goods and services.

Chart 16. Current account yearly dynamics (mln. USD)



The value of external trade with goods and services in 2001 rose by 13.6% as compared to the previous year. Exports of goods and services totaled USD 739.21 million, imports – USD 1113.24 million; these figures exceeded the year 2000

outcomes by 14.7% and 12.9% respectively. Imports' coverage by exports ratio increased slightly by 1 p.p as compared to 2000 level (table 8).

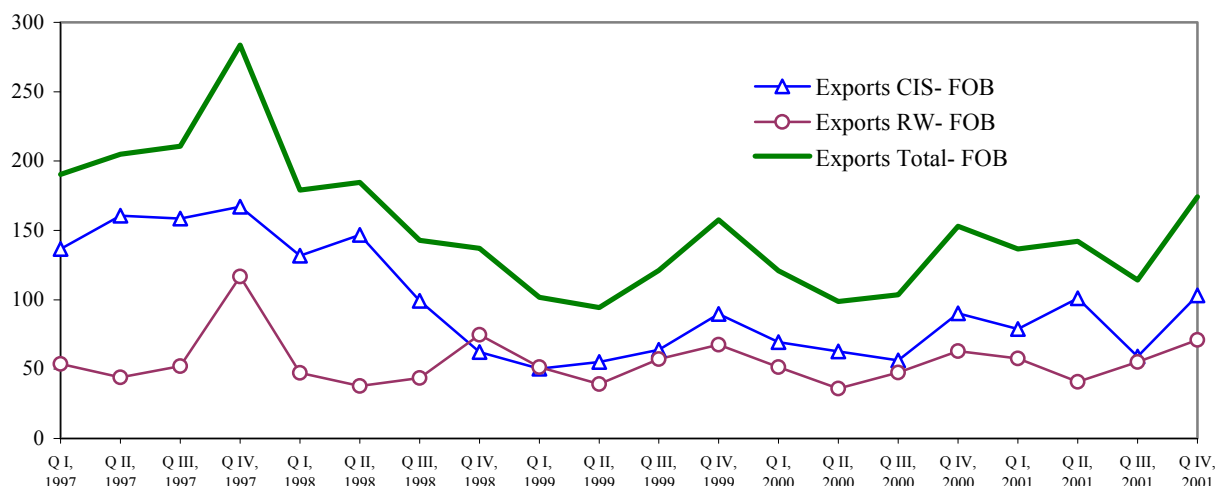
Table 8. External trade with goods and services (mln. USD)

	1997	1998	1999	2000	2001
External trade	2491.21	2025.87	1396.33	1630.01	1852.45
Exports	1057.43	795.62	615.76	644.33	739.21
Imports	1433.78	1230.25	780.57	985.68	1113.24
Imports' coverage by exports ratio (%)	73.8	64.7	78.9	65.4	66.4

The trade balance followed an expanding deficit trend, exceeding by USD 20.35 million the value in 2000. This trend was determined by the 37.8%-reduction in the positive balance of trade with CIS countries and by 2.7%-increase of the negative balance of trade with the Rest of the world.

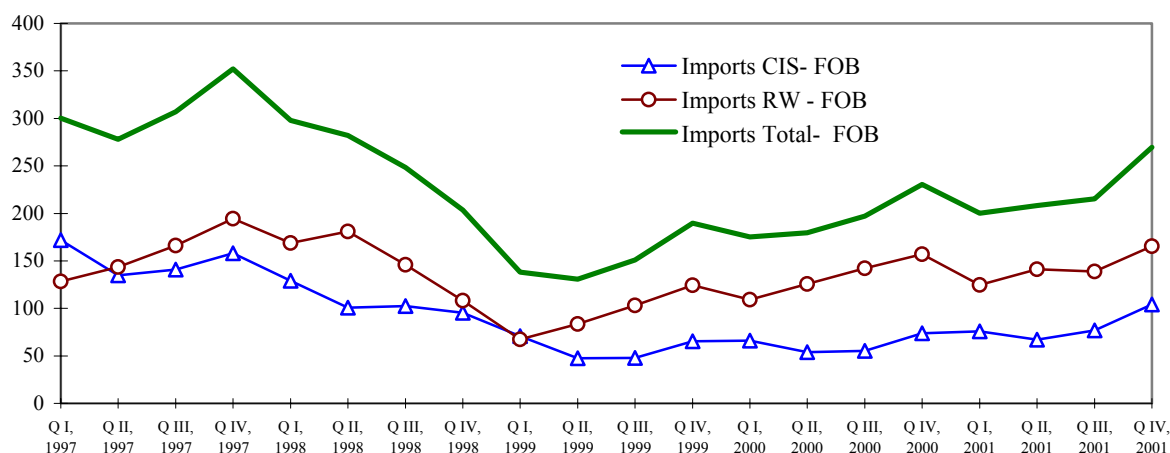
Exports of goods and services in 2001 increased by USD 90.76 million (19.0%) and imports – by USD 111.11 million (14.2%) as compared to the previous year. The increase of export value was determined by larger exports to both regions: by 22.9% to CIS countries and by 13.7% to the Rest of the world (chart 17).

Chart 17. Exports of goods quarterly evolution (mln. USD)



Imports from CIS countries recorded a significant increase compared to the previous year, by 30.2%; imports from the Rest of the world increased by 6.8% (chart 18).

Chart 18. Imports of goods quarterly evolution (mln. USD)



Taking into account the exports geographical development, Moldova expanded its relationship with the CIS countries. Exports of goods accounted for USD 341.68 million and constituted 60.4% of total exports. Exports to European Union countries rose by 19.5%; exports to the USA – by 65.0%. Exports of goods to Central and Eastern Europe followed a downward trend (table 9).

Table 9. Exports by countries

	1998		1999		2000		2001	
	mln. USD	weight, %	mln. USD	weight, %	mln. USD	weight, %	mln. USD	weight, %
<b>EUROPEAN UNION</b>	<b>82.41</b>	<b>13.0</b>	<b>95.42</b>	<b>20.6</b>	<b>102.75</b>	<b>21.8</b>	<b>122.77</b>	<b>21.7</b>
Austria	9.54	1.5	10.04	2.2	5.64	1.2	8.50	1.5
France	8.28	1.3	6.38	1.4	7.92	1.7	8.40	1.5
Germany	23.91	3.8	33.48	7.2	36.26	7.7	40.93	7.2
Greece	4.62	0.7	5.82	1.3	2.37	0.5	2.85	0.5
Italy	22.34	3.5	25.64	5.5	36.38	7.7	46.06	8.1
Great Britain	2.57	0.4	3.85	0.8	5.43	1.2	5.64	1.0
Netherlands	4.55	0.7	2.95	0.6	3.24	0.7	4.02	0.7
Spain	2.66	0.4	4.10	0.9	1.95	0.4	1.27	0.2
<b>CENTRAL and EASTERN EUROPE</b>	<b>79.77</b>	<b>12.6</b>	<b>81.91</b>	<b>17.6</b>	<b>63.09</b>	<b>13.4</b>	<b>62.25</b>	<b>11.0</b>
Baltic states	7.82	1.2	9.12	2.0	9.78	2.1	6.85	1.2
Bulgaria	2.82	0.4	5.33	1.2	3.63	0.8	3.72	0.7
Poland	2.04	0.3	5.02	1.1	2.00	0.4	1.75	0.3
Romania	60.81	9.6	41.34	8.9	37.61	8.0	38.03	6.7
Hungary	3.49	0.6	16.35	3.5	4.62	1.0	7.30	1.3
<b>CIS</b>	<b>428.94</b>	<b>67.9</b>	<b>253.69</b>	<b>54.7</b>	<b>275.68</b>	<b>58.5</b>	<b>341.68</b>	<b>60.4</b>
including:								
Belarus	31.86	5.0	21.76	4.7	21.81	4.6	30.21	5.3
Russia	336.83	53.3	191.19	41.2	209.48	44.4	243.53	43.0
Ukraine	48.71	7.7	32.94	7.1	35.48	7.5	57.25	10.1
<b>OTHER COUNTRIES</b>	<b>40.84</b>	<b>6.5</b>	<b>33.14</b>	<b>7.1</b>	<b>29.90</b>	<b>6.3</b>	<b>39.22</b>	<b>6.9</b>
including:								
Canada	9.52	1.5	3.33	0.7	2.12	0.4	2.33	0.4
USA	18.09	2.9	14.52	3.1	15.58	3.3	25.70	4.5
Turkey	4.66	0.7	2.89	0.6	2.02	0.4	2.40	0.4
<b>TOTAL</b>	<b>631.96</b>	<b>100.0</b>	<b>464.16</b>	<b>100.0</b>	<b>471.42</b>	<b>100.0</b>	<b>565.92</b>	<b>100.0</b>

Source: SSD data (not including estimations on private exports and considering some adjustments on equipment and machinery exports)

Table 10. Exports by main groups of goods

	1998	1999	2000	2001	Weight in total exports of 2001	Relative growth, 2001 to 2000
	USD million				%	
01 Livestock products	34.11	29.31	22.79	18.32	3.2	80.4
02 Vegetable products	71.64	68.03	65.88	79.16	14.0	120.2
03 Fats and oils	3.78	2.46	3.87	8.59	1.5	by 2.2 times
04 Foodstuffs	350.17	196.90	197.63	250.62	44.3	126.8
05 Mineral products	2.70	2.00	2.93	6.42	1.1	by 2.2 times
06 Chemical products	7.61	13.19	8.25	8.24	1.5	99.9
07 Plastic materials	2.93	1.65	1.98	3.20	0.6	161.6
08 Raw and tanned leather	10.70	12.83	13.06	11.48	2.0	87.9
09 Wood and charcoal	0.59	0.76	0.81	1.53	0.3	188.9
10 Wood-pulp	2.44	1.76	2.01	3.68	0.6	183.1
11 Textiles	61.70	64.68	83.61	105.98	18.7	126.8
12 Footwear, hats	2.59	3.33	3.90	6.05	1.1	155.1
13 Gypsous, glass and stone articles	9.62	9.95	14.65	13.70	2.4	93.5
14 Precious stones and metals	0.09	0.02	0.17	0.12	0.0	70.6
15 Common metals	9.19	16.46	11.69	3.06	0.5	26.2
16 Machinery and equipment	40.86	27.33	24.35	27.98	4.9	114.9
17 Vehicles, aircrafts, transport	10.46	6.91	5.35	7.55	1.3	141.1
18 Optical tools and equipment	3.04	2.25	3.24	6.19	1.1	191.0
20 Other goods and products	7.74	4.34	5.25	4.05	0.7	77.1
<b>TOTAL</b>	<b>631.96</b>	<b>464.16</b>	<b>471.42</b>	<b>565.92</b>	<b>100.0</b>	<b>120</b>

Source: SSD data (not including estimations on private exports and considering some adjustments on equipment and machinery exports)



The structure of exports is as follows: foodstuffs held the largest weight – 44.3% of total exports, textiles – 18.7%, vegetable products – 14.0%, machinery and equipment – 4.9% (table 10).

Exports to CIS countries increased as a result of larger value of foodstuffs and vegetable products – by 30.7% and 18.9% respectively. The rise of exports to the Rest of the world was due to the larger value of textiles and vegetable products (by 26.1% and 21.1% respectively).

Table 11. Imports by countries (CIF prices)

	1998		1999		2000		2001	
	USD million	weight, %	USD million	weight, %	USD million	weight, %	USD million	weight, %
<b>EUROPEAN UNION</b>	<b>268.75</b>	<b>26.4</b>	<b>157.31</b>	<b>26.8</b>	<b>220.82</b>	<b>28.4</b>	<b>246.52</b>	<b>27.6</b>
Austria	33.6	3.3	5.34	0.9	7.89	1.0	14.07	1.6
Belgium	5.07	0.5	4.06	0.7	6.52	0.8	13.15	1.5
France	18.93	1.9	11.42	1.9	20.84	2.7	21.28	2.4
Germany	91.75	9.0	67.06	11.4	95.61	12.3	93.52	10.5
Greece	6.54	0.6	7.44	1.3	12.26	1.6	5.76	0.6
Italy	55.66	5.5	33.99	5.8	44.07	5.7	57.32	6.4
Great Britain	6.44	0.6	8.57	1.5	6.42	0.8	6.56	0.7
Netherlands	13.68	1.3	11.40	1.9	10.08	1.3	18.24	2.0
Spain	18.74	1.8	1.58	0.3	4.67	0.6	4.63	0.5
Sweden		0.0	2.33	0.4	6.77	0.9	1.36	0.2
<b>CENTRAL and EASTERN EUROPE</b>	<b>231.52</b>	<b>22.7</b>	<b>143.67</b>	<b>24.5</b>	<b>209.95</b>	<b>27.0</b>	<b>225.87</b>	<b>25.3</b>
Baltic states	11.22	1.1	9.24	1.6	13.61	1.8	14.25	1.6
Bulgaria	31.42	3.1	9.87	1.7	14.79	1.9	22.38	2.5
Poland	11.38	1.1	8.47	1.4	11.00	1.4	18.50	2.1
Romania	119.58	11.7	90.29	15.4	134.29	17.3	117.15	13.1
Hungary	39.79	3.9	10.18	1.7	16.79	2.2	22.57	2.5
<b>CIS</b>	<b>448.63</b>	<b>44.1</b>	<b>238.41</b>	<b>40.6</b>	<b>257.67</b>	<b>33.2</b>	<b>338.25</b>	<b>37.9</b>
including:								
Belarus	52.93	5.2	21.31	3.6	32.66	4.2	39.27	4.4
Russia	221.81	21.8	132.91	22.7	110.40	14.2	134.69	15.1
Ukraine	168.50	16.0	82.78	14.1	111.67	14.4	160.42	18.0
<b>OTHERS</b>	<b>68.82</b>	<b>6.8</b>	<b>47.27</b>	<b>8.1</b>	<b>88.18</b>	<b>11.4</b>	<b>82.28</b>	<b>9.2</b>
including:								
USA	27.72	2.7	15.04	2.6	42.59	5.5	21.24	2.4
Turkey	10.64	1.0	10.45	1.8	18.86	2.4	18.81	2.1
<b>TOTAL</b>	<b>1017.72</b>	<b>100</b>	<b>586.66</b>	<b>100</b>	<b>776.62</b>	<b>100</b>	<b>892.92</b>	<b>100</b>

Source: SSD data (not including estimations on private exports and considering some adjustments on equipment and machinery exports)

Imports from CIS countries increased over 2001 by 31.3%; from the European Union - by 11.6%; from Central and Eastern Europe – by 7.6%. Imports from Ukraine, Russia, Romania and Germany predominated (table 11).

The main products acquired in external markets were as follows: mineral products – 27.2%, machinery and equipment – 13.4%, textiles – 10.5%, chemicals – 9.0%, and foodstuffs – 9.0%. Larger imports were recorded for agricultural and food products: livestock products, vegetable products, fats and oils, foodstuffs, which caused a negative

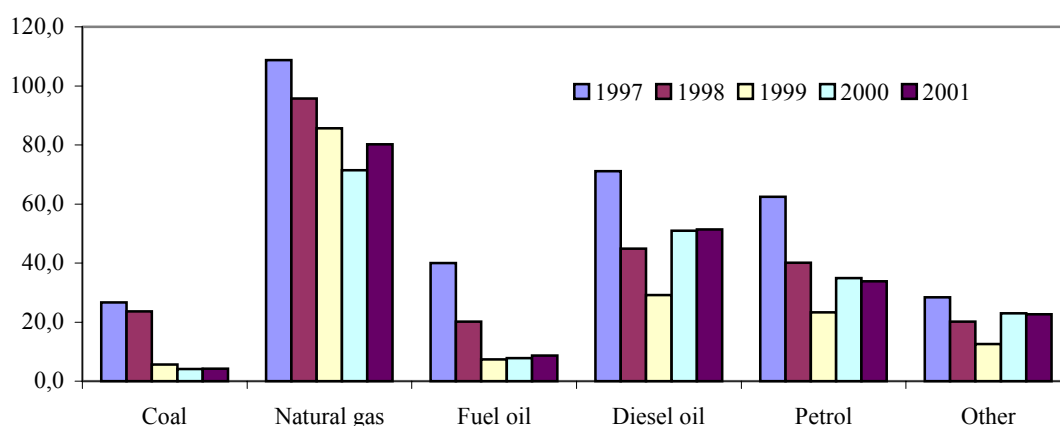
Table 12. Imports by main groups of goods

	1998	1999	2000	2001	Weight in total exports of 2001	Relative growth, 2001 to 2000
	USD million				%	
01 Livestock products	17.29	6.5	10.76	23.99	2.7	by 2.2 times
02 Vegetable products	16.42	11.18	25.64	37.63	4.2	146.8
03 Fats and oils	3.07	2.02	2.41	3.02	0.3	125.5
04 Foodstuffs	56.72	18.51	71.51	79.99	9.0	111.9
05 Mineral products	330.14	232.04	255.73	242.51	27.2	94.8
06 Chemical products	92.66	45.82	74.90	80.49	9.0	107.5
07 Plastic materials	33.21	20.13	23.76	34.60	3.9	145.6
08 Raw and tanned leather	2.2	2.62	2.46	3.97	0.4	161.6
09 Wood and charcoal	15.25	6.07	9.94	13.52	1.5	136.0
10 Wood-pulp	46.52	21.48	27.78	34.68	3.9	124.8
11 Textiles	63.01	66.43	77.50	93.61	10.5	120.8
12 Footwear, hats	3.02	2.32	2.41	4.48	0.5	185.6
13 Gypsous and stone articles	34.69	13.38	16.66	32.49	3.6	195.0
14 Precious stones and metals	1.29	1.11	1.45	1.35	0.2	93.4
15 Common metals	41.26	24.84	31.48	38.04	4.3	120.8
16 Machinery and equipment	184.52	69.35	98.56	119.59	13.4	121.3
17 Vehicles, aircrafts, transport	46.61	12.2	15.51	21.83	2.4	140.8
18 Optical tools and equipment	16.59	22.54	19.17	15.56	1.7	81.2
20 Other goods and products	13.25	8.12	8.99	11.55	1.3	128.5
<b>TOTAL</b>	<b>1017.72</b>	<b>586.66</b>	<b>776.62</b>	<b>892.92</b>	<b>100</b>	<b>115.0</b>

Source: SSD data - CIF prices (excluding private imports and considering adjustments on energy resources, equipment and machinery imports)

substitution impact on local producers of similar goods (table 12). Imports of energy resources in 2001 recorded a non-significant increase as compared to the previous year (by 4.7%) and kept the same structural composition (chart 19). Energy imports from CIS countries registered an upward trend: its weight increased from 57.5% in 2000 to 76.9% in 2001.

Chart 19. Imports of energy resources (mln. USD)



The balance of services registered a deficit of USD 47.7 million, increasing by USD 12.3 million or by 34.9% as compared to the previous year as a result of 8.1%-increase in imported services against a background of 2.5%-increase of services rendered to non-residents (table 13).

Table 13. Balance of services (USD million)

	1998			1999			2000			2001		
	exports	imports	balance	exports	imports	balance	exports	imports	balance	exports	imports	balance
Transportation including: natural gas transit	74.27	77.93	-3.66	65.91	52.52	13.39	82.51	57.67	24.84	79.39	61.66	17.73
Travel	22.00		22.00	22.43		22.43	27.42		27.42	23.32		23.32
Communication services	40.22	59.47	-19.25	37.62	57.81	-20.19	46.18	80.23	-34.05	46.01	89.77	-43.76
Construction services	14.47	8.42	6.05	16.17	8.92	7.25	16.54	7.61	8.93	16.47	7.61	8.86
Other services	3.66	6.87	-3.21	1.23	12.78	-11.55	0.84	11.23	-10.39	0.50	4.14	-3.64
Balance of services	19.42	45.89	-26.47	19.99	39.00	-19.01	21.78	46.48	-24.70	29.60	56.49	-26.89
	152.04	198.58	-46.54	140.92	171.03	-30.11	167.85	203.22	-35.37	171.97	219.67	-47.70

Within external trade with services, transportation services dominated with a 36.0% share. The positive balance of this item reduced by 28.6% as compared to the previous year following the larger value of these services' imports and the decrease by 15.0% of gas transiting the territory of the Republic of Moldova.

Travel services, which accounted for 34.7% of total external trade with services, recorded a 28.5%-increase in the deficit balance as against in the previous period.

Imported construction services registered a significant decline and resulted in the reduction of the negative balance by 2.9 times as compared to 2000.

External trade with other types of services, like marketing, publicity and financial services showed increases during the year.

Current Account deficit was mostly balanced by the surplus recorded in the income balance and current transfers. As compared to 2000, the net income balance increased by USD 37.7 million or by 59.6%; the current transfers balance reduced by 1.4% (table 14).

Table 14. Income balance (USD million)

	1998			1999			2000			2001		
	received	paid	balance	received	paid	balance	received	paid	balance	received	paid	balance
Compensation of employees	121.00	21.32	99.68	109.8	19.75	90.05	153.36	27.12	126.24	221.18	37.51	183.67
Income on direct and portfolio investment		36.02	-36.02	0.03	25.27	-25.24	5.58	29.81	-24.23	3.19	40.67	-37.48
Dividends		2.99	-2.99	0.01	6.15	-6.14		2.71	-2.71		4.55	-4.55
Interest		28.51	-28.51	0.02	13.42	-13.40	5.58	15.38	-9.80	3.19	27.86	-24.67
Reinvested earnings		4.52	-4.52		5.70	-5.70		11.72	-11.72		8.26	-8.26
Income on other investment (interest)	15.79	44.21	-28.42	10.53	48.77	-38.24	8.37	47.22	-38.85	8.89	54.27	-45.38
Total income	136.79	101.55	35.24	120.36	93.79	26.57	167.31	104.15	63.16	233.26	132.45	100.81

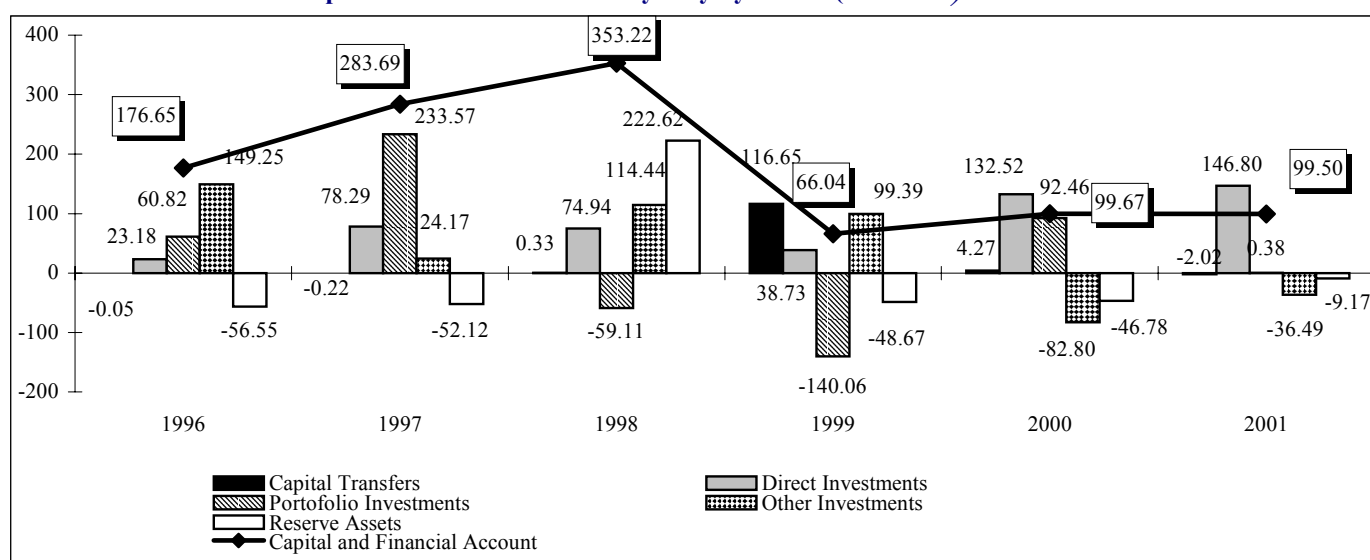
Incomes of Moldovan residents working abroad continued to generate significant inflows of financial resources. According to estimates,

compensation of employees increased by 44.2% as compared to 2000 and covered 59.1% of the goods and services trade deficit balance.

