



ANNUAL REPORT

2007



LIST OF ABBREVIATIONS

Ag	Silver
AIPS	Automated Interbank Payments System
BES	Book-Entry System
BSCEE	Group of Banking Supervisors from Central and Eastern Europe
BSTDB	Black Sea Trade and Development Bank
CB	Commercial bank
CBT	Countries at the beginning of transition
CHIBOR	Average interest rate at which the contributing banks are available to lend in the interbank money market financial means in Moldovan lei to other banks
CI	Competitiveness Index
CIF	Cost, insurance and freight
CIS	Commonwealth of Independent States
CPI	Consumer Prices Index
DNS	Designated-Time Net Settlement System
EBRD	European Bank for Reconstruction and Development
EEC	European Economic Community
EFF	Extended Fund Facility by IMF
EGPRS	Economic Growth and Poverty Reduction Strategy
EU	European Union
EUR	Europe's Single Currency
EX	Export of goods
FOB	Free on board
FSAP	Financial Sector Assessment Program
GBP	Pound Sterling
GDP	Gross Domestic Product
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
ILO	International Labour Office
IM	Import of goods
IMF	International Monetary Fund
MDL	Moldovan Leu
MEFP	Memorandum of Economic and Financial Policies
NBC	National Bank Certificates
NBM	National Bank of Moldova
NBS	National Bureau of Statistics of the Republic of Moldova
NEER	Nominal effective exchange rate of the national currency
PCA	Partnership and Cooperation Agreement
PRGF	Poverty Reduction and Growth Facility extended by IMF
PRSC	Poverty Reduction Support Credit extended by the World Bank
REER	Real Effective Exchange Rate of the national currency
REPO	Agreement of securities trading with the repurchase thereof on a determined date and price
RM	Republic of Moldova
ROL, RON	Romanian Leu
RTGS	Real-Time Gross Settlement System
RUB	Russian Rouble
SB	State bonds
SDR, XDR	Special Drawing Rights
SIRF	Standardele Internaționale de Raportare Financiară
SS	State securities
TB	Treasury Bills
TRC	Total Regulatory Capital
USD	US Dollar
WB	World Bank

C O N T E N T S

1. Economic situation of the Republic of Moldova.....	3
World economy	3
Real sector	5
Prices evolution	11
Financial situation	13
Balance of payments	15
External debt	22
2. Activity of the National Bank of Moldova.....	25
Achievement of the monetary and foreign exchange policy in 2007.....	25
Objectives of the monetary and foreign exchange policy	25
Evolution of the monetary policy framework during 2007	26
Implementation and promotion of the monetary and foreign exchange policy during 2007	26
Results of the monetary and foreign exchange policy during 2007	27
Dynamics of monetary indicators	28
Monetary policy instruments	35
Interest rates policy	35
Liquidity management operations of the National Bank of Moldova.....	36
Debt monitoring	40
Relations of the National Bank of Moldova with the Government of the Republic of Moldova	40
Monetary market	42
Interbank monetary market	42
Primary market of state securities	44
Secondary market of state securities and of the Certificates of the National Bank of Moldova.....	46
Activity of primary dealers in the state securities market	47
State securities record within the Book-Entry System (BES) of the National Bank of Moldova	47
Evolution of foreign exchange market	50
International collaboration	62
Supervision and regulation of banks' activity	68
Payments system	77
Commemorative coins issuance	78
NBM personnel and professional training	78
Internal audit	78
Activity of the Council of administration	79
3. External audit report	80
4. Annexes	115

1. Economic situation of the Republic of Moldova

World economy

In 2007 the world economy showed an ascendant evolution and recorded a 4.9%-increase. Despite the crisis registered in the international financial markets, the economic activity at the world level continued to expand, mainly due to emerging and developing countries. China, the economic growth of which was estimated for 2007 at the level of 11.4%, recorded for the first time the highest contribution to the world economy growth assessed both at the

Table no. 1. Inflation rate and dynamics of the gross domestic product in 2007

	Inflation rate (period-end), %	Gross domestic product, %
USA	4.1	2.2
Japan	0.7	2.0
EU 27	3.2	2.9
Euro zone	3.1	2.6
Germany	3.1	2.5
France	2.8	1.9
Romania	6.6	6.0
China	4.8	11.4
Russia	11.9	8.1
Ukraine	16.6	7.3
Bulgaria	11.6	6.3
Turkey	6.0	5.0

purchasing power parity and at the market prices. The economies of India and Russia also continued to evolve on the background of the estimated real growth rates for 2007 at the level of 9.2 and 8.1%, respectively. It is worth mentioning that half of the global growth in 2007 is due to those three countries. The rapid evolution of the emerging and developing countries compensated the moderate rate of the economic growth from the United States of America, estimated for 2007 at 2.2%, which was influenced by the financial crisis triggered as a result of great losses recorded by US and European financial institutions following the risky operations in the US mortgage market.