Interest payable on governmental loans reduced by 5.1%, while that on governmental bonds increased by 31.1%.

The Capital and Financial Account closed the year-end with a surplus of USD 99.50 million; yet, various components had differing outcomes (chart 20).

Chart 20. Capital and financial account yearly dynamics (mln. USD)



Net direct investments amounted to USD 146.80 million, exceeding by 10.8% the level in the previous year (table 15).

Table 15. Direct Investments (USD million)

	1998			1999			2000			2001		
	inflow	outflow	net	inflow	outflow	net	inflow	outflow	net	inflow	outflow	net
<b>Direct Investments</b>	<b>84.05</b>	<b>9.11</b>	<b>74.94</b>	<b>57.79</b>	<b>19.06</b>	<b>38.73</b>	<b>148.57</b>	<b>16.05</b>	<b>132.52</b>	<b>154.59</b>	<b>7.79</b>	<b>146.80</b>
Abroad	1.7	0.96	0.74	0.1	0.16	-0.06		0.08	-0.08		0.06	-0.06
In national economy, including:	82.35	8.15	74.20	57.69	18.90	38.79	148.57	15.97	132.60	154.59	7.73	146.86
<b>Equity capital</b>	<b>54.87</b>	<b>0.69</b>	<b>54.18</b>	<b>36.30</b>	<b>0.03</b>	<b>36.27</b>	<b>76.77</b>	<b>1.87</b>	<b>74.90</b>	<b>114.82</b>	<b>0.27</b>	<b>114.55</b>
Banking sector	13.62	0.50	13.12	6.43	0.03	6.4	16.07	1.80	14.27	8.14	0.25	7.89
Other sectors	41.25	0.19	41.06	29.87		29.87	60.70	0.07	60.63	106.68	0.02	106.66
<b>Reinvested earnings</b>	<b>4.52</b>		<b>4.52</b>	<b>4.43</b>		<b>4.43</b>	<b>10.25</b>		<b>10.25</b>	<b>8.26</b>		<b>8.26</b>
<b>Other capital</b>	<b>22.96</b>	<b>7.46</b>	<b>15.5</b>	<b>16.96</b>	<b>18.87</b>	<b>-1.91</b>	<b>61.55</b>	<b>14.10</b>	<b>47.45</b>	<b>31.51</b>	<b>7.46</b>	<b>24.05</b>

The state economic and political situation has slowed down the privatization process of state property and has adversely impacted on the real inflow of foreign investment capital.

The transfer of a part of state property of national gas complex amounting to USD 47.3 million in swap for the gas imports debt

represented the largest transaction recorded within direct investments item. In the context of direct investments were registered the amortizations of three external loans in an amount of USD 10.0 million by transferring equity securities issued by debtors to foreign creditors. Yet, these swap operations did not generate real inflows of capital and constituted merely a non-direct financing of the balance of payments deficit.

Foreign investors have credited their subsidiaries in Moldova in an amount of USD 24.05 million (net value).

Portfolio investments totaled USD 0.38 million in net value. On the liabilities side they represent investments less than 10 percent of the joint ventures' equity capital, which constituted USD 3.5 million. In 2001 residents have accessed international stock markets for the first time and registered portfolio investment assets amounting to USD 3.1 million.

As Moldova's foreign financing by international financial entities was suspended, the balance of other investments in 2001 recorded, like in 2000, a negative value of USD -36.5 million. At the same time, several transactions registered within this category have caused an indirect financing of the balance of payments deficit: the rescheduling of certain foreign loans amounted to USD 13.7 million; accumulation of new arrears (USD 35.9 million in net value) on debt service payments for all sectors totaled USD 44.3 million, including on loans provided by parents companies (USD 16.2 million). Although Moldova repaid USD 47.3 million of energy resources' related debt by transferring shares of Moldova-Gas Company to the Russian

Table 16. External loans (USD million)

	1997		1998		1999		2000		2001	
	Disbursed	Reim-bursed*	Disbursed	Reim-bursed*	Disbursed	Reim-bursed*	Disbursed	Reim-bursed*	Disbursed	Reim-bursed*
IMF loans to the NBM	20.55	19.99		64.43	69.9	65.22	12.19	25.12	11.94	14.33
Loans to the Government including:	81.23	102.21	141.21	86.24	96.49	63.89	206.07	78.65	33.48	48.87
Rescheduled/reclassified	3.42	2.86	83.70	15.0	3.99		165.73	54.51	13.65	12.38
Loans to the banks	18.27	17.24	43.08	25.59	18.62	38.8	11.7	17.83	16.74	15.69
Long-term	7.91	11.54	16.31	3.83	5.45	17.43	3.05	9.48	9.10	7.85
Short-term	10.36	5.7	26.77	21.76	13.17	21.37	8.65	8.35	7.64	7.84
Other sectors' loans	63.23	22.37	47.88	58.88	95.94	31.33	66.58	26.39	43.54	29.80
Long-term	54.17	15.27	42.96	53.51	89.31	28.06	58.22	20.68	33.02	25.8
including:										
Rescheduled/reclassified			0.56	39.29	0.46	1.35		0.75		
Short-term	9.06	7.10	4.92	5.37	6.63	3.27	8.36	5.71	10.52	4.0
<b>TOTAL</b>	<b>183.28</b>	<b>161.81</b>	<b>232.17</b>	<b>235.14</b>	<b>280.95</b>	<b>199.24</b>	<b>296.54</b>	<b>147.99</b>	<b>105.7</b>	<b>108.69</b>
<b>Without rescheduled and reclassified loans</b>	<b>179.86</b>	<b>158.95</b>	<b>147.91</b>	<b>180.85</b>	<b>276.5</b>	<b>197.89</b>	<b>130.81</b>	<b>92.73</b>	<b>92.05</b>	<b>96.31</b>

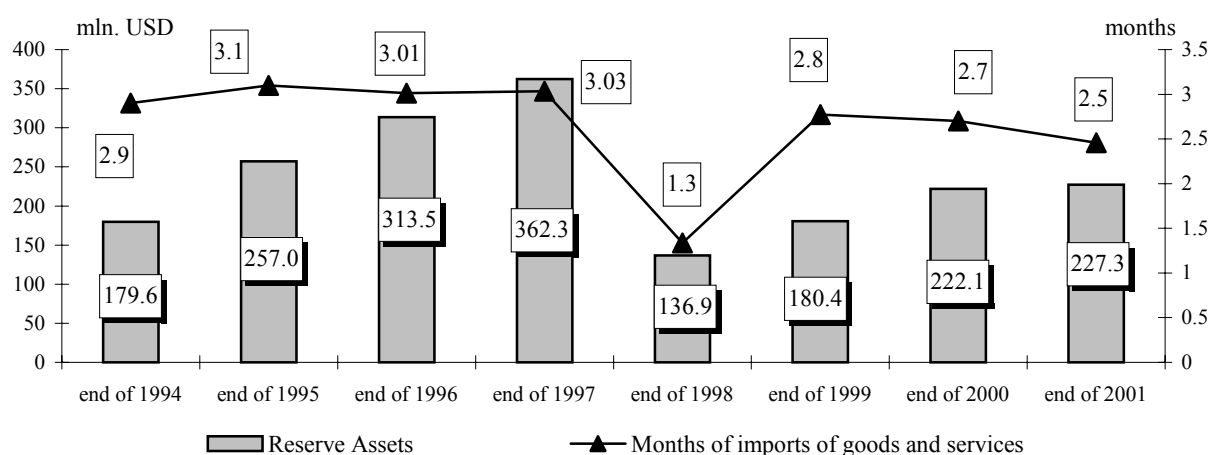
\*according to the agreement

counter-party, new net arrears for energy imports totaled USD 26.6 million.

During previous years, external loans tented to generate considerable inflows of financial resources; yet, in 2001, principal reimbursements exceeded disbursements by USD 4.3 million (without rescheduling) (table 16). Drawings in other sectors (including the banking sector) represented 65.5% of total disbursements.

Despite the considerable external debt service over 2001, reserve assets amounted at the year-end to USD 227.3 million and covered 2.5 months of imports of goods and services (chart 21).

Chart 21. Reserve assets dynamics



## 2. Activity of the National Bank of Moldova

### Monetary Policy Implementation in 2001

#### Monetary Policy Objectives and Results

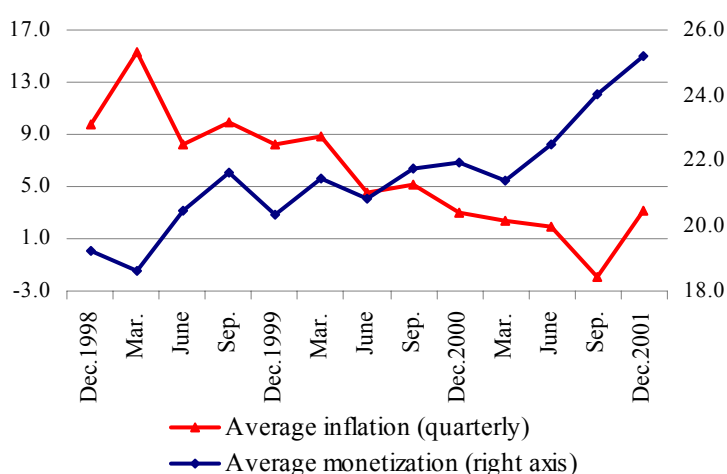
Monetary policy implementation in 2001 was in line with the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2001, coordinated with the state relevant economic and financial entities and as approved by the Council of Administration of the National Bank of Moldova on 25.12.2000. Aimed at fostering national economic recovery, monetary policy was targeted to reduce inflation, to further stabilize the banking system and to maintain favorable conditions to stimulate economic development of the foreign exchange, financial and credit markets.

The pillars of the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2001 were the Forecast on the Social and Economic Development of the Republic of Moldova for years 2001 – 2003 (real GDP growth of 5.0% and nominal GDP of 19300 million lei; an annual inflation rate up to 10.0%) and the Law on the Budget for 2001 (budget deficit of 280.0 million lei financed from domestic credit via state securities (SS) issuance, external loans and privatization proceeds).

The GDP growth, the evolution of balance of payments and price dynamics in 2001 were in line with the main macroeconomic indicators used as pillars for the outlines of the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2001.

GDP increased by 6.1% in real terms in 2001 and amounted to 19019.3 million lei. Consumer prices recorded a moderate growth as

Chart 22. Quarterly dynamics of monetary indicators, (%)



compared to the previous year: annual inflation constituted 6.3% as against 18.4% in 2000. In the context of the economic growth during 2001 and following rise in money demand, the increase in money supply did not generate inflationary pressures.

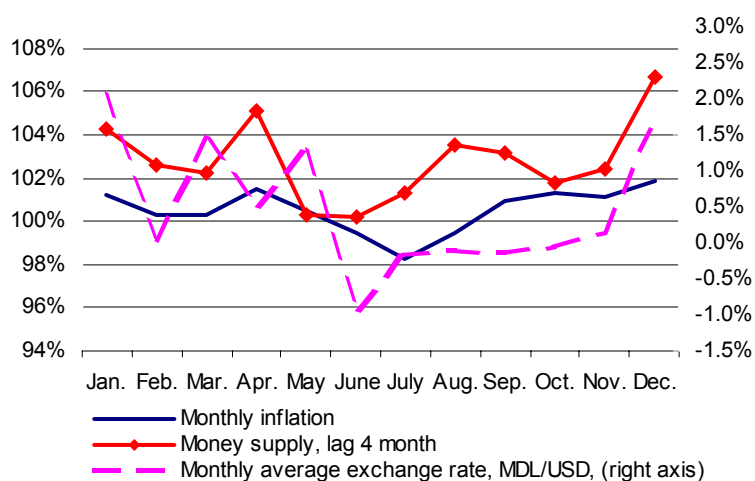
The changing correlation between inflationary processes and money supply growth, against the background of consequent reduction of the inflation rate, allowed a greater rate of monetary expansion.



Economy monetization followed its increasing trend from 21.9% in 2000 to 25.2% by the end of 2001 (chart 22). Thus, considering the observed 2-month lag, the correlation index between monthly increase of money supply and inflation rate was 0.31 for years 1999-2001. The relatively stable evolution of the exchange rate of the national currency has also positively contributed to the maintenance of a reduced inflation rate: the correlation between monthly inflation rate and monthly exchange rate dynamics in the period of 1999 to 2001 constituted 0.67 (with 1-month lag). At the same time, during 2001 the correlation between money supply monthly growth rate (with 4-month lag) and inflation rate reached 0.61, indicating a greater impact of monetary factors upon the price level (chart 23).

In 2001 the dynamics of main monetary aggregates was uneven. Thus, during the 1<sup>st</sup> half of the year the National Bank issued 180.0 million lei following purchases of foreign exchange in the amount of USD

Chart 23. Monthly growth rates of monetary indicators in 2001, (%)



14.0 million. But given circumstances of non-disbursement of the previously expected external financing, servicing of state external debt in a total amount of 292.0 million lei (USD 22.8 million), including the use of current revenues of the Ministry of Finance in an amount of 189.0 million lei (USD 14.7 million), determined an insignificant increase of reserve money by 7.7 million lei, or by 0.4%. At the same time, the

reduction of both the liquidity ratio from 0.72 to 0.61 and excess reserves ratio down to 0.05 favored an increase of the money multiplier from 1.80 to 1.99, resulted in the money supply growth by 376.6 million lei (10.7%). Credits to economy respectively rose by 252.6 million lei (or by 11.0%), being consistent with parameters set in the Monetary and Foreign Exchange Policy for 2001.

In the second half of the year, NBM net foreign assets essentially increased to USD 81.4 million as a result of NBM purchases of foreign exchange in the amount of USD 64.5 million. The most significant transactions were recorded in the 3rd quarter (USD 41.9 million). These factors have contributed to a more rapid increase of both money supply and reserve money (by 535.6 million lei or 27.4% and 901.1 million lei or 23.2% respectively) and generated the rise of the monetization level from 20.4% at the end of the 1<sup>st</sup> half of the year to 25.2% at the end of 2001. To sterilize the excess liquidity in the

system, the NBM used open market operations amounting to 239.6 million lei; demand for SS was 1.3 times greater than the NBM offer.

The considerable increase of available financial resources of commercial banks, following the larger money issue by the NBM with the view to supplementing international reserves, was also gained after successive reductions of required reserves in order to stimulate credit activity (from 13.0% in January to 10.0% in October 2001). Under such conditions, commercial banks directed their additional resources towards credits extension to businesses and acquisition of state securities on the primary market (the weighted average yield on SS declined from 20.0% in January 2001 to 8.84% in December 2001). NBM supported this extension of credits to economy by steering money market interest rates: the NBM base rate on 2-month REPO operations decreased from 27.0% in December 2000 to 13.0% in December 2001. Reduced inflationary pressure has also facilitated the gradual decrease of the average weighted interest rate on banks' deposits in national currency from 23.9 % in December 2000 to 17.8% in December 2001. The aggregate effect of the above factors during the 2<sup>nd</sup> half of 2001 generated acceleration by 557.5 million lei (21.9%) of credits extended to the economy.

The larger output of goods and services during 2001 conditioned the increase of money demand by businesses and determined NBM to relevantly adjust the money supply relatively to the indicator provided in the initially set monetary policy. Under the resultant slowing down of annual money velocity by 12.9%, the annual inflation index reduced by 10.2% as compared to the previous year and confirmed the consistency of money supply with the monetary policy main target.

The Monetary and Foreign Exchange Policy for 2001 provided for the reduction of Government debt to the National Bank of Moldova<sup>1</sup> by 15.0 million lei. Considering the non-disbursement of previously estimated foreign financing during the year and actual privatization proceeds, the Law on the Budget for 2001 was modified as to reduce budget deficit to 26.0 million lei and to provide sources of deficit financing. In accordance with the stipulations of the Law on Modification of the Law on the Budget for 2001 dated 27.12.2001, loans granted by the NBM to finance the budget deficit with the view to external debt servicing totaled 231.2 million lei and conditioned the change of the actual situation as against that initially approved in the Monetary and Foreign Exchange Policy for 2001. As a result, loans extended to finance the public sector constituted 95.4% of NBM net domestic credit.

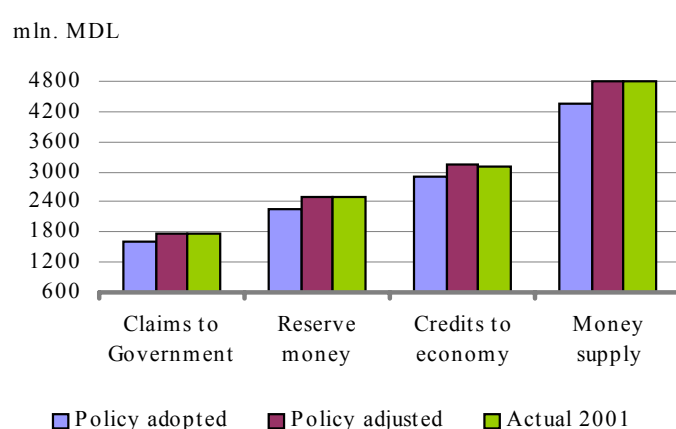
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<sup>1</sup> Government debt to NBM includes payment claims of NBM to the Government, including credits extended and SS held in the portfolio of NBM, excluding Government deposits.

Considering the national economy development during the reported year and the stipulations of the Law on Modification of the Law on the Budget for 2001, the Council of Administration of the National Bank of Moldova has rectified in December 2001 the Monetary and Foreign Exchange Policy for 2001 as follows:

- Increase of money supply by 37.0% to around 4806.0 million lei;
- Increase of reserve money by 28.0% to around 2495.0 million lei;
- Increase of credits to national economy by 37.0% to around 3140.0 million lei at year-end (chart 24).

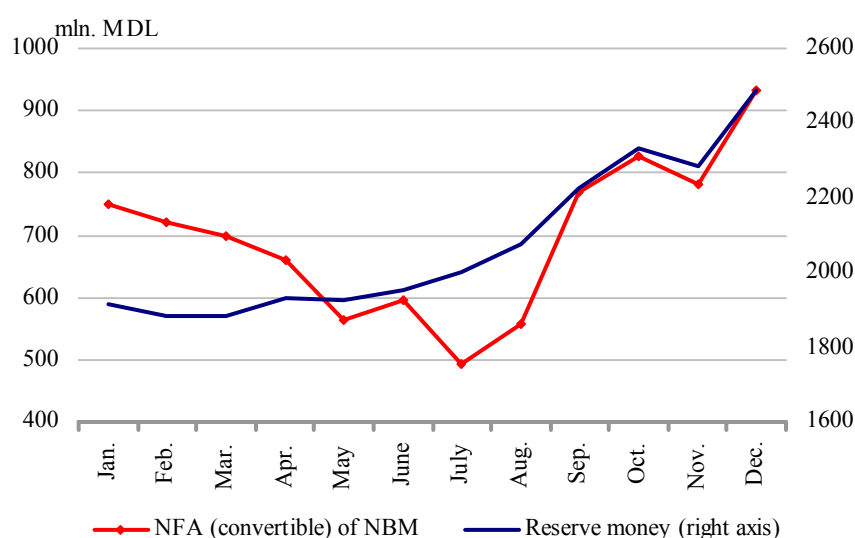
**Chart 24. Monetary policy implementation in 2001**



The National Bank of Moldova implemented its Monetary and Foreign Exchange Policy for 2001 under a free-floating exchange rate regime that allowed for equilibrium of the reference exchange rate of the national currency and creating relevant preconditions for consolidation of Moldova's international reserves. Therefore under circumstances of larger amount of foreign exchange offered on the domestic market and the

non-allowance of a sudden appreciation of the national currency, the National Bank of Moldova bought foreign exchange totaling USD 78.5 million. Against a background of reduced external financing, this NBM activity allowed the due payment of foreign commitments of the

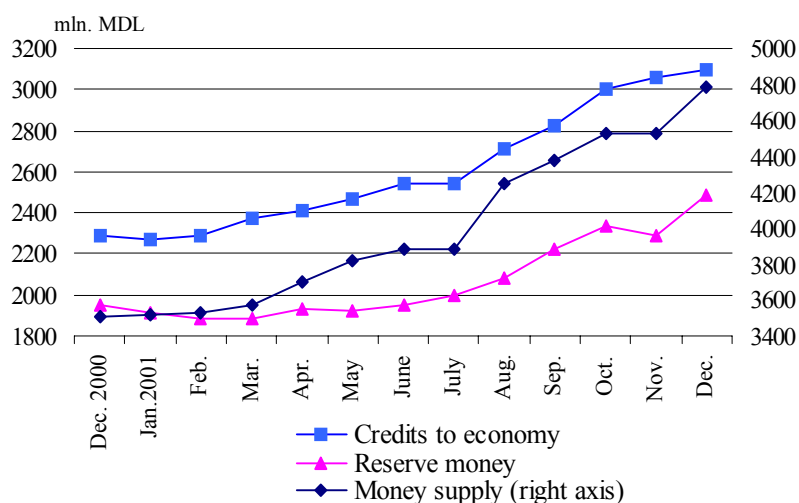
**Chart 25. Monetary aggregates dynamics in 2001**



Government and the NBM and the maintenance of NBM international reserves at a level sufficient to cover 2.5 months of imports. As a result, the NBM international reserves (as according to IMF methodology) increased to USD 227.3 million by the end of 2001. Foreign exchange purchases resulted in a USD 13.4 million growth (19.7%) of NBM net foreign assets and largely generated the increase of reserve money by 543.3 million lei or by 27.9% (chart 25). At the same

time, the larger average balances on commercial banks' correspondent accounts, following the increased issue of money, determined the NBM to perform open market operations targeted to sterilize excess liquidity by direct sales of SS and REPO selling operations in a total value of 507.2 million lei during 2001.

Chart 26. Dynamics of monetary aggregates in 2001



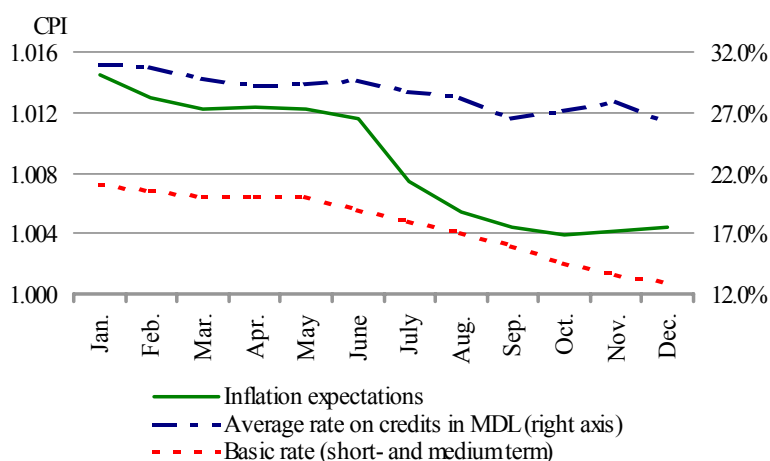
The increase of the money multiplier by 6.8% per year as a result of considerable reduction of the liquidity ratio from 0.72 to 0.62 in 2001 has been reflected in the close correlation between the expansion of reserve money and that of money supply, which increased by 1277.7 million lei or 36.4% (chart 26).

The NBM interest rate policy was based on the analysis of inflationary trends, of monetary and macroeconomic indicators and of financial market conditions. In 2001 this policy was targeted to maintain real interest rates at a low positive level as to stimulate the increase of credit demand by the real sector of economy. Within this context, the National Bank of Moldova issued a series of recommendations to

commercial banks. As a result, the monetary policy implemented by NBM during the reported period has contributed to the gradual reduction of interest rates in the credit market from 32.4% to 26.2% at year-end. At the same time, the spread on banking intermediation operations stayed at the level of the previous year and constituted 8.5 p.p. The decrease of interest rates on money and credit markets and the simultaneous reduction of inflationary expectations point to money sufficiency in the economy

without any impact on the increase of inflation level (chart 27).

Chart 27. Inflation expectations, money and credit market rates dynamics in 2001



In accordance with the Monetary and Foreign Exchange Policy of the National Bank of Moldova for 2001, the forecasted increase for credits to economy served as relevant prerequisite in support of economic growth. Thus, the larger money supply by the banking system has stimulated the level of credit extended to the economy: the value of these credits increased by 810.1 million lei (35.4%),

including credits extended in national currency – by 479.4 million lei (35.3%), and totaled 3101.3 million lei at the year-end. Credits extended in domestic currency accounted for the largest share (59.3%); this denoted the superior increase of demand for credits in MDL as compared to credits extended in foreign currencies, expressed in USD (28.1%).

The qualitative improvement in the money supply structure during 2001 was confirmed by the considerable reduction of M3 ratio of money (currency in circulation and sight deposits) to quasi-money (including time deposits in national currency plus foreign currency deposits) from 1.27 in December 2000 to 1.04 in December 2001. The money supply in national currency (M2) increased by 37.8%, proving the major preference for placements in local currency. The money demand in the economy has accelerated in the context of the slow down of monthly average inflation rate from 1.4% in 2000 to 0.5% in 2001. This reduction favored the increase in real terms of money supply and money supply in national currency by 28.3% and 29.6% respectively as compared to 18.4% and 17.3% in 2000.

The evaluation of economic developments in 2001 demonstrates that the monetary and foreign exchange indicators dynamics was in line with national economy trends and contributed to the achievement of macroeconomic stability.

### Monetary Indicators Dynamics

Money supply recorded during the reported year a nominal increase of 36.4% (28.3% in real terms) and amounted to 4787.4 million lei at the end of 2001 (table 17).

*Table 17. Money supply components (mln. MDL)*

	2000	2001	Change, %	Absolute change
Money supply (M3)	3509.6	4787.4	36.4	1277.8
Currency in circulation*	1469.3	1834.2	24.8	364.9
Deposits	2040.1	2952.9	44.7	912.8
in MDL	1044.9	1630.3	56.0	585.4
in foreign currency	995.2	1322.6	32.9	327.4
Money market instruments	0.2	0.3	50.0	0.1

\*excluding cash in NBM and commercial banks vaults

Money supply increased unevenly: a more intense process was observable in the second half of the year when the money supply growth rate constituted 23.2%, reaching its highest levels in August and December.

At the end of the year a large part of the Netherlands grant was used to finance budget expenditures in the social sector, which generated a rapid increase of currency in circulation and ultimately of money supply in December 2001.

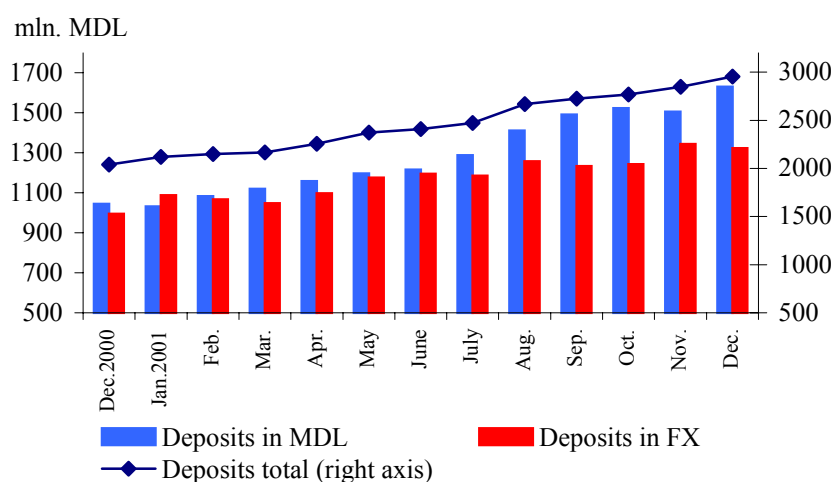
Thus, monetization, which characterizes money sufficiency in economy, increased from 21.9% in 2000 to 25.2% in 2001.



The annual average money velocity in 2001 recorded a declining trend of 12.9%, decreasing from 5.4 to 4.7. This reduction was in line with the NBM policy – to fulfill the increased money demand of the real sector of the economy.

The volume of currency in circulation during the reported year increased by 24.8% as against a background of an annual inflation rate

Chart 28. Dynamics of deposits with commercial banks



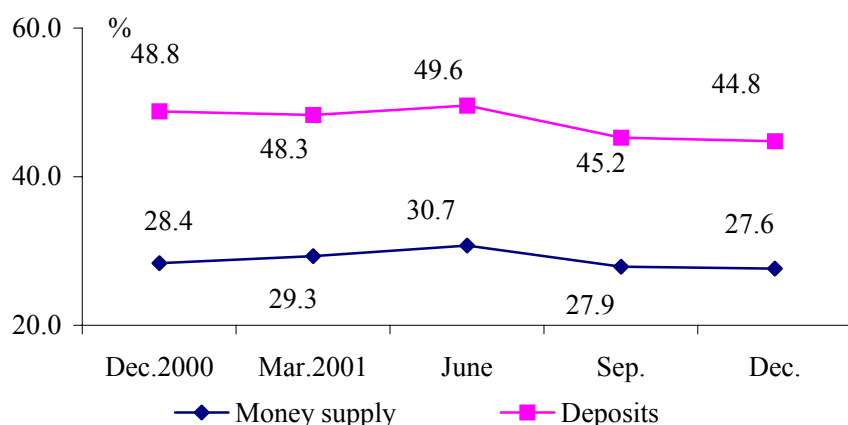
of 6.3%. The weight of cash as a component of money supply reduced from 41.9% to 38.3%. The liquidity ratio decreased from 0.72 to 0.62.

At the same time, the total volume of deposits in 2001 increased by 44.7% and amounted to 2952.9 million lei or 61.7% of total money supply (chart 28).

Deposits in MDL increased by 56.0%; those in foreign currency increased by 32.9%. The volume growth of deposits in foreign currency was generated by their physical value increase and was partially influenced by the depreciation of the national currency. Expressed in USD, these deposits went up by USD 23.6 million or by 30.4%.

The relative stability of the national currency during the reported year contributed to the improvement of the total deposits' structure and the increase of the share of deposits

Chart 29. Dollarization of M3 and deposits

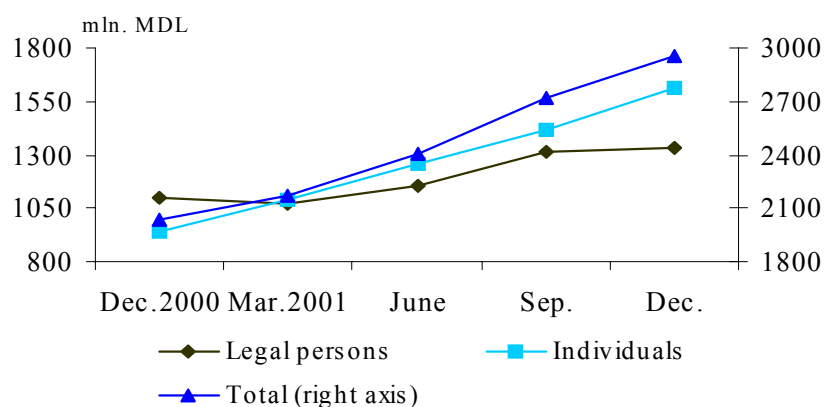


in MDL. The share of total deposits held in MDL increased from 54.2% to 64.1%, while the share of deposits in foreign currency declined from 45.8% to 35.9%.

The trends in money supply and deposits dollarization are shown in chart 29. The highest levels were recorded during the 2nd quarter; by the end of the year the movements reduced. The gradual reduction of money supply and deposits dollarization points to a more consolidated public confidence in national currency.

In January - December 2001 the volume of deposits by individuals increased by 72.5% (in 2000 – by 63.7%) and amounted at the year-end to 1615.5 million lei; the volume of deposits by legal entities increased by 21.2% and amounted to 1337.3 million lei (chart 30).

Chart 30. Dynamics of legal entities and individuals deposits



Deposits by individuals held the largest weight in the structure of total deposits with 54.7% as of 31.12.2001 as compared to 45.9% in 2000.

Deposits in MDL by individuals recorded a significant increase by 85.3%: time deposits by individuals represented 94.0% of this figure and indicated public preference to hold savings in national currency. The increase of deposits by individuals matched

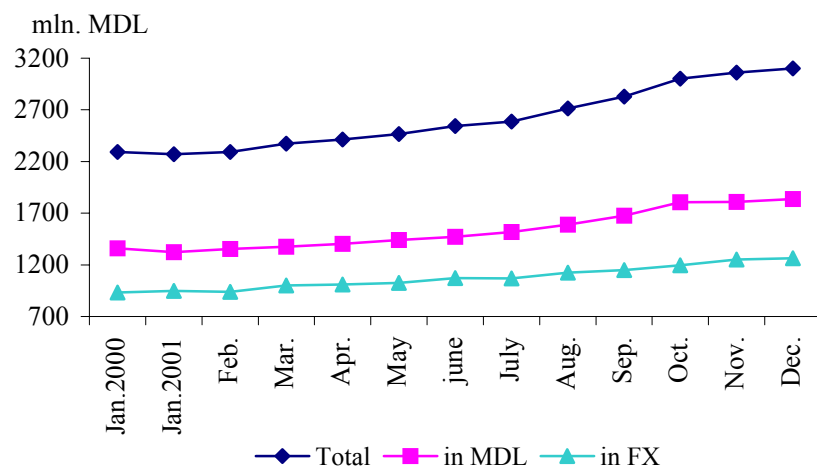
the increase of net sales of foreign exchange (by 70.9%) from the public to commercial banks and exchange bureaus.

In 2001 the sources of money supply (M3) formation recorded significant modification. Considering that in 2000 the money supply increase was basically determined

by larger NFA, in 2001 growth of M3 was mainly due to larger banks' credits to the national economy.

The total balance of credits to economy increased by 810.1 million lei or by 35.4% and amounted as of 31.12.2001 to 3101.3 million lei (chart 31). Credits extended in national currency held the largest weight in total commercial banks' lending of 59.3%.

Chart 31. Credits to economy





Both the total volume of credits to economy, and its sector structure, were aspects of credit analysis (table 18).

Table 18. Credits structure by branches

	31.12.2000 (mln. MDL)	Weight in the total, 2000 (%)	31.12.2001 (mln. MDL)	Weight in the total, 2001 (%)	Absolute change	Growth rate (%)
Credits to agriculture and food industry	637.0	27.8	850.5	27.4	213.5	33.5
Credits for real estate, construction and development	201.4	8.8	234.8	7.6	33.4	16.6
Consumer credits	82.7	3.6	88.3	2.9	5.6	6.7
Credits to energy and fuel industry	126.1	5.5	191.3	6.2	65.2	51.7
Credits to industry and commerce	1064.4	46.4	1489.5	48.0	425.1	39.9
Credits for roads construction and transportation	58.9	2.6	102.6	3.3	43.7	74.2
Other credits	120.6	5.3	144.1	4.6	23.5	19.5
<b>Total</b>	<b>2291.2</b>	<b>100</b>	<b>3101.3</b>	<b>100</b>	<b>810.1</b>	<b>35.4</b>

The volume of loans extended by commercial banks increased by 59.6% and went up from 2871.0 million lei in 2000 to 4580.8 million lei in 2001. Credits in national currency recorded an increasing trend (66.5% during the reported year), although the annual average weighted interest rate decreased from 33.3% in 2000 to 28.5% in 2001. Loans extended for a term of 6 to 12 months were the most attractive and represented 35.8% of total volume. These credits were extended at an average weighted interest rate of 28.6% compared to 33.8% in 2000.

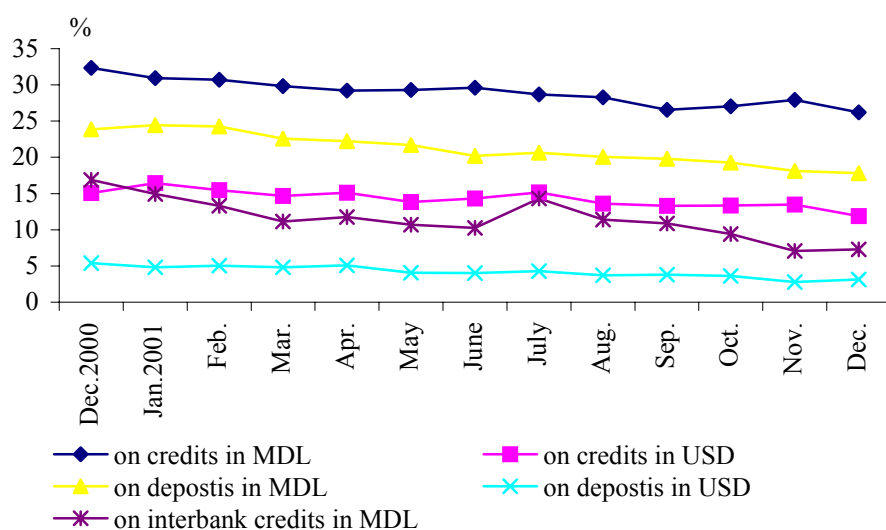
The trend in foreign currency lending was similar: from 1088.5 million lei (USD 87.5 million) in 2000 to 1613.3 million lei (USD 125.4 million) in 2001. Credits with terms of more than 6 months held the largest share in total credit extended (70.3%).

The growth rate of lending activity in 2001 was higher than GDP growth. In 2001 the ratio between the balance of credits to economy and GDP constituted 16.3% as compared to 14.3% in 2000.

Larger volumes of transactions and reduced interest rates characterized the situation on the interbank credit market in 2001. The total value of transactions in national currency amounted to 789.0 million lei and increased in 2001 by 368.6 million lei or by 88.0%. The value of interbank credits and REPO operations amounted to 630.2 million lei and 158.8 million lei respectively. During the reported year interbank credits and interbank REPO operations increased by 352.0 million lei and 17.0 million lei respectively.

The annual average weighted interest rate on interbank credits in national currency fell by 9.5 p.p. to 10.83%, the interbank REPO operations rate declined by 8.14 p.p. to 8.19%.

Chart 32. Average interest rates evolution



The decrease of the inflation rate compared to the previous year and the slower depreciation of the national currency had a positive impact upon interest rates on credits and deposits. The average interest on credits in MDL constituted 28.5% (33.3% in 2000). The average rate on credits in foreign currency was 14.0% per annum as compared to 16.7% in 2000.

The average interest rate on deposits in MDL reduced by 4.0 p.p. to 20.6%; the average rate

on deposits in foreign currency went down by 1.2 p.p. to 3.96% (chart 32).

## Monetary Policy Instruments

Economic processes developments and conditions in financial markets determined the use of monetary policy instruments in 2001.

With the view to ensuring the conformity of money supply and demand, as well as managing the banking system liquidity, the National Bank of Moldova used the following monetary policy instruments:

- Open market operations;
- Required reserves;
- Interest rate policy.

## Open Market Operations

As in the previous year, in 2001 the National Bank of Moldova acted as net debtor to the banking sector, concentrating its activity on the sterilization of the excess liquidity within the banking sector. This excess was generated by the following factors:

- Foreign exchange purchases in the interbank market by NBM;
- Reduction of required reserves on banks attracted resources;
- Reduced spectrum of efficient placements of available financial resources.

With the view to limiting excess liquidity, the National Bank of Moldova performed a series of measures based on the use of indirect monetary policy instruments; within this framework, open market operations played a significant role (table 19).

Table 19. NBM open market operations in 2001

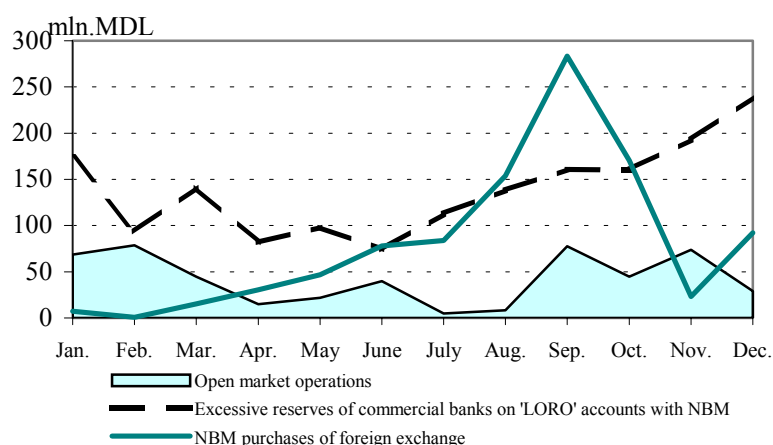
Operation	Offer volume (mln. MDL)	Demand volume (mln. MDL)	Volume of SS sold		The range of nominal interest rate on SS/ REPO rates (%)	Average weighted SS interest rate/ REPO average weighted rate (%)
			nominal value (mln. MDL)	market price (mln. MDL)		
SS sales	386.0	544.5	326.1	324.4	2.74-11.72	6.57
REPO sales	220.0	325.7	186.8	182.8	3.00-16.15	10.83
REPO purchases	15.0	4.5	4.6	4.5	7.00-11.37	10.19
Total	621	874.7	517.5	511.7		

NBM decisions on open market operations were based on the Monetary and Foreign Exchange Policy for 2001 and were targeted to maintain the reserve money at a level in line with projections and to ensure the money market stability.

During the reported year, as part of open market operations, the NBM held 57 auctions to sterilize excess liquidity by sales of state securities from NBM portfolio and SS REPO sale operations and 2 SS REPO-purchase auctions (in June) to provide liquidity to the banking system.

The total value of banking liquidity sterilization operations was twice the value of the previous year and amounted to 507.2 million lei.

Chart 33. Excess reserves of commercial banks on „LORO” accounts with NBM and liquidity sterilization operations in 2001



NBM interventions on the foreign exchange market varied during the year: foreign exchange purchases were concentrated mainly in August – October, when net acquisitions amounted to USD 48.9 million and required sizeable sterilization effort in September – November (chart 33).

The objective of the National Bank of Moldova in 2001 was to sterilize only short-term liquidity, enabling commercial banks to re-direct longer-term available resources to the real

sector of the national economy. Therefore the term of REPO-sale

transactions within NBM open market operations varied between 6 and 34 days; the maturity of all securities at sales auctions varied within 9 to 42 days.

Interest rates on SS selling and REPO transactions performed by the NBM were within existing money market rates.

### Required Reserves

Required reserves management in 2001 was set in order to regulate banking liquidity and corresponded to the situation of the domestic financial market (table 20).

Table 20. Required reserves in 2001 (mln. MDL)

Month	Average required reserves					Reserve requirement, %
	on "Loro" account with NBM	on special account 3541 with NBM	cash	total	change from previous month in %	
December 2000	258.4	0.5	43.9	302.8		13
January 2001	271.7	1.1	47.5	320.3	5.8	13
February	274.0	1.0	48.1	323.1	0.9	13
March	270.7	1.2	49.3	321.2	-0.6	13
April	272.9	1.1	48.5	322.5	0.4	13
May	280.9	1.0	49.8	331.7	2.9	13
June	299.5	0.9	50.9	351.3	5.9	13
July	277.2	1.4	53.0	331.6	-5.6	12
August	257.8	1.2	55.3	314.3	-5.2	11
September	245.0	0.8	57.6	303.4	-3.5	10
October	249.8	0.8	61.3	311.9	2.8	10
November	262.0	0.8	62.7	325.5	4.4	10
December	265.4	0.8	62.7	328.9	1.0	10

Thus, required reserves in January – June constituted 13.0% of attracted resources.

The decreasing trend in inflation, the stability of the exchange rate, as well as stable conditions on the domestic money market in 2001 created good prerequisites for the reduction of required reserves.

In accordance with the Decision of the Council of Administration of the National Bank of Moldova no. 140 of 14 June 2001, the level of required reserves was reduced by 3 p.p. in three phases:

- From 01.07.2001 – 12.0% of deposits;
- From 01.08.2001 – 11.0% of deposits;
- From 01.09.2001 – 10.0% of deposits.

In January – June required reserves recorded an increasing trend. In June the average monthly amount of required reserves increased by 48.5 million lei or by 16.0% as compared to December 2000, resulting from a larger bank deposits' base.

The decrease in monthly average required reserves in July, August and September was determined by the 1 p.p.-reduction of RR as against to the previous month. The total amount of required reserves during this period decreased by around 47.9 million lei as compared to June 2001.

The average amount of deposits in 2001 subject to reserve requirements increased by 951.4 million lei (from 2340.2 million lei at the end of 2000 up to 3291.4 million lei at the end of 2001) or by 40.6%, including deposits in MDL (by 636.8 million lei or 49.6%) and deposits attracted in foreign currency recalculated at the relevant end of period exchange rate (by 314.4 million lei or 29.8%).

The increase of the volume of commercial banks' attracted resources during the reported period was supported by sustained positive performance in the domestic money market.

### **Interest Rate Policy**

Starting from 2001 the National Bank of Moldova has been setting the interest rates on financial instruments using the corridor method. The base rate applied on commercial banks' refinancing through 2-month SS REPO-buying operations, performed within NBM open market operations, served as a reference point for the establishment of other monetary instruments interest rates.

The interest rate policy of the National Bank of Moldova is based on the analysis of inflationary trends, monetary and macroeconomic indicators and the situation in financial markets and is targeted to maintain real interest rates at a low positive level, thus stimulating the real sector demand for credit resources and ultimately economic growth.

In 2001 the National Bank made a tenfold reduction in the base rate (from 27.0% at the end of 2000 to 13.0% in December 2001), which served as reference point for establishing other monetary instruments interest rates. At the same time, the change in the base rate indicated the NBM inflation estimations to economic agents and money market participants and was targeted to steer interest rates in the interbank market as well as interest rates on credits extended by banks to legal entities.

The Lombard facility and overnight credits interest rates reduced from 26.0% and 30.0% respectively in January to 18.0% and 22.0% at year-end.

The interest rate on deposit operations was constant during the reported year at a level of 3.0% per year.

The base interest rate on long-term credits in 2001 exhibited a slowly decreasing trend, from 15.0% per year in January down to 13.5% per year at year-end (table 21).

*Table 21. Key NBM interest rates in 2001*

Adopted by AC of NBM	Carried into effect	Deposit rate	Base rate (REPO purchase of SS with 2 months maturity)	Lombard facility rate	Overnight credits rate	Long- term base rate
25.01.2001	01.02.2001	3.0	21.0	26.0	30.0	15.0
22.02.2001	01.03.2001	3.0	20.5	25.5	30.0	15.0
22.03.2001	29.03.2001	3.0	20.0	25.0	29.0	14.8
25.04.2001	03.05.2001	3.0	20.0	25.0	29.0	14.8
24.05.2001	31.05.2001	3.0	20.0	25.0	29.0	14.8
28.06.2001	05.07.2001	3.0	19.0	24.0	28.0	14.8
26.07.2001	02.08.2001	3.0	18.0	23.0	27.0	14.8
30.08.2001	06.09.2001	3.0	17.0	22.0	26.0	14.8
27.09.2001	02.10.2001	3.0	16.0	21.0	25.0	14.8
17.10.2001	26.10.2001	3.0	14.5	19.5	23.5	14.3
22.11.2001	29.11.2001	3.0	13.5	18.5	22.5	14.0
27.12.2001	04.01.2002	3.0	13.0	18.0	22.0	13.5

## **Lending Activity**

### **Loans to banks**

In 2001 the lending activity performed by the National Bank of Moldova was targeted to monitor and manage loans extended to commercial banks during previous years for housing construction co-operatives (HCC) and loans frozen in accordance with Decision of the Parliament no. 1403-XIII of 16.12.1997.

By end of 2001 the balance of commercial bank loan indebtedness to the National Bank of Moldova decreased by 14.3 million lei or by 13.6% as compared to the level at the end of 2000 and amounted to 91.1 million lei.

The loan reduction at the same time with the modification of the Monetary and Foreign Exchange Policy of the National Bank of Moldova, especially the substitution of direct lending to banks with open market operations, were due to the advance payment of frozen loans in an amount of 2.9 million lei and the reimbursement of HCC credits in accordance with stipulations provided within credit agreements (table 22).

Table 22. Breakdown of NBM credits to banks by destination

Nr.	Loan purpose	Outstanding balance of commercial banks' indebtedness on 31.12.2000 (mln. MDL)	Weight, %	Outstanding balance of commercial banks' indebtedness on 31.12.2001 (mln. MDL)	Weight, %
1.	Credits to housing construction co-operatives	97.7	92.7	86.3	94.7
2.	Credits frozen following Parliament Decision nr.1403-XIII from 16.12.97	7.7	7.3	4.8	5.3
	<b>Total</b>	105.4	100.0	91.1	100.0

In 2001 commercial banks ensured payment of their loan commitments to the NBM from only their LORO accounts with the National Bank.

### Loans to the Government

In 2001 the National Bank of Moldova extended loans to the Government in accordance with the Law on the Budget for 2001 no. 1392-XIV of 30 November 2000, Law no. 325-XV of 2 July 2001 on Modification of Article 51 of the Law on the Budget for 2001 no. 1392-XIV of 30 November 2000 and Law no. 763-XV of 27 December 2001 on Modification of Law on the Budget for 2001 no. 1392-XIV of 30 November 2000.

Loans to the Government comprised:

- An amount of 39.3 million lei from loans extended during previous years based on Art. 51 (papa b) of the Law on the Budget for 2001 was converted into state securities;
- New loans amounting to 549.5 million lei were provided to finance the budget deficit with the view to external debt servicing based on Law no. 325-XV of 2 July 2001 on Modification of Art. 51 of the Law on the Budget for 2001;
- Repayment of loans extended in 2001 amounted to 318.3 million lei;
- Taking into account the required collateral for extended loans in the form of negotiable state securities at market interest rate and with the view to achieving uniform revenues during the year, the NBM renewed loans provided to the Ministry of Finance during 2001 in a total value of 8683.0 million lei.



In summary, the balance of loans to the Government amounted as of December 31, 2001 to 1507.1 million lei.

At the same time, the value of SS recorded at market price within the NBM portfolio resulting from the conversion of loans concluded by the Government during previous years amounted as of 31.12.2001 to 400.0 million lei.

As a result, Government debt to NBM at the year-end totalled 1907.1 million lei, surpassing the value as of December 31, 2000 by 231.2 million lei (table 23). The share of total Government debt as of 31.12.2001 constituted 95.4% of NBM total credit portfolio.

Table 23. Government debt to the NBM

Loan purpose	Balance on 31.12.00	Loans extended	Loans contracts renewed in 2001 (+;-)	Loans reimbursed	Loans converted into SS (+;-)	(mln. MDL)		
						Balance on 31.12.01	Weight (%)	Increase of state debt in 2001
Financing state budget deficit to provide external debt servicing	0	549.5	558.8	318.3		231.2	15.3	231.2
Covering temporary cash discrepancy of state budget in 1998-1999	144.0	0	864.2	0	0	144	9.6	0
External debt servicing in 1998-1999	657.6	0	4073.5	0	0	657.6	43.6	0
To redeem SS in 1998	369.1	0	2175.2	0	-39.3	329.8	21.9	-39.3
Financing state budget deficit during 1996-1997	144.5	0	1011.3	0	0	144.5	9.6	0
<b>Total credits</b>	1315.2	549.5	8683.0	318.3	-39.3	1507.1	100.0	191.9
SS in the portfolio of the NBM	360.7				39.30	400.0		39.3
<b>Overall Government debt to the NBM</b>	1675.9	549.5	8683.0	318.3	0	1907.1	100.0	231.2

## Financial Markets

### State Securities Primary Market

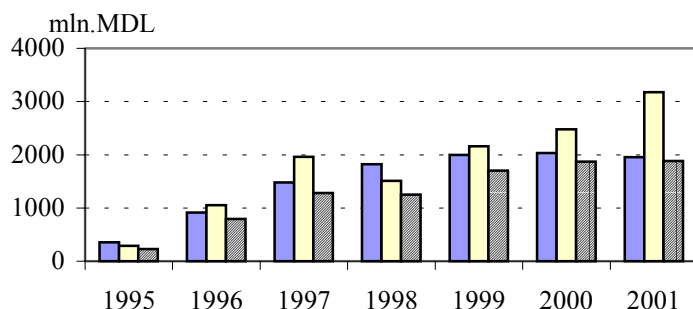
Acting as fiscal agent of the state in performing selling, recording and redemption of state securities, in 2001 the National Bank of Moldova held 228 issues of state securities aimed at financing the Budget deficit.

There were no major fluctuations or tensions in the state securities market in 2001.

The overall size of the state securities primary market recorded in 2001 general growth trends. Offers of the Ministry of Finance were the only exception: these decreased by 79.5 million lei and amounted to 1956.5 million lei. The total value of auction applications totalled

3173.8 million lei and reached the highest level during the 7-year development of the SS market (chart 34).

Chart 34. Offer, demand and sales of SS



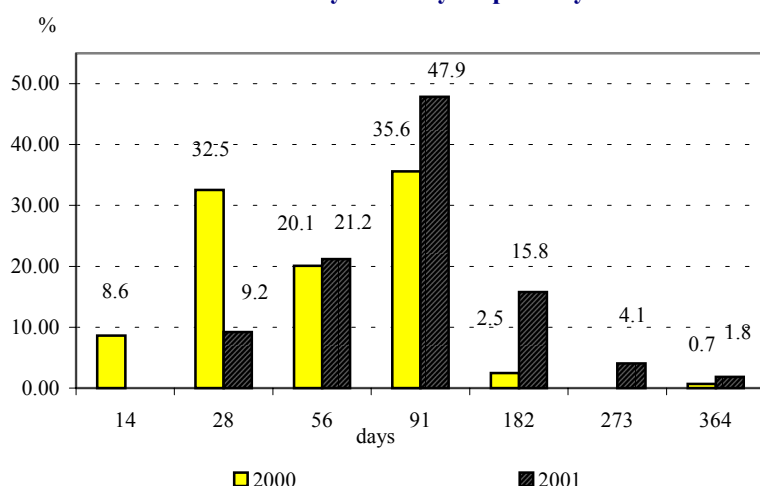
The almost constant excess of demand over offered securities facilitated the placement of 96.2% of proposed offers (as compared to 91.8% in 2000).

The value of placed securities also registered the highest level during the last seven years – 1881.7 million lei, exceeding by 12.0 million lei the issuance figures for 2000.

Based on the larger demand for SS, the issuance policy of the Ministry of Finance reflected the capacity and willingness for market to take up longer maturity. As a result:

- The issuance of 14-day CMB was ceased;
- 1-month T-bills were issued irregularly; starting from September these securities were completely excluded from offer and determined the reduction of their share in total issued value from 32.5% in 2000 to 9.2% in 2001;
- 182-day T-Bills recorded a 6-fold increase as compared to the previous year and reached 15.8% of the total issued value in 2001;
- 273-day and 364-day T-Bills started to be re-issued; their shares in total issued value constituted 4.1% and 1.8% respectively (chart 35).

Chart 35. SS structure by maturity on primary market



These structural modifications generated the increase by 42 days of the average weighted term of SS; in 2001 this term was 102 days.

The excess liquidity in the money market, especially in the second half of the year, generated the substantial reduction of interest rates on state securities. Public authorities benefited in 2001 from these more favorable qualitative parameters with regard to required funds mobilized by the Ministry of Finance: the average

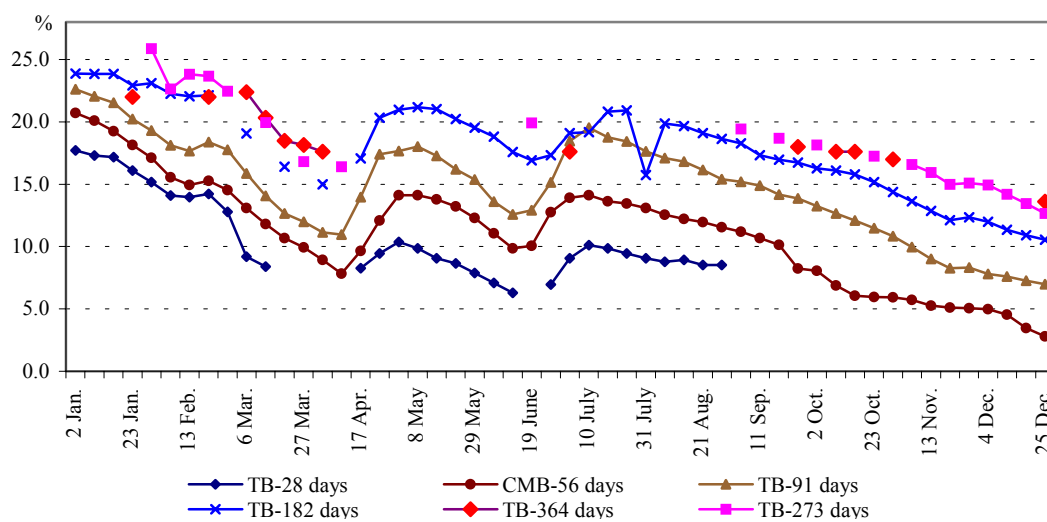
monthly interest rate on state securities reduced by around 11.16 p.p. – from 20.0% in January to 8.84% in December.

As compared to the previous year, the annual average nominal yield reduced by 7.68 p.p. and reached the lowest level during the SS market development – 14.46%.

Real interest rates on state securities recorded in 2001 constant positive values; but during the majority of months these rates were inferior to those of 2000.

The analysis of average yields on SS according to terms of issue indicates the following: the interest rate on 56-day CMB reduced the most – by 17.90 p.p. (from 20.71% at the first auction in 2001 to 2.81% at the last auction); the interest rate on 91-day T-Bills reduced by 15.64 p.p. (from 22.62% to 6.98%). The interest rate on 182-day, 273-day and 364-day T-Bills decreased during the year by 13.32p.p., 13.23 p.p. and 8.40 p.p. respectively (chart 36).

Chart 36. Weighted average interest rates on SS in 2001



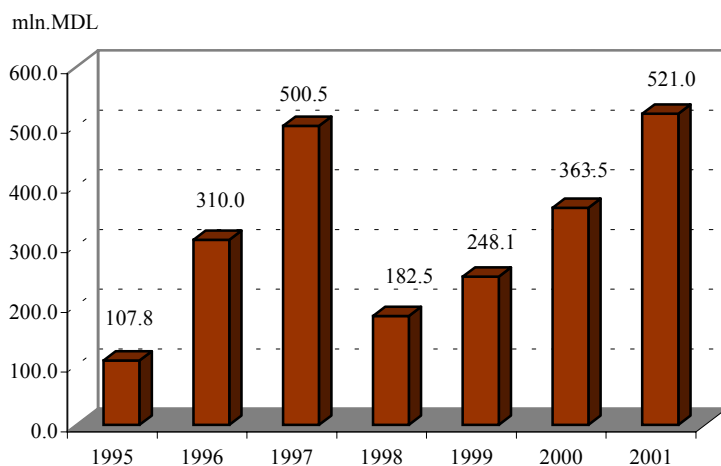
constituted 1.91 p.p., by end year it was 4.17 p.p.; the difference between 91-day and 182-day T-Bills constituted 1.26 p.p. at the beginning of the year and 3.58 p.p. at the year end.

As in 2000, SS acquired for commercial banks' own portfolio held the largest weight within SS at auction – 91.8% or 1727.7 million lei (in 2000 this index constituted 91.0% or 1,701.3 million lei). Other

investors in the state securities market played only a minor role in 2001, preferring the deposit market with its higher interest returns.

There was no observed presence of foreign investors in the state securities market in 2001: elections tensions; tough negotiations with the International Monetary Fund; inconsistencies and unsteadiness in regulation and implementation of economic reforms, made international rating agencies downgrade the country's risk rating

Chart 37. SS in circulation (placed at auctions, at par, end of the year)



and ultimately deprived Moldova's economy of financial markets credibility.

Following the excess of issues over redemption, the volume of state securities in circulation issued through auctions increased by 157.5 million lei or by 43.3% as compared to the value as of 31.12.2000 and amounted to 521.0 million lei in nominal terms as of 31.12.2001 (chart 37).

Net receipts from SS issues increased by 147.1 million lei and conformed to budget deficit financing estimates for this source (147.7 million lei) as stipulated in the Law on the Budget for 2001.

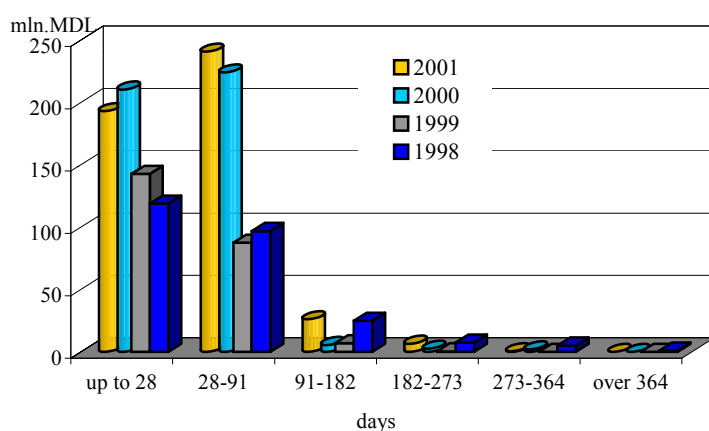
### State Securities Secondary Market

The secondary market of state securities expanded in 2001.

The total value of selling-buying transactions amounted to 467.4 million lei, surpassing by 20.0 million lei or by 4.5% the value in 2000.

Transactions with banks' clients totalled 87.7 million lei and constituted 18.8% of total selling-buying transactions undertaken in the state securities secondary market.

Chart 38. SS purchase and sale transactions by maturity



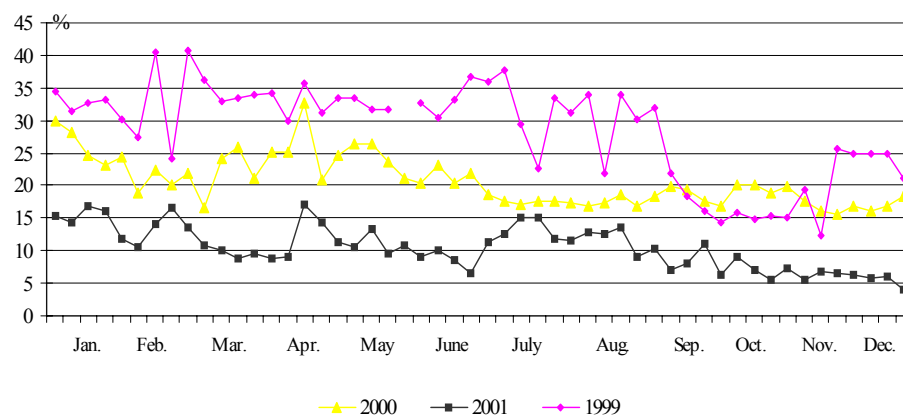
As in 2000, market participants preferred SS with the term of 28 to 91 days and of up to 28 days; within the structure of SS sold in the secondary market during the reported year these SS constituted 51.5% and 41.3% respectively (chart 38). The larger value of SS selling-buying transactions occurred simultaneously with the larger use of these securities as collateral for REPO operations to obtain loans in the interbank monetary market. Thus,

operations with state securities performed in 2001 through REPO agreements increased by 32.5% as compared to the previous year and totalled 329.9 million lei. This allowed adjustments in short-term liquidity between different categories of market participants: banks and their clients.

The average nominal weighted yield on the SS secondary market in 2001 showed similar decreasing trends to those observed in 2000. In January 2001 the average nominal weighted yield constituted 15.81%; at the year-end it was 5.55%.

In the first half of the year interest rates fluctuated within larger ranges; from July the average nominal weighted yield started to consecutively record a declining trend (chart 39).

Chart 39. Average nominal interest rates on SS on secondary market



## Trends in the Foreign Exchange Market

### Exchange Rate Trends in 2001

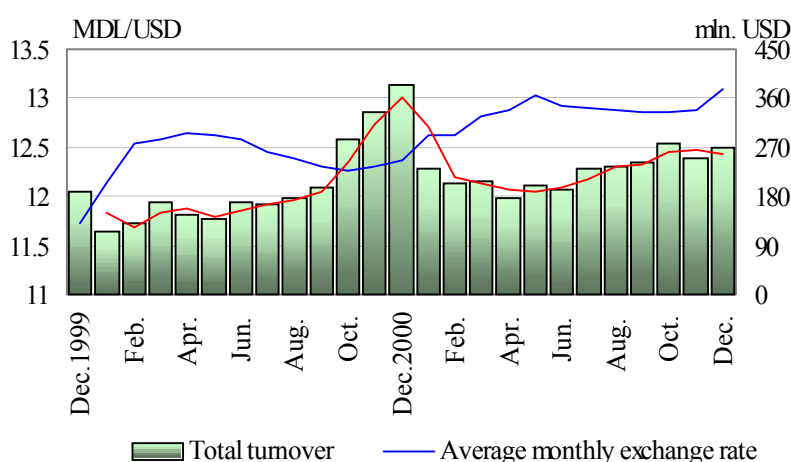
The stable exchange rate of the national currency against a background of a larger turnover of domestic foreign exchange market constituted the main features of foreign exchange market developments in 2001. The National Bank of Moldova has therefore reached its main target – the maintenance of stability of the national currency.

This was achieved due to both the appropriate exchange rate regime and the implementation of a monetary and foreign exchange policy adequate to the national market environment.

The foreign exchange market trends of the Republic of Moldova were not affected by the economic recession in the USA, Japan, the slower rate of GDP growth in the Euro land and the tragic events of September 11, 2001. This was due to the fact that the main CIS trading partners of Moldova, being less exposed to the immediate impact of the global economic downturn, showed signs of recovery compared to 2000.

MDL nominal depreciation during the reported year constituted 5.7% (direct quotation<sup>1</sup>) or 5.4% (indirect quotation<sup>2</sup>) as compared to 6.8% (direct quotation) and 6.4% (indirect quotation) in 2000.

**Chart 40. Exchange rate developments and foreign exchange market turnover in 2000-2001**



The developments of the exchange rate as well as the turnover in the domestic foreign exchange market in 2001 followed the seasonal trends similar to those observed in 2000 (chart 40). In a freely floating exchange rate regime, the supply and demand in the foreign exchange market, that in its turn has a seasonal character, determined the exchange rate developments. Depreciation of MDL against USD at the beginning of the year was

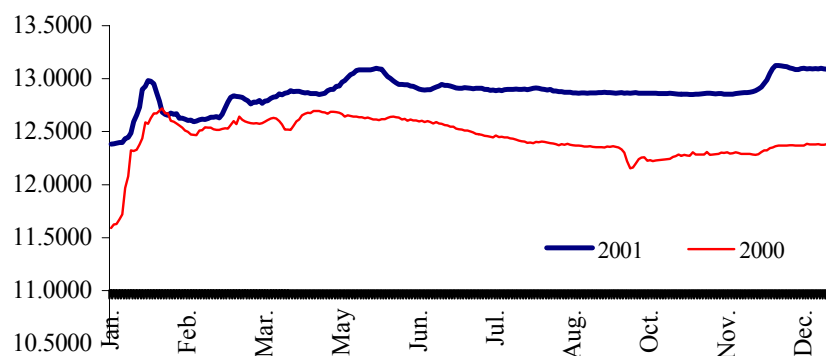
followed by a stable period with insignificant fluctuations of the nominal exchange rate and appreciation trend of the national currency

<sup>1</sup> MDL per 1 USD  
<sup>2</sup> USD per 1 MDL

(chart 41). The highest depreciation of 4.8% (in 2000 – 9.7%) noted in the 1st quarter was due to a larger demand for foreign exchange, which is a seasonal factor specific to the beginning of the year

explained by the significant payments for energy resources.

Chart 41. Exchange rate developments in 2000-2001.

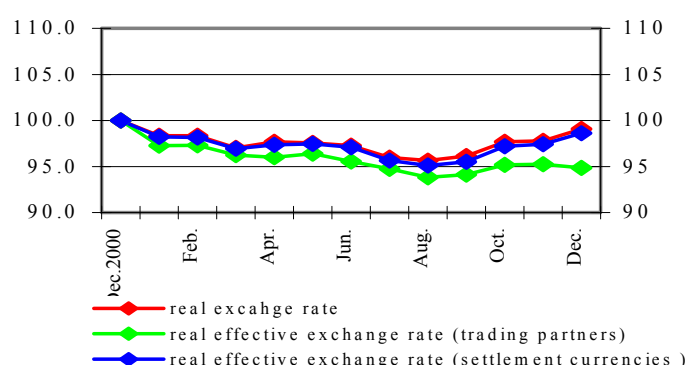
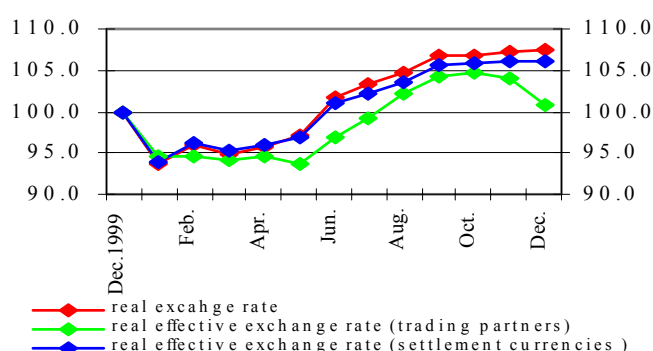


In the 2nd and 3rd quarters the exchange rate fluctuated insignificantly in nominal terms, registering a slight appreciating trend. From May to September 2001 the MDL exchange rate followed a consistently appreciating trend of 0.53%: from 12.9305 MDL

per 1 USD to 12.8623 MDL per 1 USD. This appreciation was due to the stable macroeconomic indicators (deflation during the period from June to August, 3.8% GDP growth during the first nine months of 2001, increase of exports by around 20.0% compared to the first nine months of 2000) and the larger supply of foreign currencies on the foreign exchange market as a result of a larger foreign exchange inflow from residents working abroad. In the 4th quarter the exchange rate depreciated by 1.8%.

The real effective exchange rate in 2001 (a comprehensive indicator showing the change of MDL exchange rate in real terms against the currencies of the main trading partners) accounted for 94.8%, showing a higher competitiveness of local products and thus promotion of Moldova's exports (chart 42).

Chart 42. Real and real effective exchange rates based on trading partners and settlement currencies weights in 2000-2001



According to banking statistics, payments related to the export of goods and services recorded an upward trend (in 1999 – USD 438.5 million, in 2000 – USD 574.4 million and in 2001 – USD 682.4 million).



However, considering that almost 80.0% of settlements related to import / export transactions are executed in USD, the real effective exchange rate calculated based on the weights of the main settlement currencies within foreign trade transactions gives the most objective picture of exchange rate developments. At the end of 2000 this indicator was 98.6%, showing a depreciation by 1.4% as compared to the 5.7% appreciation in 2000.

The net positive inflow of foreign exchange from non-residents had the main impact upon the stability of the national currency.

Foreign exchange inflow in 2001 amounted to USD 980.1 million coming from the following sources: export of goods and services – 69.6%, workers' remittances from abroad – 17.3%, foreign loans – 12.3%, direct and portfolio investments – 0.8%.

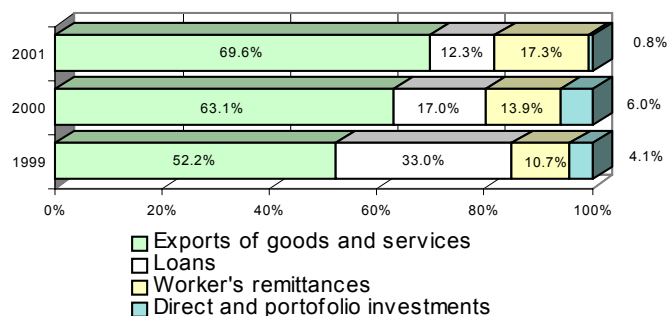
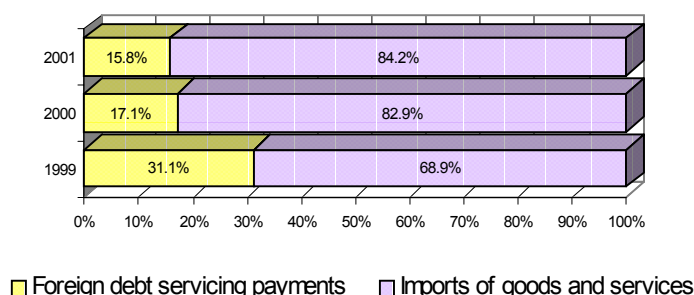
Foreign exchange outflow amounted to USD 1016.8 million resulting from: payments related to imports of goods and services – 84.2%, and external debt servicing payments – 15.8%.

Foreign exchange inflows rose by USD 42.7 million as compared to 2000; foreign exchange outflows increased by USD 153.8 million as a result of larger payments for imports of goods and services (by 19.6%) and external debt servicing payments (by 9.0%).

The net negative inflow recorded during the reported year amounting to USD 36.7 million was inevitable under conditions of an insignificant external financing by the international financial organizations and external debt servicing payments amounting to USD 162.9 million.

It should be noted that while excluding the net inflow in the public sector, that mainly affects the state foreign international reserves, the net positive foreign exchange inflow in the private sector allowed to finance the trade balance deficit and exceeded the outflows by USD 37.9 million in 2001.

*Chart 43. Structure of foreign exchange outflows and inflows in 1999-2001*



Within the structure of foreign exchange inflows from 1999 to 2001, the share of workers' remittances from abroad and of export earnings has increased, while privatization proceeds have decreased, since the majority of entities under the Privatisation Program for 1997 – 1998 (Official Monitor of the Republic of Moldova nos. 86 – 88 of 27 July 2001) were insolvent, under liquidation or litigation, or failed to be included in the Register of Tangible Assets.

Within the structure of foreign exchange outflows the share of external debt servicing payments decreased as a result of the significant increase of payments for imports of goods and services determined by the imports recovery following the 1998 regional crisis (chart 43).

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

The foreign exchange market developments in 2001 generally followed the same patterns as those of the previous year; while the volume of transactions increased by 12.8%.

The total turnover of operations performed in the domestic foreign exchange market (sales/purchases against MDL) in 2001 amounted to USD 2,744 million: sales totaled USD 1,412.6 million, purchases – USD 1,331.4 million.

**Table 24. Total turnover of foreign exchange market transactions against MDL (mln. USD)**

	1999	2000	2001	Share %	Percentage changes
<b>NON-CASH FOREIGN EXCHANGE MARKET</b>	1,202.8	1858.7	2081.3	75.8	12.0
<b>CASH FOREIGN EXCHANGE MARKET</b>	404.5	573.1	662.7	24.2	15.6
<b>TOTAL TURNOVER OF DOMESTIC FOREIGN EXCHANGE MARKET</b>	1,607.3	2431.8	2744.0	100.0	12.8

The turnover of non-cash and cash transactions in the foreign exchange market during the reported year increased by 12.0% and 15.6% respectively. The increase of the share of the cash market from 23.6% in 2000 to 24.2% in

2001 was determined by the significant role of this market for the shadow economy (table 24).

The turnover of foreign exchange purchases/sales against MDL recorded a gradual increase and reached the peak of USD 291.9 million in October 2001.

Legal entities' payments in hard currencies, soft currencies and MDL for imported goods and services via commercial banks of the Republic of Moldova amounted to USD 855.8 million and constituted 65.5% of total purchases in the foreign exchange market.

These payments increased by 19.6% as compared to the previous year; while foreign exchange sales against MDL rose by 14.4%.

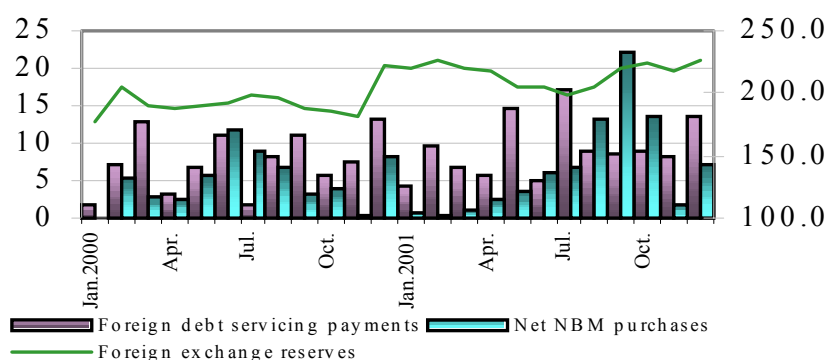
Export proceeds received by legal entities via authorized banks in 2001 increased by 18.8% and totaled USD 682.4 million, accounting for 48.3% of total purchases in the foreign exchange market.

Export proceeds in hard currencies, totaling USD 491.4 million, accounted for the largest share within the currency structure of export proceeds – 72.0%, decreasing by 1 % as compared to 2000. Export proceeds in soft currencies amounted to USD 190.1 million (or 27.85%) and those in MDL amounted to 14.4 million MDL (equivalent to USD 0.9 million or 0.15%).

Following the NBM purchases of the excess foreign exchange in the amount of USD 78.5 million, international reserves increased despite external debt servicing payments in the amount of USD 118.7.

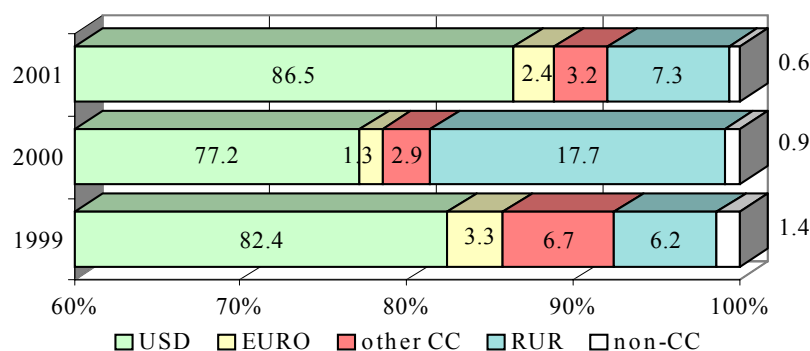
In 2001 the level of international reserves was higher than that

**Chart 44. International reserves, NBM's interventions in the foreign exchange markets and foreign debt servicing payments (mln. USD)**



recorded in the previous year. The excess supply of foreign exchange allowed to increase the international reserves by USD 5.2 million from USD 222.1 million at the end of 2000 to USD 227.3 million at the end of 2001 (calculated according to the IMF methodology) and covered 2.5 months of imports (chart 44).

**Chart 45. Breakdown of foreign exchange transactions in 1999-2001 by currencies**



As in the previous period, the liquidity ratio in 2001 exceeded the 100% threshold, showing that the international reserves available in the banking system ensured full coverage of external debt (state and private) servicing payments scheduled for the relevant period. The higher liquidity ratio was due to the increase of the external assets and decrease of the projected external debt servicing payments.

The breakdown by currencies of the total turnover of the foreign exchange transactions in the interbank domestic market in 2001 showed that the majority of transactions were conducted in hard currencies. In the total turnover

hard currencies accounted for 92.1%, Russian Roubles – 7.3% and other soft currencies – 0.6%.

The USD continues to be a monopolist in the foreign exchange market of the Republic of Moldova and accounts for 86.5% of the total turnover (chart 45). The Euro share rose from 4.1% to 5.3%.

Legal entities, individuals, banks from Moldova and foreign exchange offices were the main sources of foreign exchange inflow in the foreign exchange domestic market

**Table 25. Purchases in the foreign exchange market against MDL (mln. USD)**

	1999	2000	2001	Share %	Percentage changes
Purchases of foreign exchange against MDL from:	695.8	1136.4	1,243.7	100.0	9.4
N.B.M.	9.8	6.8	0.0	0.0	-100.0
Moldovan banks	77.9	179.4	239.3	19.2	33.4
Foreign banks	15.8	145.6	18.0	1.4	-87.6
Legal entities	401.8	487.9	568.4	45.7	16.5
Foreign exchange offices	24.0	33.1	34.4	2.8	3.9
Individuals	103.7	231.3	308.2	24.8	33.2
Others	62.8	52.4	75.4	6.1	43.9

(45.7%, 24.8%, 19.2% and 2.8% respectively) (table 25).

Foreign exchange purchases in 2001 increased by USD 107.3 million compared to 2000. Foreign exchange sales by legal entities and individuals increased by USD 80.5 million and USD 76.9 million respectively compared to 2000. Legal entities proved to be the most active participants of the foreign exchange market amongst residents.

The commercial banks sold foreign exchange to the following market participants: to legal entities – 52.5%, to banks from Moldova –

**Table 26. Sales in the foreign exchange market against MDL (mln. USD)**

	1999	2000	2001	Share %	Percentage changes
Sales of foreign exchange against MDL to :	682.8	1105.4	1216.8	100.0	10.1
N.B.M.	71.2	66.6	78.5	6.5	17.8
Moldovan banks	94.2	207.8	281.4	23.1	35.4
Foreign banks	17.2	143.3	23.3	1.9	-83.7
Legal entities	372.4	506.3	638.5	52.5	26.1
Foreign exchange offices	19.8	16.1	13.5	1.1	-16.4
Individuals	73.9	120.0	113.5	9.3	-5.4
Others	34.1	45.3	68.1	5.6	50.5

banks decreased significantly – by around 11.0%; the share of individuals declined by 1.6 %p.p.

The foreign exchange surplus acquired by commercial banks from other participants in the foreign exchange market (generated mainly by the individuals (87.0%)) amounting to USD 222.9 million was partially sold to the NBM, to legal entities and other commercial banks (USD 196.0 million). The net positive balance of foreign exchange operations conducted by commercial banks against MDL amounting to USD 26.9 million represented foreign exchange surplus resulting from the foreign exchange inflows from non-residents.

Net foreign exchange purchases by commercial banks from individuals increased in 2001 by 75.0% as compared to 2000 and by

6.5 times as compared to 1999 due to significant inflows from residents working abroad.

### **International Co-operation of the Republic of Moldova**

Ongoing cooperation of the National Bank of Moldova with the international financial institutions (International Monetary Fund, World Bank, European Bank for Reconstruction and Development, European Union, World Trade Organization) denoted further positive trends in 2001 and has been mainly directed towards the improvement of the legislative framework and the implementation of a tight monetary policy.

#### *International Monetary Fund (IMF)*

The financial support provided by the International Monetary Fund to the Republic of Moldova amounted as of 31.12.2001 to SDR 260.83 million (USD 378.63 million). The new 3-year Poverty Reduction and Growth Facility (PRGF) program worked out in cooperation with the World Bank and approved on December 21, 2000 by the IMF Board of Directors totals SDR 110.88 million (USD 142.0 million). The Republic of Moldova received in 2001 the second tranche of this Facility in the amount of SDR 9.24 million (USD 11.88 million). The first tranche was disbursed in December 2000.

In February 1998 the Republic of Moldova joined the General Data Dissemination System. Currently the National Bank of Moldova in collaboration with the Ministry of Finance and the Statistics Department works out the description of the methodology to calculate the indicators covered by this system.

#### *World Bank*

The International Bank for Reconstruction and Development (IBRD) extended financial support to the Republic of Moldova in a total amount of USD 224.1 million within 10 projects. Concessional loans extended by the International Development Association totaled USD 120.8 million.

Financial loans concluded between the private sector (banking and non-banking) and the International Financial Corporation (IFC) amounted to USD 72.18 million; actual disbursements totaled USD 45.469 million.

Disbursements to the banking sector amounted to USD 4.75 million; and to the non-banking sector – to USD 40.72 million.

The most significant IFC credits include:

a loan totaling USD 25 million was extended to the 3 Power Distribution Companies (privatized by Union Fenosa International, Spain) to restructure the energy sector during the post-privatization period;

a loan totaling DEM 8.4 million was extended to INCON JSC to restructure, post-privatize and enlarge three plants of fruits and vegetables processing.

a loan totaling USD 40 million was extended to Voxtel JV to finance the mobile phone project.

### *European Bank for Reconstruction and Development*

As of on 31.12.2001, the EBRD has signed 23 investment projects in agriculture, energy sector, public services and banking sector with a total amount of Euro 203.6 million (cumulative). Disbursements within these projects amounted to Euro 135.4 million. The net portfolio of EBRD loans, including technical assistance, totaled Euro 143.4 million: publicly guaranteed loans constituted 72.0%, non-guaranteed credits accounted for 28.0%. Loans to the public sector represented 44.0%, loans to the private sector – 56.0%. The structure of the loan portfolio by economic sectors is as follows: 13.0% - financial institutions; 74.0% - infrastructure; 13.0% - industry and trade.

Out of the 18 active projects: 4 projects (10.0%) represent equity investments; 7 projects (65.0%) as - financial loans; 4 projects (22.0%) - combined equity investments and loans (loans convertible in shares); 3 projects (3%) - guarantees.

EBRD projects for private sector financing proved to be the most successful, amounting to Euro 40.0 million. Projects implemented via local commercial banks proved to be a very efficient and viable instrument to support the private sector development. EBRD shall follow its lending activity via credit lines with local banks and Trade Facility Programs.

### *European Union*

The Partnership and Co-operation Agreement signed between the Republic of Moldova and the European Union stipulates collaboration in the financial and banking sectors and has as target the integration of the Republic of Moldova within the internationally accepted mutual settlement systems.

The co-operation of the National Bank of Moldova with the Central European Bank in 2001 was aimed at providing the latest information



to commercial banks with regard to the introduction of Euro and the smooth issue into circulation of Euro.

### *World Trade Organization*

After the state's active participation during several years in elaborating the List of Specific Commitments in the banking system and other financial services (excluding insurance services) and the conclusion of negotiations with WTO member states and Secretariat, the Republic of Moldova has ratified the Protocol on Adherence to the Marrakesh Agreement on Establishment of the World Trade Organisations signed in Geneva on 8 may 2001

### *Co-operation with Central Banks of Other States*

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



## **Banking Supervision and Regulation**

As of 31 December 2001 there were 19 commercial banks, including 3 branches of foreign banks operating on the territory of the Republic of Moldova and registered in the Register of the National Bank of Moldova. The total number of commercial banks' institutions in the republic amounted to 720, including 147 branches, 193 representative offices and 380 agencies.

In July 2001, based on Art. 10 of the Law on Financial Institutions (Official Monitor of the Republic of Moldova no.1/2 of 01.01.1996), the National Bank withdrew the licence to perform financial activities from JSCB Bankcoop-BGCP, Chisinau branch.

The number of employees of commercial banks from the Republic of Moldova as of 31.12.2001 totalled 6173 persons, by 579 persons more as against of 31.12.2000.

### **New Prudential Regulations**

With the view to improving the security of commercial banking performance and to enhancing banking capacity to satisfy economic agents' demand for banking services, the National Bank of Moldova followed its policy targeted to consolidate the banking sector in 2001.

The National Bank undertook a number of measures aimed to further improve the supervision mechanism by revising prudential regulations and internal procedures, taking into account international best practices.

During the previous year the National Bank issued new prudential regulations on capital structure on the basis of Basel Principles for efficient banking supervision. Set requirements shall become applicable on September 30 2002. Thus, tier I capital shall have deducted net non-material assets determined in conformity with National Accounting Standards; tier II capital shall not include reserves for fixed assets revaluation and shall add subordinate debts. At the same time, minimal required capital deemed for banking activity shall, starting from 30.09.2002, be set against basic capital (tier I capital).

The National Bank introduced also certain modifications to existing normative acts implemented with regard to the activity of commercial banks. The provision to extend credits to affiliated persons was modified as to determine cases when the council of the bank may

delegate its powers to accept agreements, on a preliminary basis, with bank's affiliated persons to the bank's executive body.

The requirement on large loan provision was modified as follows: the net debt on loans provided by a bank to a person or to a group of persons acting in common was reduced from 30.0% of total regulated capital to 25.0%. Further, net debts loans provided to ten persons, including to groups of persons acting in common, which constitute the first net debts on loans as according to value minus credit loss provisions (risk fund) for these credits, should not exceed 50.0% of total credit portfolio.

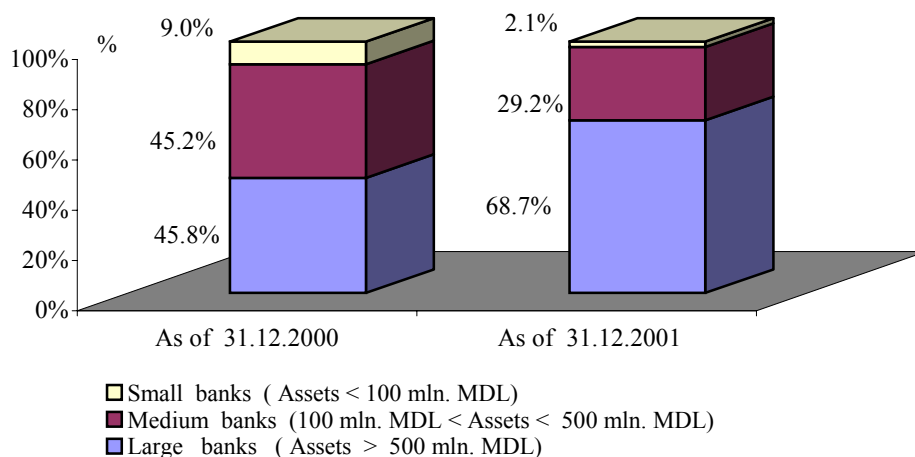
Taking into account state registration of enterprises and organisations, including of banks as provided in Law no.1265-XIV on State Registration of Enterprises and Organisations, the National Bank of Moldova modified the mechanism for banking authorisation of banks.

With the view to consolidating off-site and on-site banking supervision, the NBM further improved methods to analyse the financial situation of the banks and internal procedures related to on-site controls by introducing new stipulations within the field of informational technologies, forex operations and money laundering prevention.

### Assets of Commercial Banks

There were registered qualitative and quantitative improvements of banking sector indicators in 2001. Commercial banks managed to attract and to re-invest considerable financial resources. Total assets of the banking system increased by 1,317.8 million lei (28.2%) and amounted as of 31.12.2001 to 5,985.4 million lei following an increase by 1,090.6 million lei (33.7%) of banking liabilities and by 227.2 million lei (15.9%) of share capital.

**Chart 46. Dynamics of banking sector assets distribution in 2000-2001 as of year-end (by type of banks)**



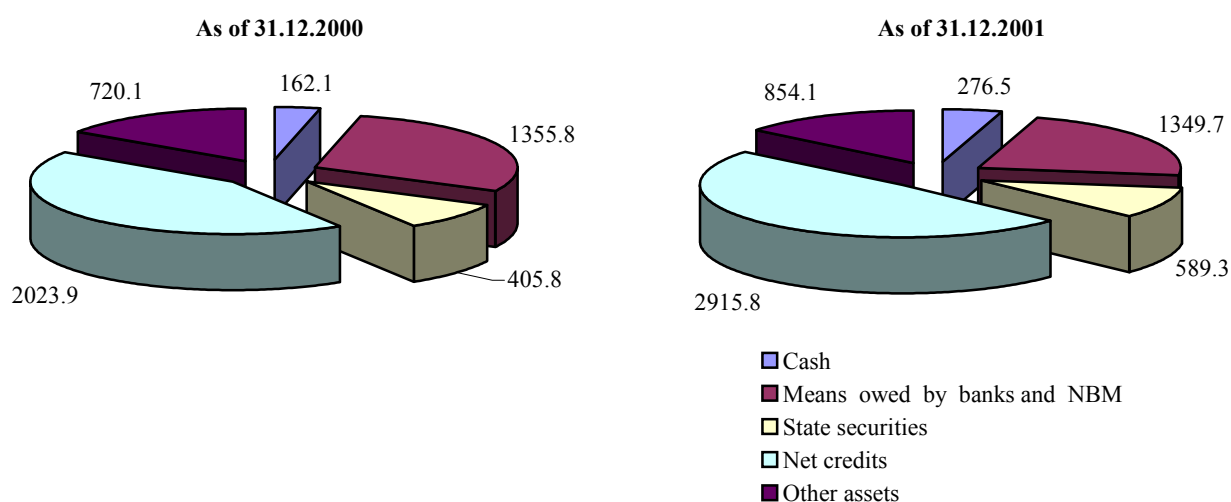
As of 31.12.2000 there were 3 large banks, 10 medium banks and 7 small banks operating in the republic. During 2001 the number of large banks increased, while the number of small banks reduced. The situation as of 31.12.2001 was as follows: 5 large banks and 4 small banks.

The share of assets held by large banks in total banking

assets rose by 22.9 p.p. following the reduced share of assets held by medium and small banks by 16.0 p.p. and 6.9 p.p. respectively (chart 46).

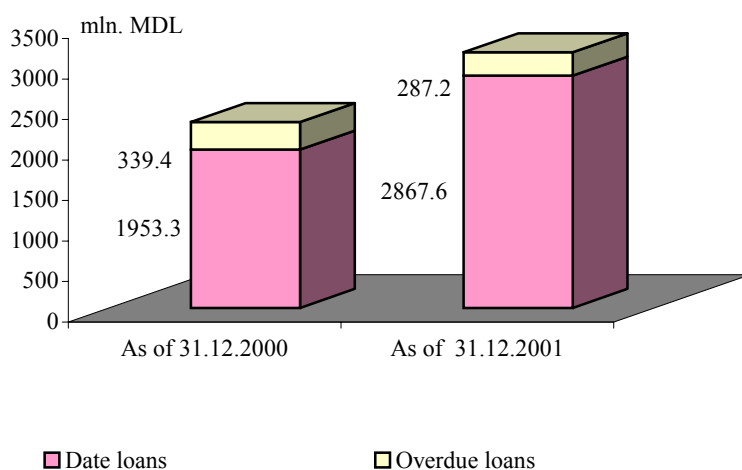
Within the structure of banking assets during 2001, increases were noted in all asset items: cash rose by 114.4 million lei (70.6%); securities - by 183.5 million lei (45.2%); loans and net financial leasing – by 891.9 million lei (44.1%); other assets – by 134.0 million lei (18.6%). At the same time, liabilities of banks and NBM reduced by 6.1 million lei (0.4%) following the decrease of overnight funds (by 55.7 million lei or by 29.3%) and of means owed by banks (69.3 million lei or by 9.0%) (chart 47).

Chart 47. Dynamics of banking sector assets structure in 2000-2001 as of year-end (mln. MDL)



Within the structure of banking assets the weight of net loans significantly increased by 5.3 p.p. and accounted as of 31.12.2001 for the largest share (48.7%) of total assets. Cash constituted 4.6% of total assets, means owed by banks and NBM – 22.6%, securities – 9.8% and other assets – 14.3%.

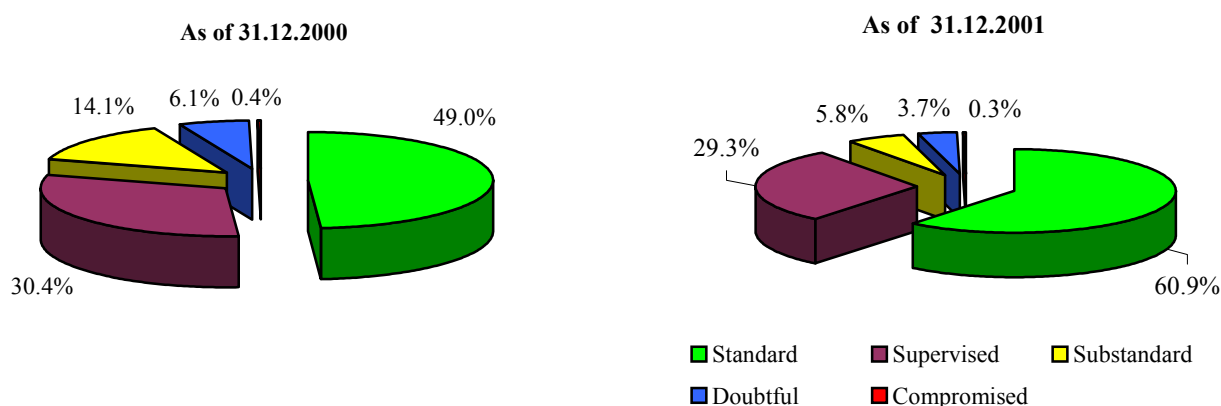
Chart 48. Dynamics of credit portfolio structure in 2000-2001 as of year-end, according to credits reimbursement solvency



Total loans accounted as of 31.12.2001 for 3,154.8 million lei, exceeding by 862.1 million lei or by 37.6% the value as of 31.12.2000. The value of overdue credits, including non-interest bearing loans, reduced by 52.2 million lei or by 15.4% as compared to the beginning of the year and amounted as of 31.12.2001 to 287.2 million lei or 9.1% of total loan portfolio (chart 48).

The structure of the commercial banks loan portfolio exhibited some qualitative improvements during the year. The share of supervised loans reduced by 1.1 p.p., of sub-standards loans – by 8.3 p.p., of doubtful loans – by 2.4 p.p. and of compromised loans – by 0.1 p.p. The share of standard loans simultaneously increased by 11.9 p.p. (chart 49). The decrease by 4.1 p.p. as compared to 31.12.2000 of the share of credit loss provisions in total loans (7.6% as of 31.12.2001) pointed to a better loan portfolio.

**Chart 49. Dynamics of banking sector credit and financial leasing portfolio structure, classified in terms of level of investment risk, in 2000-2001 as of year-end (%)**



The total value of compromised loans written off during 2001 from credit loss provisions amounted to 81.4 million lei; write backs of previously written off loans totalled 24.4 million lei or 30.0% of the total written off.

The ratio of banking investments in fixed assets and other long-term material assets to total regulatory capital amounted to 35.2% (the maximum limit being 50%); investments in long-term material assets and equity interest in capital of economic entities reported to total regulatory capital accounted for 39.3% (the maximum limit set as of up to 100%).

The weight of net foreign currency assets constituted 39.1% of total assets and exceeded by 6 p.p. the share of net liabilities in foreign currency. The proportion of net assets in foreign currency reduced by 2.8 p.p. as compared to the beginning of the year. In the structure of net foreign assets, loans denominated in foreign currency held the largest share of 55.4%; means owed by banks represented 35.0%.

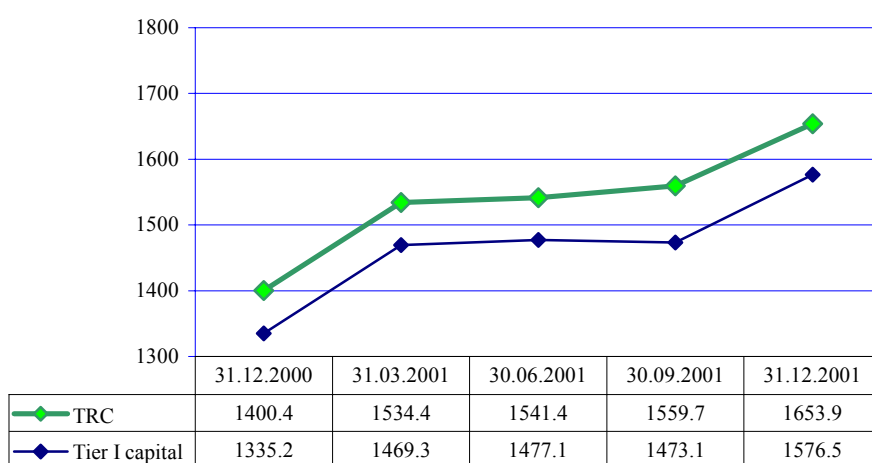
Credit conditional accounts (off-balance sheet commitments, or potential assets) amounted to 490.6 million lei or 8.2% of total assets. These mainly comprised documentary letters of credit – 87.0 million lei (17.7% of total credit conditional accounts), guarantees and issued

claims – 112.8 million lei (23.0%) and forward sales of foreign exchange – 194.1 million lei (39.6%).

### Total Regulatory Capital

The total regulatory capital (TRC) in 2001 significantly increased by 253.5 million lei or by 18.1% and amounted as of 31.12.2001 to 1,653.9 million lei. The larger total regulatory capital was due to the conformity of commercial banks to new NBM requirements on increased TRC and had a positive impact on commercial bank stability and solvency.

Chart 50. Dynamics of banking sector total regulatory capital in 2001 (mln. MDL)



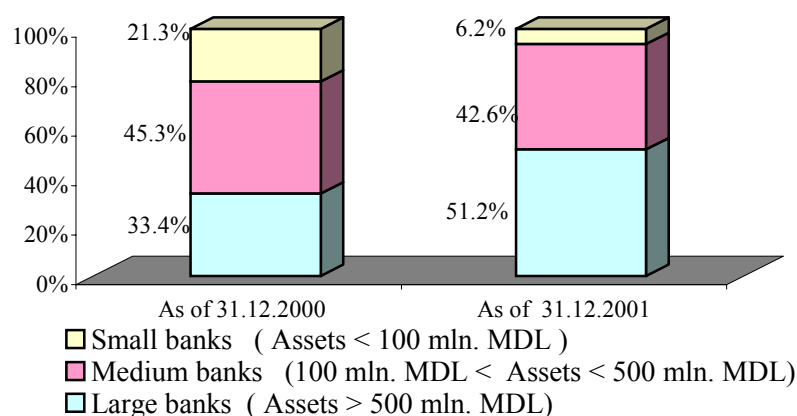
Total regulatory capital recorded increasing trend during the whole year; more significant rises were observed in the 1st and 4th quarters of 2001 (chart 50). The issue of shares by banks on the account of shareholders' additional contribution of 40.3 million lei and recorded net income in a total amount of 245.6 million lei represented the main reasons for

increased total regulatory capital.

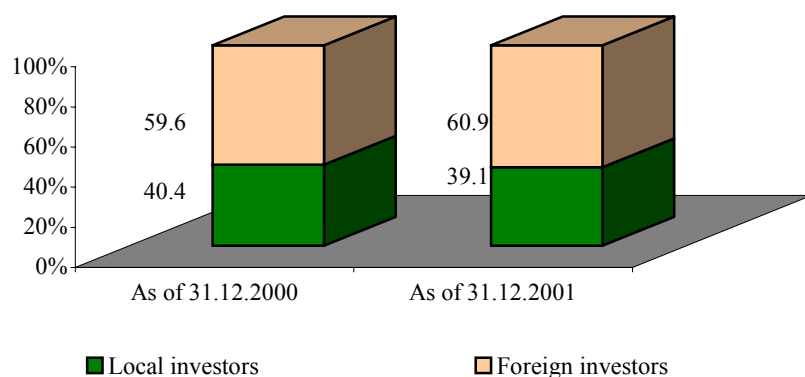
Average risk-weighted capital adequacy of the banking system (general total regulatory capital reported to total risk-weighted assets) accounted for 43.4% at year-end against a background of the minimal level of 12.0%. The high level capital adequacy was due to the large weight of share capital in total assets (27.6%) and the large component of low risk liquid assets. All these aggregates show a high coverage of assets with own capital and the existence of considerable reserves not used by banks and related to assets increase.

The total regulatory capital of large banks significantly increased during the reported year – by 379.6 million lei or by 81.2% and of medium banks - by 10.9%. At the same time, the total regulatory capital of small banks reduced by 195.6 million lei or by 65.7%. Following the decrease by 2.7 p.p. in the share of medium banks' total regulatory capital and by 15.1 p.p. in small banks' total regulatory capital, the share of large banks' total regulatory capital in total banking regulatory capital increased by 17.8 p.p. as compared to the beginning of 2001 and accounted for 51.2% of the total (chart 51).

**Chart 51. Dynamics of banking sector total regulatory capital distribution in 2000-2001 as of year-end (by type of banks)**



**Chart 52. Structure of banking sector capital in 2000-2001 as of year-end (by type of investments)**



The banking capital in the Republic of Moldova comprised both local and foreign investor sources. The share of foreign investments in total banking capital continued to increase (chart 52), by 1.3 p.p., and amounted to 1,007.2 million lei, or 60.9% of total capital, at the end of 2001.

Foreign investors participating in banking capital in the Republic of Moldova included: the European Bank for Reconstruction and Development; banks from Romania; corporate investors from the USA, Russia, Great Britain, Israel, Belgium, Greece, Switzerland, Liechtenstein, Luxembourg and other countries.

Out of the total number of banks and branches of foreign banks, 5 banks had 100% foreign capital, 13 banks had joint capital and 1 bank had 100% local capital.

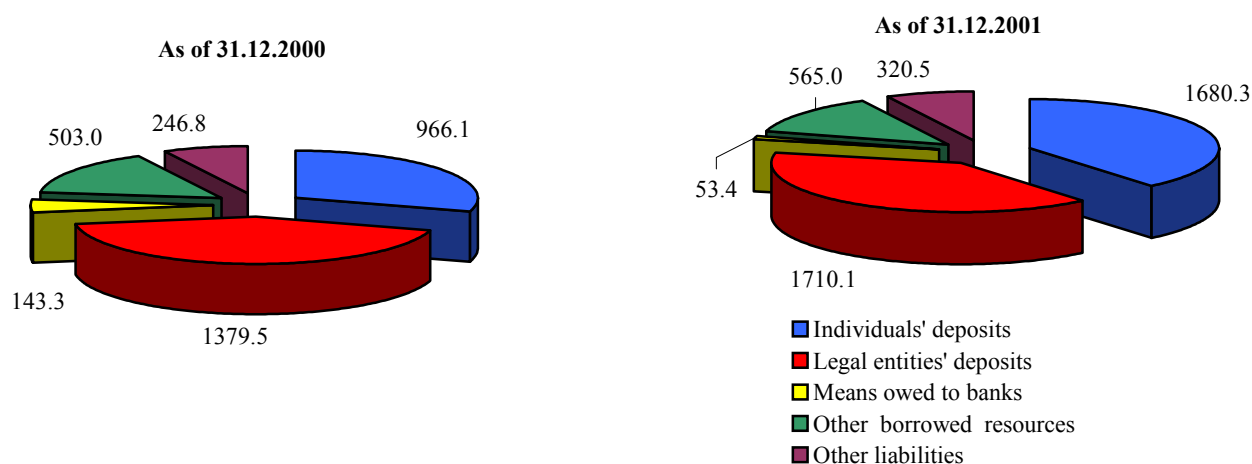
## Liabilities of Commercial Banks

Liabilities of commercial banks rose by 1,090.6 million lei or by 33.7% as compared with the beginning of the year and amounted as on 31.12.2001 to 4,329.3 million lei. Such increase was mainly due to the increase of total deposits (by 954.9 million lei or by 38.4%), showing a stable confidence in the banking sector.

The majority of registered banks recorded in 2001 increases in liabilities, except for means due to banks, which reduced by 89.9 million lei or by 62.7%. In summary, deposits by individuals increased by 714.2 million lei (73.9%), deposits by legal entities – by 330.7 million lei (24.0%), other loans – by 62.0 million lei (12.3%), and other liabilities – by 73.7 million lei (29.9%) (chart 53).

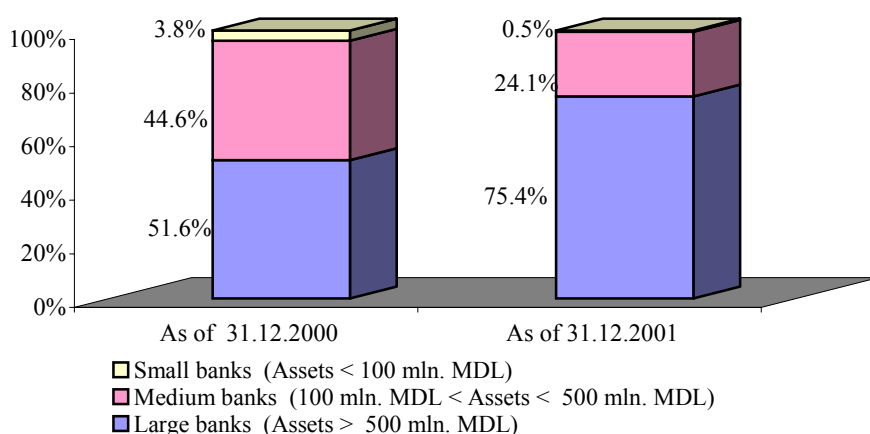


Chart 53. Dynamics of structure of banking sector liabilities in 2000-2001 as of year-end (mln. MDL)



Liabilities of large banks increased during the reported period by 1,594.1 million lei (95.5%). Liabilities of medium and small banks reduced, at the same time, by 403.6 million lei (27.9%) and 99.9 million lei (81.2%) respectively.

Chart 54. Dynamics of distribution of banking sector liabilities in 2000-2001 as of year-end (by type of banks)



The share of large banks' liabilities in total banking liabilities was 75.4% as of 31.12.2001 and recorded a 23.8 p.p.-increase as a result of lower weight of liabilities held by medium and small banks (by 20.5 p.p. and 3.3. p.p. respectively) (chart 54).

### Liquidity of Commercial Banks

Liquid assets showed a significant increase during 2001, denoting a lower emphasis of commercial banks on banking basic activities and reduced insolvency risk.

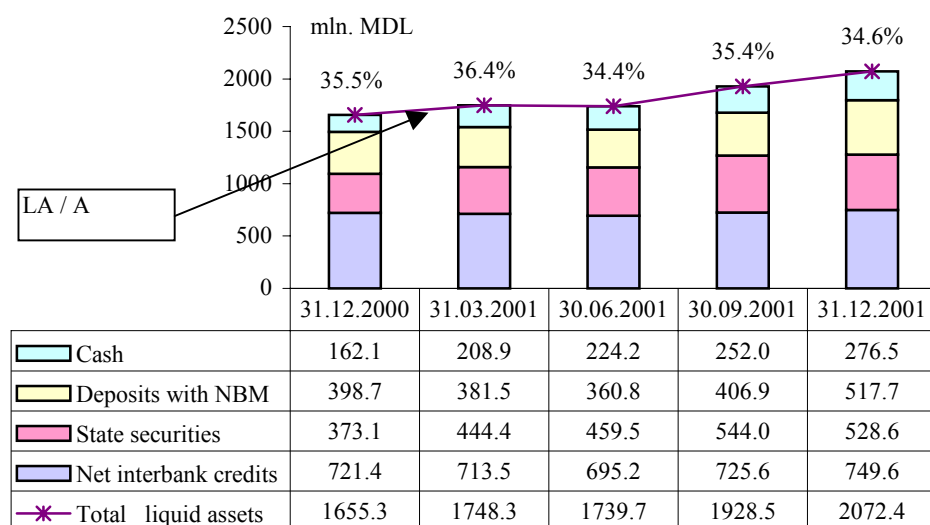
According to the 1st liquidity principle (assets with a term exceeding 2 years / financial resources with a term exceeding 2 years  $\leq 1$ ), long-term liquidity as of 31.12.2001 constituted 0.4.

Current liquidity, according to the 2nd liquidity principle (liquid assets / total assets  $\geq 20.0\%$ ) stood at 34.6% at the end of 2000.



Liquid assets essentially increased by 417.1 million lei or by 25.2%

Chart 55. Liquid assets dynamics in 2000 –2001 as of year-end



and amounted as of 31.12.2001 to 2,072.4 million lei. This increase was due to the increase of cash balances (by 114.4 million lei or 70.6%), deposits with NBM (by 119.0 million lei or 29.8%), liquid securities (state securities) (by 155.5 million lei or 41.7%) and net interbank credits and

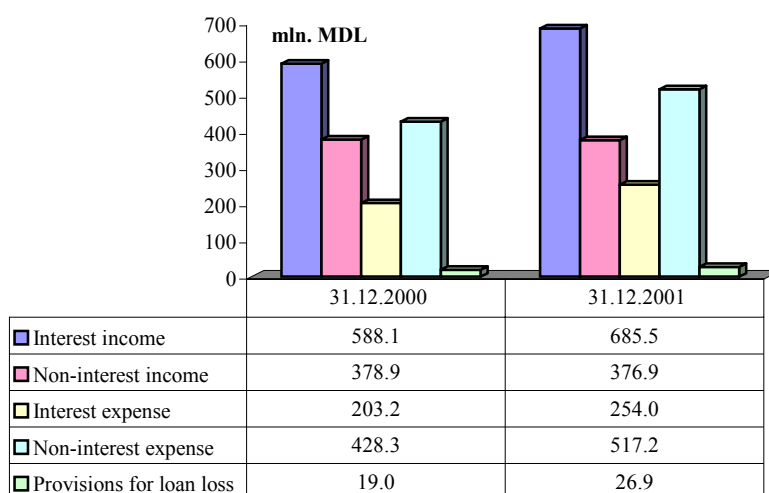
loans with a term of up to 1 month (by 28.2 million lei or 3.9%) (chart 55).

As of 31.12.2001 net interbank credits with the term of 1 month till maturity accounted for the largest share in total liquid assets – 36.2%. The share of liquid securities (state securities) accounted for 25.5%, for deposits with NBM – 25.0% and for cash – 13.3%.

### Income and Expense of Commercial Banks

Net income of commercial banks of the Republic of Moldova amounted in 2001 to 245.6 million lei, decreasing by 43.3 million lei or by 15.0% as compared to the previous year. Higher income and, ultimately, profitability indicators in 2000 as compared to 2001 were due to extraordinary revenues from shareholders' donations to banks.

Chart 56. Dynamics of banking sector income and expense in 2000-2001 as of year-end



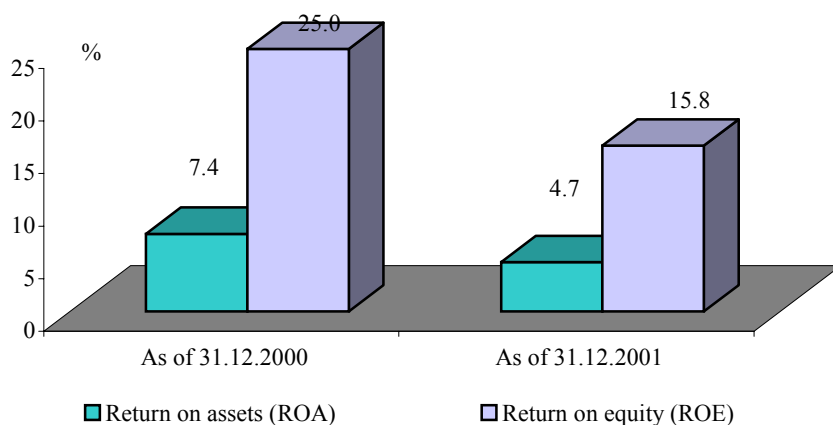
Banking income in 2001 recorded a stable growth and was mainly generated from basic banking activity (investments in interest-bearing assets). As a result, interest income totalled 685.5 million lei or 64.5% of total banking income. Within the components of interest income,

revenues related to credit interest and commissions totalled 553.4 million lei and accounted for the largest share of 80.7%; state securities interest revenues totalled 74.0 million lei and accounted for 10.8% of total interest income (chart 56).

Non-interest income totalled 376.9 million lei or 35.5% of total income. Commissions valued 225.4 million lei or 59.8% of total non-interest income; revenues from foreign currency operations totalled 104.5 million lei or 27.7% of total non-interest income.

Total expenditures amounted to 798.2 million lei, out of this interest expense constituted 254.0 million lei or 31.8%, non-interest expense – 26.9 million lei or 3.4%; and credit loss provisions (risk fund) – 3.4%.

**Chart 57. Dynamics of return on assets and equity (ROA and ROE) in 2000-2001 as of year-end**



Profitability indicators recorded positive growth during the whole year. Banking assets' profitability (the ratio of net income to average assets) was 4.7%. The profitability of share capital (the ratio of net income to average share capital) was 15.8% (chart 57).

Net interest margin (the ratio of net interest income to income-bearing assets)

reached the level of 11.8%.

Interest-bearing assets in 2001 increased by 861.5 million lei or by 25.7% and totalled 4,211.2 million lei. The continuous rise in interest-bearing assets and their significant share in total banking assets (70.4%) indicate the banking sector's capacity to generate revenues in the future.

## **Functioning and Development of the Payments System**

Exercising one of the basic attributions stipulated in Art. 5 of the Law on the National Bank of Moldova no. 548-XIII of 21 July 1995, the National Bank of Moldova put special emphasis on the development of the payments system in 2001, by ensuring continuous non-interrupted performance of the main component of the national payments system – the payments system of the National Bank of Moldova.

Growth and activity indicators highlighted efficient development and performance of the payments system in 2001. This conforms to the main requirements of financial markets' participants, economic agents and individuals with regard to its operation and secured payment services.

As of December 31, 2001 direct participants in the payments system included the National Bank and 19 commercial banks authorised by NBM.

Within the payments system, the National Bank acted as direct participant, settlement bank, collector, processor and exchanger of settlement documents between participants and authority certifying electronic signature keys for each participant.

The value of payments conducted via NBM payments system increased by 26.7% as compared to 2000. Over the same period the number of processed payment documents increased by 20.5%. Of the total volume of documents 99.9% (94.6% in value terms) was transmitted via e-mail. Settlement documents were received by beneficiary banks with an average time lag of three hours. The NBM payments system therefore operated on a regular and timely basis.

The payments system provided a high concentration of payment services. The cumulative share of payments conducted by seven direct participants (30.4%) accounted for 72.5%.

With the view to continuously develop the payments system of the National Bank of Moldova, a new generation data transportation interbank system was put into operation in March 2001. This represents a modern technological component aimed at facilitating the implementation of an NBM RTGS payments system in the near future.

Except payment services related to the participation in NBM payments system, financial institutions authorised by the National Bank rendered payment services to legal entities and individuals through payment documents identical to the ones approved in NBM

payments system and their own payment instruments and technologies.

Over 2001 the issue and use of banking cards grew further. The number of cards in circulation as of 01.01.2002 increased 3.7 times as compared to the beginning of 2001 and totalled 50.3 thousand units. The value of card transactions issued by NBM authorised banks increased 2.7 times in value terms; the relevant number of transactions increased 2.6 times.

The number of transactions completed in Moldova in 2001 with cards issued abroad increased 2.3 times as compared to 2000; the relevant value rose 1.5 times.

Foreign currency inflow following transactions using banking card totalled 84.1 million lei and exceeded the value of transactions completed in the Republic of Moldova by cards issued abroad (140.8 million lei). In comparison, the value of transactions concluded abroad using cards issued in the Republic of Moldova totalled 56.7 million lei.

There were no cases of card swindles recorded in the Republic of Moldova in 2001.

## **Commemorative and Jubilee Coins**

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Based on the Law on the National Bank of Moldova, the National Bank of Moldova has the exclusive right to issue commemorative and jubilee coins as legal tender on the territory of the Republic of Moldova and for numismatic purposes.

Since the monetary reform in the Republic of Moldova – the introduction on 29 November 1993 of the national currency – the National Bank of Moldova has, with the view to reflecting the historical, cultural and natural values of the Moldovan people and for numismatic purposes, issued silver commemorative and jubilee coins to commemorate different events and personalities.

In 1996 the National Bank of Moldova issued the first silver commemorative coin dedicated to the 5th Anniversary of the Proclamation of Independence of the Republic of Moldova.

In 2000 the National Bank issued the series “Monasteries of Moldova” that includes 20 coins with the image of Moldovan monasteries. In 2001 the National Bank issued another 4 commemorative coins dedicated to the Anniversary of 150 years since the birth of Mihai Eminescu, 100 years since the birth of Ștefan Neaga, 525 years since the glorious victory of Stefan the Great in the Vaslui battle and 600 years since the coronation of the King Alexandru cel Bun.

In 2001 the National Bank of Moldova issued a commemorative coin with the face value of 100 lei, marking the 10th Anniversary of the Proclamation of the Republic of Moldova. At the same time the National Bank of Moldova started issuing of a new series of commemorative coins “Red Book” by putting into circulation two coins: “Pisica Sălbatică” (“Wild Cat”) and “Ciocănitoarea Verde” (“Wood-pecker”). The NBM also completed the list of coins dedicated to historic personalities with two commemorative coins dedicated to the Anniversary of 180 years since the birth of Vasile Alecsandri and 125 years since the birth of Constantin Brâncuși.

Common features of issued coins are the Coat of Arms of the Republic of Moldova and the wording “Republica Moldova” on the coin obverse.

The commemorative coins are aimed at meeting requirements of numismatic collectors and to represent the image of the Republic of Moldova internationally.

## **NBM Personnel and Professional Training**

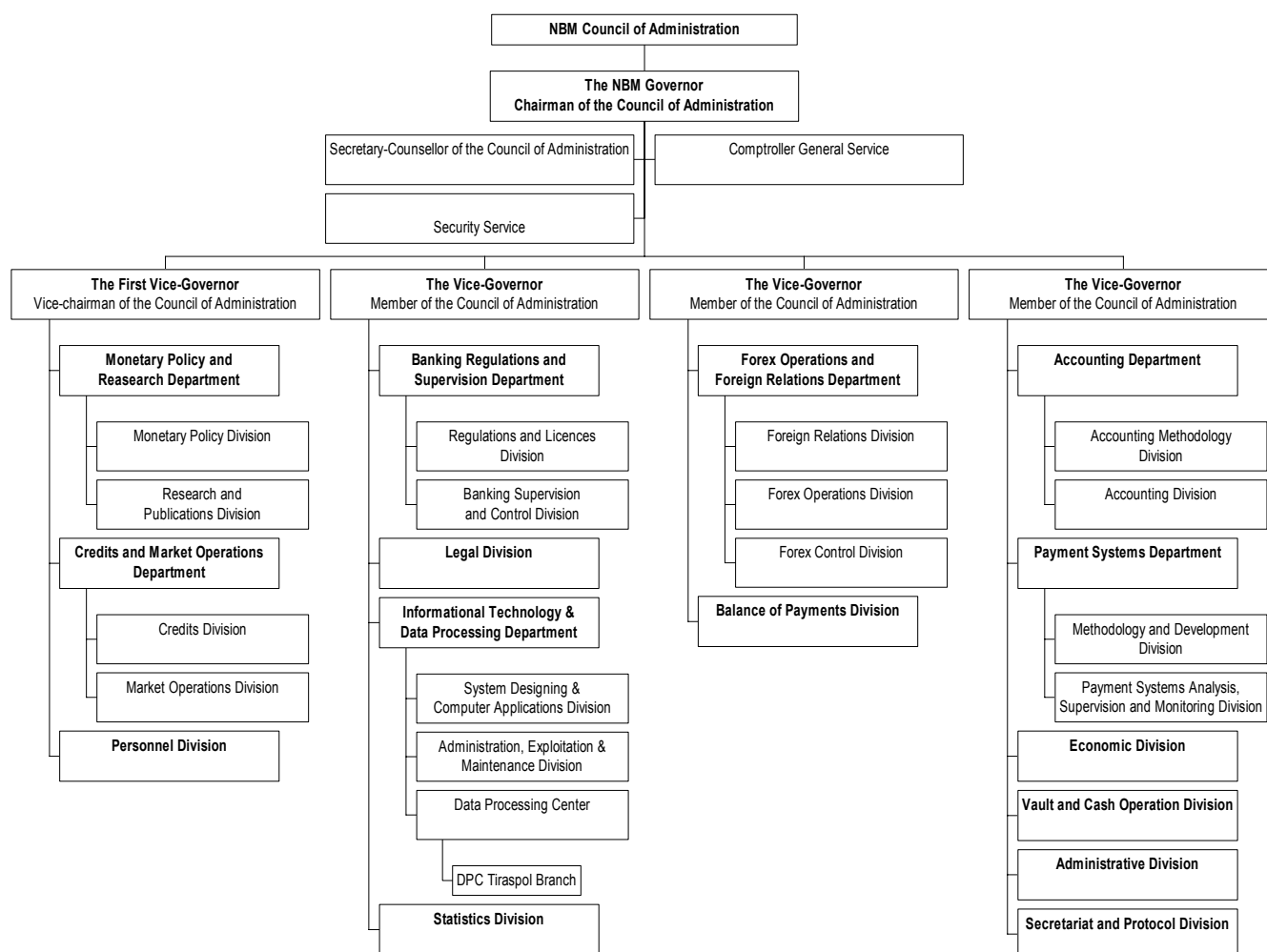
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As of December 31, 2001 the NBM staff accounted for 496 persons (out of total of 500). Out of this total, 360 persons (72.6%) have high school degrees or completed higher education, 50 persons (10.1%) have specialized studies. There are 10 staff with doctorates in economics and technical sciences employed at the National Bank of Moldova.

30 employees of the Bank have been promoted in 2001; more than 50% are under 30. Young employees constitute the NBM staff base: 278 employees (or 56.0%) are under 40, including 123 employees (24.8%) under 30; 137 employees (27.6%) are in their 40s; 75 employees (15.2%) are in their 50s and 6 employees (1.2%) are in their 60s. The average age of the bank's employees is 38 years and 8 months.

In 2001 282 employees of NBM (191 specialists, 90 managers and 1 clerk) have participated at training courses. Out of this figure of 191 specialists, 182 employees benefited from courses in economics, 3 employees – in legal issues and 6 employees – in engineering. 127 NBM employees participated at training courses abroad. The participation of around 57% of Bank staff in different sources of training has contributed to a more efficient activity of the National Bank of Moldova.

The NBM organisational chart





### 3. Financial Statement of the National Bank of Moldova

#### COMMENT

#### **of the Comptroller General Service on the Financial Statement of the National Bank of Moldova For 2001**

The Internal Audit Department (Service of Comptroller General of the National Bank of Moldova) has verified the balance sheet, the income and expenditure account, cash flow statement, trends in the Bank's equity, provisions and the establishment of the special reserve for the financial year ended on 31 December 2001.

This verification has been conducted on the basis of the Law on the National Bank of Moldova, Art. 69 (1) and the Regulation on Comptroller General Service (p.2.2) and has been undertaken with the view to gaining reasonable assurance with regard to the quality and authenticity of the underlying accounting records and procedures.

Following the above-mentioned verification and the controls performed during 2001, the Comptroller General Service states:

- The balance sheet totals 7038.2 million lei as on 31 December 2001;
- Operational revenues (including net unrealized income from revaluation of foreign exchange) and expenditures amount to 458.8 million lei and 169.3 million lei respectively;
- The Bank's capital was increased in accordance with Law no. 1338 – XIV of 27.10.2000 on Modification of Art. 19 of the Law on the National Bank of Moldova from 75.0 million lei to 100.0 million lei, with an allocation from net income in an amount of 25.0 million lei;
- The General Reserve (Fund) was augmented by a transfer from net income of an amount of 50.0 million lei and totaled 200.0 million lei, or two times central bank paid in capital, in conformity with Art. 20(1) of the Law on the National Bank of Moldova;
- Transfers to the special reserve account from net income amounted to 19.7 million lei. This represents net unrealized income from revaluation of foreign exchange, and was confirmed by the BNM Regulation on Special Reserve Establishment and Use;

- Net income before distribution amounted to 289.5 million lei, including net income due to State Budget in an amount of 194.8 million lei.

Based on above, the Comptroller General Service confirms the authenticity of the underlying accounting records and procedures, the balance sheet, the income and expenditure account, cash flow statement, trends in the Bank's equity, provisions and the establishment of special reserve for the financial year ended 31 December 2001.

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

We have audited the accompanying balance sheet of the National Bank of Moldova ("the NBM") as at 31 December 2001, and the related statement of income, cashflows and changes in paid up capital and reserves for the year then ended. These financial statements are the responsibility of the National Bank of Moldova's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Bank of Moldova as at 31 December 2001 and the results of its operations for the year then ended in accordance with International Accounting Standards.

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

PricewaterhouseCoopers

Kishinev, Republic of Moldova  
14 March 2002

# NATIONAL BANK OF MOLDOVA

## BALANCE SHEET

AS AT 31 DECEMBER 2001

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

	<u>Note</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
<b>Assets</b>			
Cash and short term funds	3	2,050,688	2,327,247
Assets with international organisations	4	2,034,830	1,991,972
Securities issued by non-residents	5	974,298	576,754
Due from the Government	6	1,899,278	1,730,789
Credits granted to banks and other individuals	7	38,679	47,524
Other assets	8	4,596	4,394
Tangible and intangible assets	9	<u>35,808</u>	<u>39,054</u>
<b>Total assets</b>		<u>7,038,177</u>	<u>6,717,734</u>
<b>Liabilities</b>			
Money issued into circulation		1,993,773	1,567,948
Due to Government and banks	10	638,783	807,124
Liabilities towards international organisations	4	3,944,363	3,913,449
Other liabilities	11	<u>104,218</u>	<u>166,877</u>
<b>Total liabilities</b>		<u>6,681,137</u>	<u>6,455,398</u>
<b>Capital and reserves</b>			
Statutory fund		100,000	75,000
Reserve fund		200,000	150,000
Other reserves		<u>57,040</u>	<u>37,336</u>
<b>Total capital and reserves</b>	12	<u>357,040</u>	<u>262,336</u>
<b>Total liabilities, capital and reserves</b>		<u>7,038,177</u>	<u>6,717,734</u>

# NATIONAL BANK OF MOLDOVA

## INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2001

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

	<u>Note</u>	<u>31 December 2001</u>	<u>31 December 2000</u>
Interest income	13	360,633	605,870
Interest expense	14	<u>(96,540)</u>	<u>(136,433)</u>
<b>Net interest income</b>		264,093	469,437
Other income	15	10,215	30,236
Release of provision for loan losses		5,630	4,583
Gains /(losses) from dealing operations	16	<u>64,562</u>	<u>32,691</u>
<b>Operating income</b>		344,500	536,947
Operating expenses	17	<u>(55,037)</u>	<u>(58,698)</u>
<b>Profit before allocation</b>		<u>289,463</u>	<u>478,249</u>
<b>Profit allocation</b>			
Statutory fund		25,000	25,000
Reserve fund		50,000	50,000
Foreign exchange position reserve	16	19,704	30,295
Repatriation to the State budget		<u>194,759</u>	<u>372,954</u>
		<u>289,463</u>	<u>478,249</u>

# NATIONAL BANK OF MOLDOVA

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2001

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

	<u>31 December 2001</u>	<u>31 December 2000</u>
<b>Profit before allocation</b>	289,463	478,249
Adjustments for:		
Provisions	(4,560)	(3,943)
Depreciation	9,829	11,771
<b>Profit before changes in assets and liabilities</b>	<u>294,732</u>	<u>486,077</u>
Assets with international organisations	(42,858)	(30,629)
Securities issued by non-residents	(19,751)	(24,822)
Due from Government	(168,489)	2,793
Credits granted to banks and other individuals	14,475	23,582
Other assets	(1,288)	(1,049)
<b>(Increase)/decrease in current assets</b>	<u>(217,911)</u>	<u>(30,125)</u>
Money issued into circulation	425,825	365,160
Due to Government and banks	(168,341)	273,252
Liabilities towards international organisations	30,914	(93,025)
Other liabilities	(27,826)	37,507
<b>Increase/(decrease) in current liabilities</b>	<u>260,572</u>	<u>582,894</u>
<b>Operational cash flow</b>	<u>337,393</u>	<u>1,038,846</u>
Fixed assets acquisitions	(6,584)	(13,349)
Disposals of fixed assets	17	2,947
<b>Cash flow from investments</b>	<u>(6,567)</u>	<u>(10,402)</u>
<b>Profit payments to the State</b>	<u>(229,592)</u>	<u>(387,286)</u>
<b>Increase/(decrease) in cash and short term fund</b>	<u>101,234</u>	<u>641,158</u>
<b>Cash and short term funds at the beginning of year</b>	2,702,116	2,060,958
<b>Cash and short term funds at the end of year</b>	2,803,350	2,702,116

### Analysis of cash and short term funds

	<u>31 December 2001</u>	<u>31 December 2000</u>	<u>Differences</u>
Cash in MDL	26,429	32,134	(5,705)
Cash in foreign currency	13,796	23,917	(10,121)
NOSTRO accounts in foreign currency	16,359	17,559	(1,200)
Deposits in foreign currency	1,984,214	2,227,429	(243,215)
Restricted deposits in foreign currency	8,124	23,749	(15,625)
Interest accrued in foreign currency	1,766	2,459	(693)
Securities issued by non-residents	<u>752,662</u>	<u>374,869</u>	<u>377,793</u>
<b>Cash and short term funds</b>	<u>2,803,350</u>	<u>2,702,116</u>	<u>101,234</u>

**NATIONAL BANK OF MOLDOVA**

**STATEMENT OF CHANGES IN PAID UP CAPITAL AND RESERVES**

**FOR THE YEAR ENDED 31 DECEMBER 2001**

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

	<b>Statutory fund</b>	<b>Reserve fund</b>	<b>Other reserves</b>	<b>Profit</b>	<b>Total capital and reserves</b>
<b>Balance as at 1 January 2000</b>	50,000	100,000	7,041	-	157,041
Profit for the year 2000	-	-	-	478,249	478,249
Increase in the statutory fund	25,000	-	-	(25,000)	-
Increase in the reserve fund	-	50,000	-	(50,000)	-
Set up of reserves from the profit from the foreign exchange position	-	-	30,295	(30,295)	-
Profit allocated to the State budget	-	-	-	(372,954)	(372,954)
<b>Balance as at 31 December 2000</b>	<u>75,000</u>	<u>150,000</u>	<u>37,336</u>	<u>-</u>	<u>262,336</u>
<b>Balance as at 1 January 2001</b>	75,000	150,000	37,336	-	262,336
Profit for the year 2001	-	-	-	289,463	289,463
Increase in the statutory fund	25,000	-	-	(25,000)	-
Increase in the reserve fund	-	50,000	-	(50,000)	-
Set up of reserves from the profit from the foreign exchange position	-	-	19,704	(19,704)	-
Profit allocated to the State Budget	-	-	-	(194,759)	(194,759)
<b>Balance as at 31 December 2001</b>	<u>100,000</u>	<u>200,000</u>	<u>57,040</u>	<u>-</u>	<u>357,040</u>



# **NATIONAL BANK OF MOLDOVA**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2001**

**(all amounts expressed in thousands of Moldovan lei (MDL) )**

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#### **1 BASIS OF PRESENTATION**

##### **Currency of presentation**

These financial statements are prepared in the national currency of the Republic of Moldova, the Moldovan leu ("MDL").

##### **Basis of accounting**

The National Bank of Moldova maintains its accounting records and prepares its financial statements in accordance with the Law on the National Bank of Moldova ("NBM Law") and International Accounting Standards ("IAS"). These financial statements are based on statutory records and have been adjusted in order to conform in all material respects with International Accounting Standards issued by the International Accounting Standards Committee.

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

For the year 2001, the official inflation rate was 6.3% whereas for the year 2000, the inflation rate was 18.4%.

##### **Use of estimates**

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

##### **Reclassification of comparative amounts**

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

# **NATIONAL BANK OF MOLDOVA**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2001**

**(all amounts expressed in thousands of Moldovan lei (MDL) )**

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### **2 SIGNIFICANT ACCOUNTING POLICIES**

#### **Cash and short term funds**

For the purpose of the cash flow statement, cash and short term funds include cash in hand and correspondent accounts, including overnight deposits and short term placements with other banks and short term securities issued by non residents.

#### **Assets with international organisations**

The amounts recorded in the balance sheet of NBM as assets with international organisations represent mainly the participation of the Republic of Moldova in the International Monetary Fund (IMF). This amount is disbursed in Special Drawing Rights (SDR) but is administered in MDL. In the balance sheet as at 31 December 2001, the participation of the Republic of Moldova in the IMF is disclosed as the Moldovan leu equivalent of the agreed SDR amount.

#### **Securities issued by non-residents**

Securities issued by non-residents and held by NBM are highly liquid and low risk assets.

Those securities are classified as available for sale and disclosed in the balance sheet at fair value and include the interest accrued until the end of the year and not matured.

#### **Due from the Government of the Republic of Moldova**

##### *Securities issued by the Government of the Republic of Moldova*

These securities are tradable but, due to the fact their trading volume is rather low, they cannot be valued at current market rates. In the balance sheet, the securities are disclosed at amortised cost.

##### *Loans granted to the Government of the Republic of Moldova*

Loans are recorded at their nominal value. These loans are guaranteed with securities issued by the Government, which are recorded by the NBM in off balance sheet accounts.

# NATIONAL BANK OF MOLDOVA

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

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

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### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *REPO operations*

The securities traded by the NBM under sale and repurchase (“REPO”) agreements are included in assets under the heading “Securities issued by the Government”.

In the liabilities section of the balance sheet, these operations are included in “Other liabilities” at the security selling value.

#### **Credits granted to banks and other individuals**

Credits include both the credit facilities granted to banks and the loans granted to the employees of NBM. Loans are disclosed in the balance sheet at their nominal value adjusted with the correspondent provisions against losses on loans.

A specific provision is made against loan losses and other credit risks as soon as the recovery of a credit or interest becomes doubtful, with a view to provide to the management an estimation of the losses on loans. The provision is established following an assessment of the credit quality of loans within the portfolio of the NBM.

Loans that cannot be recovered are written off and charged against the provision for losses on loans. Such loans are written off after all the necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are treated as income by reducing the provision for losses on loans for the year.

#### **Premises and equipment**

Premises and equipment are stated at cost or revalued amount adjusted with the accumulated depreciation.

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

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

# **NATIONAL BANK OF MOLDOVA**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2001**

**(all amounts expressed in thousands of Moldovan lei (MDL) )**

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## **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Money issued into circulation**

This is represented by the national currency in circulation. In the balance sheet this is disclosed at nominal value. Beginning with the year 2000 the costs of production of the money issued in circulation are amortised from the moment the money is actually issued into circulation.

### **Due to Government and banks**

Due to banks mainly represent mandatory reserves required to satisfy the obligatory reserve requirements of the NBM, in compliance with its prudential requirements. Those mandatory reserves held with the NBM are determined based on the average balances of the deposits taken by commercial banks operating in Moldova.

### **Capital and reserves**

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

### **Income taxes**

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

### **Interest income and expense**

Interest income and expenses are recognised in the profit and loss account on an accruals basis.

The recognition of interest income related to credits granted to banks ceases when the payment of interest or principal is doubtful, and does so automatically if the principal or interest payments are 60 days or more in arrears. Any interest previously accrued but not received on a loan subsequently placed on a non-accruals basis is reversed. Subsequently, the interest is included in income only when received. Loans are again restated on an accruals basis only when the doubt about collectability is removed and when the outstanding arrears of interest and principal are received.

# **NATIONAL BANK OF MOLDOVA**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2001**

**(all amounts expressed in thousands of Moldovan lei (MDL) )**

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## **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Revaluation of foreign currency assets and liabilities**

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

Management of NBM consider that, in line with international guidance, distribution of unrealised gains would be an inflationary emission of currency, therefore the unrealized portion of foreign revaluation exchange gains being reflected in the income statement, is transferred at year-end to a special reserve account against which future unrealized losses shall be charged. Unrealised losses which exceed the accumulated balance of unrealised gains within the special reserve account will be charged to the income statement. Unrealised gains are not available for distribution as part of net profit.

### **Fiduciary activities**

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

### **Pension obligations**

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

### **Fair value of financial instruments**

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

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

# NATIONAL BANK OF MOLDOVA

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2001

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## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A market does not presently exist for Treasury bills in local currency which would facilitate obtaining prices for comparative instruments. Treasury bills carried at amortised cost but bear interest which approximates current market rates.

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

## 3 CASH AND SHORT TERM FUNDS

	<u>31 December 2001</u>	<u>31 December 2000</u>
Cash in MDL	26,429	32,134
Cash in foreign currency	<u>13,796</u>	<u>23,917</u>
	<u>40,225</u>	<u>56,051</u>
 NOSTRO accounts	 24,483	 41,308
Deposits	1,984,214	2,227,429
Interest accrued	<u>1,766</u>	<u>2,459</u>
	<u>2,010,463</u>	<u>2,271,196</u>
	 <u>2,050,688</u>	 <u>2,327,247</u>
	 <u>31 December 2001</u>	 <u>31 December 2000</u>
Provisions at the beginning of the year	-	(611)
Provisions for the year	-	-
Income from provisions release during the year	-	611
Provisions at the year-end	-	-

# NATIONAL BANK OF MOLDOVA

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2001

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#### 4 ASSETS/LIABILITIES TOWARDS INTERNATIONAL ORGANISATIONS

	<u>31 December 2001</u>	<u>31 December 2000</u>
<b>Assets</b>		
Quota of the Republic of Moldova with IMF	2,025,063	1,987,745
Current account with IMF	9,723	4,180
Interest accrued	<u>44</u>	<u>47</u>
	<u>2,034,830</u>	<u>1,991,972</u>
<b>Liabilities</b>		
Cash deposit of the IMF	2,025,064	1,987,745
Due to other international organisations	307	67
Credits granted by IMF to NBM	1,911,244	1,908,662
Interest accrued on credits granted by IMF to NBM	<u>7,748</u>	<u>16,975</u>
	<u>3,944,363</u>	<u>3,913,449</u>

The cash deposit of the IMF represents the Account 1 and 2 and the Account for Securities issued by the Ministry of Finance of Moldova. These amounts represent the quota of the Republic of Moldova with the IMF.

The amounts included in the balance sheet of the NBM under the heading "Liabilities towards International organisations" mainly include the following:

- the deposit of IMF in cash (MDL) (account 1 and account 2) with NBM and in securities issued by the Ministry of Finance in favour of IMF in relation to the participation of the Republic of Moldova in IMF;
- the credits received by the NBM from the IMF. Due to the fact that these credits are denominated in SDR, they are disclosed in the balance sheet as the Moldovan leu equivalent at year-end.

Most credit granted by the IMF to the NBM are secured by bills of exchange issued by the NBM.



**NATIONAL BANK OF MOLDOVA****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2001****(all amounts expressed in thousands of Moldovan lei (MDL) )**

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**5 SECURITIES ISSUED BY NON-RESIDENTS**

	<b><u>31 December 2001</u></b>	<b><u>31 December 2000</u></b>
Securities issued by non-residents	960,686	569,701
Interest accrued	<u>13,612</u>	<u>7,053</u>
	<u>974,298</u>	<u>576,754</u>

The securities issued by non-residents represent mainly securities issued by entities from the United States of America and the European Union. Those securities are active, are very liquid and have a low risk rating.

**6 DUE FROM THE GOVERNMENT**

	<b><u>31 December 2001</u></b>	<b><u>31 December 2000</u></b>
Securities issued by the Government	384,522	374,860
Loans granted to the Government	1,507,076	1,315,208
Interest on loans granted to the Government	<u>7,680</u>	<u>40,721</u>
	<u>1,899,278</u>	<u>1,730,789</u>

	<b><u>31 December 2001</u></b>	<b><u>31 December 2000</u></b>
Provisions at the beginning of the year	-	-
Provisions during the year	-	(21,570)
Income on provisions during the year	-	21,570
Provisions at the year-end	-	-

The securities issued by the Government of Moldova and included in the portfolio of NBM are stated at amortised cost adjusted by the unamortised discount.

The securities issued by the Government of Moldova and held by NBM either through purchase or following the guarantee submitted by the Government in support of all the loans granted by NBM represent a significant part of the value of the issued State securities.

# **NATIONAL BANK OF MOLDOVA**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2001**

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#### **6 DUE FROM THE GOVERNMENT (CONTINUED)**

As at 31 December 2001, about 77.4% of these securities (including those underlying the loans granted to the Government) were held in the portfolio of the NBM (2000: 81%). These securities have a low trading volume.

As at 31 December 2001, the balance of the securities issued by the Government from NBM portfolio comprises securities issued through the conversion of the loans previously granted to the Moldovan Government. Upon maturity of the securities, the securities were re-issued at current market rates which varied between 5.99% and 22.39% during 2001 whereas the relate turnover was between 42 and 98 days.

In 2001, the weighted average nominal rate of the interest on those securities from the portfolio of NBM was of 12.62%, the highest rate (22.39%) being reached in January 2001, whereas the lowest (5.99%) in December 2001.

The loans granted to the Government are guaranteed by marketable securities issued by the Government of the Republic of Moldova.

The matured loans are extended by at most 91 days, bearing the interest rate currently available on the primary market for the securities with the same due date.

In 2001, the average interest rate varied between 19.52% in January and 6.08% in December for the loans granted to the Government of Moldova.

# NATIONAL BANK OF MOLDOVA

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2001

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#### 7 CREDITS GRANTED TO BANKS AND OTHER INDIVIDUALS

	<u>31 December 2001</u>	<u>31 December 2000</u>
Credits granted to banks	91,149	105,442
Credits granted to other individuals	7,102	7,284
Provisions	<u>(59,572)</u>	<u>(65,202)</u>
	<u>38,679</u>	<u>47,524</u>
	<u>31 December 2001</u>	<u>31 December 2000</u>
<b>Provisions at the beginning of the year</b>	(65,202)	(69,174)
Provisions during the year	(8,748)	(1,190)
Income from release of provisions during the year	14,378	5,162
<b>Provisions at the year-end</b>	<b>(59,572)</b>	<b>(65,202)</b>

The interest rates on the credits granted to banks varied between 10% and 15% in 2001 (2000: 10% and 32%).

#### 8 OTHER ASSETS

	<u>31 December 2001</u>	<u>31 December 2000</u>
Prepayments	2,495	2,330
Other receivables	1,080	369
Inventories	4,314	3,902
Provisions for other receivables	(324)	(307)
Provisions for inventories	<u>(2,969)</u>	<u>(1,900)</u>
	<u>4,596</u>	<u>4,394</u>
	<u>31 December 2001</u>	<u>31 December 2000</u>
<b>Provisions at the beginning of the year</b>	(2,207)	(1,567)
Provisions during the year	(1,477)	(1,102)
Income from release of provisions during the year	408	480
Revaluation differences	(17)	(18)
<b>Provisions at year-end</b>	<b>(3,293)</b>	<b>(2,207)</b>

Prepayments mainly represent the cost of production of silver commemorative coins produced during the year 2001.

**NATIONAL BANK OF MOLDOVA**

**NOTES TO THE FINANCIAL STATEMENTS**

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**(all amounts expressed in thousands of Moldovan lei (MDL) )**

**9 TANGIBLE AND INTANGIBLE ASSETS**

	<b><u>Buildings</u></b>	<b><u>Equipment</u></b>	<b><u>Investments</u></b>	<b><u>Total tangible assets</u></b>	<b><u>Intangible assets</u></b>	<b><u>Total tangible and intangible assets</u></b>
<b>Gross Book Value</b>						
<b>As at 31 December 2000</b>	30,655	57,366	3,063	91,084	5,629	96,713
Additions	-	2,570	59	2,629	3,831	6,460
Set ups	1,425	1,531	(2,816)	140	-	140
Disposals	<u>-</u>	<u>(530)</u>	<u>-</u>	<u>(530)</u>	<u>(615)</u>	<u>(1,145)</u>
<b>Balance as at 31 December 2001</b>	<u>32,080</u>	<u>60,937</u>	<u>306</u>	<u>93,323</u>	<u>8,845</u>	<u>102,168</u>
<b>Accumulated depreciation</b>						
<b>As at 31 December 2000</b>	(11,695)	(42,213)	-	(53,908)	(3,751)	(57,659)
Depreciation charge	(1,250)	(7,333)	-	(8,583)	(1,246)	(9,829)
Disposals	<u>-</u>	<u>512</u>	<u>-</u>	<u>512</u>	<u>616</u>	<u>1,128</u>
<b>Balance as at 31 December 2001</b>	<u>(12,945)</u>	<u>(49,034)</u>	<u>-</u>	<u>(61,979)</u>	<u>(4,381)</u>	<u>(66,360)</u>
<b>Net Book Value</b>						
<b>as at 31 December 2000</b>	<u>18,960</u>	<u>15,153</u>	<u>3,063</u>	<u>37,176</u>	<u>1,878</u>	<u>39,054</u>
<b>Net Book Value as at 31 December 2001</b>	<u>19,135</u>	<u>11,903</u>	<u>306</u>	<u>31,344</u>	<u>4,464</u>	<u>35,808</u>

# NATIONAL BANK OF MOLDOVA

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2001

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

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#### 10 DUE TO GOVERNMENT AND BANKS

	<u>31 December 2001</u>	<u>31 December 2000</u>
Due to Government	117,175	397,180
Due to banks	521,583	409,924
Other	<u>25</u>	<u>20</u>
	<u>638,783</u>	<u>807,124</u>

Due to banks mainly represents the minimum reserves requirements to be held by Moldovan incorporated commercial banks in the accounts of the NBM, in order to comply with the prudential requirements of the National Bank of Moldova.

Until 2000, these mandatory reserves were accounted for in a separate account. Starting with the year 2000, they are held in the current accounts held with the NBM.

#### 11 OTHER LIABILITIES

	<u>31 December 2001</u>	<u>31 December 2000</u>
Due to the State of Moldova	76,994	111,827
REPO operations	15,500	42,999
Interest on REPO operations	7	190
Credits for investments (see note 21)	7,960	7,691
Interest and commissions on credits for investments	151	274
Other liabilities	<u>3,606</u>	<u>3,896</u>
	<u>104,218</u>	<u>166,877</u>

The amounts due to the State of Moldova represent the gross profit determined in accordance with the NBM Law, from which the allocations stipulated by this law and the prepayments to the State during the year have been deducted.

REPO operations are represented by the selling price of the securities sold by NBM through these agreements.

# NATIONAL BANK OF MOLDOVA

## NOTES TO THE FINANCIAL STATEMENTS

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#### 12 CAPITAL AND RESERVES

	<u>31 December 2001</u>	<u>31 December 2000</u>
Statutory fund	100,000	75,000
Reserve fund	200,000	150,000
Other reserves	<u>57,040</u>	<u>37,336</u>
	<u>357,040</u>	<u>262,336</u>

In accordance with the Parliament of the Republic of Moldova's decision, the Statutory Fund of the NBM was increased from MDL 75 million to MDL 100 million at 31 December 2001. This increase was made through profit allocation.

Under the Article 20 of the NBM Law, 20 % of the net income must be distributed to the Statutory Reserve up to twice the amount of capital. At 31 December 2001 an amount of MDL 50 million was transferred to the Statutory Reserve to bring the reserve up to the statutory level of MDL 200 million.

Other reserves represent the unrealised gain on net foreign exchange position, as a result of the revaluation of the NBM foreign currency assets and liabilities. The constitution of these reserves is based on the provisions of the Article 54 of the NBM law.

#### 13 INTEREST INCOME

	<u>31 December 2001</u>	<u>31 December 2000</u>
Interest from loans granted to the Government	178,317	352,518
Interest from securities of the Government	52,241	91,181
Interest from securities issued by non-residents	38,969	74,156
Interest from credits granted to banks	13,787	18,322
Interest from deposits and cash	77,273	69,648
Other interest	<u>46</u>	<u>45</u>
	<u>360,633</u>	<u>605,870</u>



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**14 INTEREST EXPENSE**

	<b><u>31 December 2001</u></b>	<b><u>31 December 2000</u></b>
Credits received from the National Bank of Moldova	73,184	103,227
Deposits from banks	21,947	31,736
REPO operations	<u>1,409</u>	<u>1,470</u>
	<u>96,540</u>	<u>136,433</u>

**15 OTHER INCOME**

	<b><u>31 December 2001</u></b>	<b><u>31 December 2000</u></b>
Revaluation of Government securities	-	26,400
Other income	<u>10,215</u>	<u>3,836</u>
	<u>10,215</u>	<u>30,236</u>

**16 GAINS/(LOSSES) FROM DEALING OPERATIONS**

	<b><u>31 December 2001</u></b>	<b><u>31 December 2000</u></b>
Gains/(losses) from dealing securities of non-residents	2,800	(3,346)
Realised gains from foreign currency transactions	42,058	5,742
Unrealised gains from foreign exchange position	<u>19,704</u>	<u>30,295</u>
	<u>64,562</u>	<u>32,691</u>

Unrealised gains from foreign exchange position represents the daily revaluation of the foreign currency denominated assets and liabilities held by the NBM.

In order to prevent inflationary distribution of unrealised gains this unrealised portion of foreign exchange gains is transferred at year-end to a special reserve account against which future unrealised losses shall be charged. Unrealised gains are not available for distribution as part of net profit.

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**17 OPERATING EXPENSES**

	<b><u>31 December 2001</u></b>	<b><u>31 December 2000</u></b>
Cost of production of money	2,555	2,957
Staff costs	25,200	20,439
Depreciation	9,829	11,770
Other operating expenses	<u>17,453</u>	<u>23,532</u>
	<u>55,037</u>	<u>58,698</u>

Staff costs also include social security contributions, which represent 31% of salaries.

# NATIONAL BANK OF MOLDOVA

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2001

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## 18 CURRENCY RISK

### Assets and liabilities expressed in MDL and other currencies

As at 31 December 2001, NBM held the following foreign exchange positions:

	<u>MDL</u>	<u>USD</u>	<u>Convertible currencies</u>	<u>Non convertible currencies</u>	<u>SDR</u>	<u>Total</u>
<b>Assets</b>						
Cash and						
short term funds	26,429	1,416,231	607,998	30	-	2,050,688
Assets with international						
organisations	2,025,063	-	-	-	9,767	2,034,830
Securities						
of non residents	-	665,320	308,978	-	-	974,298
Due from						
the Government	1,899,278	-	-	-	-	1,899,278
Credits granted to banks						
and other individuals	38,679	-	-	-	-	38,679
Other assets	3,872	724	-	-	-	4,596
Fixed and						
intangible assets	<u>35,808</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,808</u>
<b>Total assets</b>	4,029,129	2,082,275	916,976	30	9,767	7,038,177
<b>Liabilities</b>						
Money in circulation	1,993,773	-	-	-	-	1,993,773
Due to Government						
and banks	539,365	93,511	5,907	-	-	638,783
Due to international						
financial organisations	2,026,849	-	-	-	1,917,514	3,944,363
Other liabilities	<u>95,321</u>	<u>8,838</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>104,218</u>
<b>Total liabilities</b>	4,655,308	102,399	5,916	-	1,917,514	6,681,137
<b>Net position</b>	<u>(626,179)</u>	<u>1,979,876</u>	<u>911,060</u>	<u>30</u>	<u>(1,907,747)</u>	<u>357,040</u>

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**(all amounts expressed in thousands of Moldovan lei (MDL) )**

**18 CURRENCY RISK (CONTINUED)**

**Assets and liabilities expressed in MDL and other currencies**

As at 31 December 2000, NBM held the following foreign exchange positions:

	<u>MDL</u>	<u>USD</u>	<u>Convertible currencies</u>	<u>Non convertible currencies</u>	<u>SDR</u>	<u>Total</u>
<b>Assets</b>						
Cash and						
short term funds	32,134	1,601,292	693,763	58	-	2,327,247
Assets with international						
organisations	1,987,745	-	-	-	4,227	1,991,972
Securities						
of non residents	-	541,532	35,222	-	-	576,754
Due from						
the Government	1,730,789	-	-	-	-	1,730,789
Credits granted to banks						
and other individuals	47,524	-	-	-	-	47,524
Other assets	4,364	30	-	-	-	4,394
Fixed and						
intangible assets	<u>39,054</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,054</u>
<b>Total assets</b>	<b>3,841,610</b>	<b>2,142,854</b>	<b>728,985</b>	<b>58</b>	<b>4,227</b>	<b>6,717,734</b>
<b>Liabilities</b>						
Money in circulation	1,567,948	-	-	-	-	1,567,948
Cash of						
Government and banks	421,374	360,312	25,438	-	-	807,124
Due to international						
financial organisations	1,988,575	-	-	-	1,924,875	3,913,449
Other liabilities	<u>157,990</u>	<u>8,887</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>166,877</u>
<b>Total liabilities</b>	<b>4,135,886</b>	<b>369,199</b>	<b>25,438</b>	<b>-</b>	<b>1,924,875</b>	<b>6,455,398</b>
<b>Net position</b>	<u><b>(294,276)</b></u>	<u><b>1,773,655</b></u>	<u><b>703,546</b></u>	<u><b>58</b></u>	<u><b>(1,920,648)</b></u>	<u><b>262,336</b></u>

# **NATIONAL BANK OF MOLDOVA**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2001**

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## **19 RISK MANAGEMENT**

### **Interest rate risk**

The National Bank of Moldova is exposed to interest rate price risk in domestic and foreign markets, principally as a result of investing international foreign exchange reserves, lending to Government and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds.

In practice, interest rates that are contractually fixed on both assets and liabilities are often renegotiated to reflect current market conditions. Furthermore as the National Bank of Moldova's main objective is to reach monetary stability, it may happen that the return on interest represents no priority of the monetary policies.

### **Liquidity risk**

Liquidity risk is defined as risk when maturity of assets and liabilities does not match. The table below shows assets and liabilities as at 31 December 2001 grouped by remaining contractual maturity.

Securities issued by Government of the Republic of Moldova and held in the National Bank of Moldova's portfolio have a contractual maturity not longer than 90 days. However, at maturity, those securities are rolled over, being repurchased by the Government at current market rates and new securities are issued and purchased by the National Bank of Moldova.

Loans granted to Government which also have a contractual maturity not longer than 90 days are also rolled over and accordingly have a longer term duration. At maturity, interest accrued is however paid to the National Bank of Moldova.

### **Currency risk**

The National Bank of Moldova acting as a manager of foreign exchange reserves is exposed to currency risk as a result of holding a long foreign exchange position (i.e. foreign currency denominated assets exceeding foreign currency denominated liabilities). In order to prevent its currency risk, the NBM's policy is to match the composition of its assets with that of its liabilities, with the specific case of loans granted by the IMF, which are denominated in SDR and which represent a currency basket made of USD, EUR and GBP and JPY.

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**19 RISK MANAGEMENT (CONTINUED)**

NBM liquidity as at 31 December 2001 is as follows:

	<u>Less than 3 months</u>	<u>Between 3 and 6 months</u>	<u>Between 6 and 12 months</u>	<u>More than 1 year</u>	<u>Undefined maturity</u>	<u>Total</u>
<b>Assets</b>						
Cash and short term funds	2,050,688	-	-	-	-	2,050,688
Assets with international financial organisations	9,766	-	-	-	2,025,064	2,034,830
Securities of non-residents	752,662	-	-	-	221,636	974,298
Due from Government	1,899,278	-	-	-	-	1,899,278
Credits granted to banks and other individuals	4,313	1,361	3,930	29,075	-	38,679
Other assets	1,627	-	-	2,969	-	4,596
Fixed and intangible assets	-	-	-	-	35,808	35,808
	<u>4,718,334</u>	<u>1,361</u>	<u>3,930</u>	<u>32,044</u>	<u>2,282,508</u>	<u>7,038,177</u>
<b>Total assets</b>						
<b>Liabilities</b>						
Money in circulation	1,993,773	-	-	-	-	1,993,773
Cash of Government and banks	638,783	-	-	-	-	638,783
Due to international financial organisations	74,523	46,230	113,006	1,685,233	2,025,371	3,944,363
Other liabilities	<u>96,434</u>	<u>-</u>	<u>182</u>	<u>7,602</u>	<u>-</u>	<u>104,218</u>
	<u>2,803,513</u>	<u>46,230</u>	<u>113,188</u>	<u>1,692,835</u>	<u>2,025,371</u>	<u>6,631,137</u>
<b>Total liabilities</b>						
<b>Net liquidity</b>						
surplus/(deficit)	<u>1,914,821</u>	<u>(44,869)</u>	<u>(109,258)</u>	<u>(1,660,791)</u>	<u>257,137</u>	<u>357,040</u>
<b>Cumulated net liquidity</b>						
surplus/(deficit)	<u>1,914,821</u>	<u>1,869,952</u>	<u>1,760,694</u>	<u>99,303</u>	<u>357,040</u>	<u>-</u>

# NATIONAL BANK OF MOLDOVA

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2001

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

#### 19 RISK MANAGEMENT (CONTINUED)

NBM liquidity as at 31 December 2000 is as follows:

	<u>Less than 3 months</u>	<u>Between 3 and 6 months</u>	<u>Between 6 and 12 months</u>	<u>More than 1 year</u>	<u>Undefined maturity</u>	<u>Total</u>
<b>Assets</b>						
Cash and short term funds	2,327,247	-	-	-	-	2,327,247
Assets with international financial organisations	4,227	-	-	-	1,987,745	1,991,972
Securities of non-residents	374,869	-	-	201,885	-	576,754
Due from Government	1,730,789	-	-	-	-	1,730,789
Credits granted to banks and other individuals	7,414	19,675	6,495	13,940	-	47,524
Other assets	1,161	1,230	-	-	2,002	4,394
Fixed and intangible assets	-	-	-	-	39,054	39,054
<b>Total assets</b>	<b>4,445,707</b>	<b>20,905</b>	<b>6,495</b>	<b>215,825</b>	<b>2,028,802</b>	<b>6,717,734</b>
<b>Liabilities</b>						
Money in circulation	1,567,948	-	-	-	-	1,567,948
Cash of Government and banks	419,743	360,312	25,438	1,631	-	807,124
Due to international financial organisations	62,353	45,378	90,755	1,727,151	1,987,812	3,913,449
Other liabilities	158,966	162	-	7,749	-	166,877
<b>Total liabilities</b>	<b>2,209,009</b>	<b>405,851</b>	<b>116,194</b>	<b>1,736,531</b>	<b>1,987,812</b>	<b>6,455,398</b>
<b>Net liquidity)</b>						
<b>surplus/(deficit)</b>	<u>2,236,698</u>	<u>(384,946)</u>	<u>(109,699)</u>	<u>(1,520,706)</u>	<u>40,989</u>	<u>262,336</u>
<b>Cumulated net liquidity</b>						
<b>surplus/(deficit)</b>	<u>2,236,698</u>	<u>1,851,752</u>	<u>1,742,053</u>	<u>221,347</u>	<u>262,336</u>	<u>-</u>



# **NATIONAL BANK OF MOLDOVA**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2001**

**(all amounts expressed in thousands of Moldovan lei (MDL) )**

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### **19 RISK MANAGEMENT (CONTINUED)**

#### **Credit risk**

The Bank's maximum exposure to credit risk, excluding the value of collateral, is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

#### **Market risk**

Moldovan economy is at an early stage of development and there is a considerable degree of uncertainty surrounding the likely future direction of domestic economic policy and political development. Management are unable to predict what changes in condition will take place in Moldova and what effect there might have on the financial position and the results of operations and cash flows of the National Bank of Moldova.

### **20 COMMITMENTS AND CONTINGENCIES**

#### **General claims**

From time to time and in the normal course of business, claims against the NBM are received from its partners. The Management resists such claims and considers that no material losses will be incurred.

#### **Legal proceedings**

As at 31 December 2001, the National Bank of Moldova was not engaged in any material litigation proceedings.

#### **Capital commitments**

As at 31 December 2001 the National Bank of Moldova had capital commitments in respect of investments amounting to approximately MDL 7,960 thousands (2000: MDL 7,691 thousands) (see Note 11). The National Bank of Moldova's Management believes that future net revenues and funding will be sufficient to cover these commitments or any similar commitments which might arise.

#### **Credit related commitments**

As at 31 December 2001, there were no outstanding credit related commitments

**NATIONAL BANK OF MOLDOVA**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2001**

**(all amounts expressed in thousands of Moldovan lei (MDL) )**

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**21      EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

As at 1 March 2002, the official exchange rate of USD computed by NBM was of  
1 USD=13.2605 MDL as compared to 1 USD =13.0909 MDL as at 31 December 2001  
(1USD =12.3833 MDL as at 31 December 2000).