The economy of the *United States of America* advanced in 2007 by 2.2%, as compared to 2.9% in the previous year. The unemployment rate was kept at the level of 2006 – 4.6%. The inflation at the end of 2007 constituted 4.1%, versus 2.5% in 2006.

In 2007 the economic growth in the *Euro zone* continued, though at a slower pace as compared to 2006, and the real growth of the gross domestic product in 2007 constituted, according to estimates, 2.6% versus 2.7% in the previous year. The economic growth was mainly sustained by investments' acceleration, as a response to the increase of the regional and world demand for machines and equipments and for constructions and exports expansion, as well as due to the high corporative productivity and profitability indices. The consumer prices enlarged by 3.1%, as compared to the 1.9%-increase in 2006.

Those *27 countries of the European Union* registered during the reporting period a 2.9%-growth rate, versus 3.1% during the previous year, while the inflation reached the level of 3.2%.

In 2007 the economic growth of *Japan* continued its trend adopted starting with the year of 2000 and proved to be the most durable of the country's contemporary history. The annualised growth rate of the Japanese economy reached in 2007 the level of 2.0%. On the background of limited inflationary anticipations, the consumer prices advanced in 2007 by only 0.7% versus the previous year.

Following a breathtaking stimulation by 11.5% in the first semester of 2007, the *Chinese* economy reduced slightly its growth rate in the second half of the year, while the gross domestic product enlarged by 11.4%. At the same time, the inflation rate rose by 3.3 percentage points, and constituted 4.8%.

The Russian Federation achieved during the analyzed period an increase of the gross domestic product by 8.1%. The inflation in 2007 constituted 11.9%.

The economy of *Ukraine* continued its expansion recorded during the previous year and displayed a 7.3%-growth in 2007, while the annual inflation went up by 5.0 percentage points versus the level of 2006 and accounted for 16.6%.

In addition to the considerable financial crisis in the second half of 2007, the world economy faced one of the highest inflation rates of the last years.

The significant growth of inflation rates affected most of the countries, and the inflation issue became thus an international problem.

The main reasons reside in the fast increase of prices on energy resources and on agricultural production, determined by the increase of the demand, mainly from emerging economies, as well as a result of adverse weather conditions observed in the most part of the world, which affected considerably the volume of agricultural production.

These conditions urged the financial authorities of the most countries to maintain restrictive monetary policies, except for the U.S.A., where the threat of recession generated the interest rate decrease.

Real sector*

Gross Domestic Product (GDP) estimated for 2007 advanced in real terms by 3.0% as compared to the previous year. Its evolution was generated by the significant increase of the gross capital formation, while the net export posted a negative contribution. The final consumption enlarged at a slower growth rate versus 2006. At the same time, GDP growth by supply was sustained by important results displayed by services sector (mainly that of

constructions) and by the considerable increase of net taxes on products and import. It should be mentioned that the drought that has affected the Republic of Moldova this year, eroded the economic growth by reducing the gross value added both in agriculture and in several important sectors of the processing industry.

Gross domestic product (GDP), estimated in current prices for 2007, constituted 53353.7 million lei. Accordingly, the GDP value per capita constituted 14916.2 lei (the equivalent of approx. USD 1229.1), increasing in nominal terms by 19.2% versus 2006. The GDP deflator,

featuring the dynamics of the general level of prices per economy, amounted to 15.8% (as compared to 13.4% in 2006).

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

gross added value within the services sector, by 12.7% versus 2006, including constructions – by 22.2%, transportation and communications – by 17.4%, retail and wholesale trade – by 10.8%. Net taxes on products and import recorded, as well, a 10.6%-increase. Simultaneously, the drop of 34.6% and 3.0% registered in agricultural and industrial sectors led to the reduction of the total gross added value.

Within the structure of GDP by

Chart no. 1. Dynamics of indicators

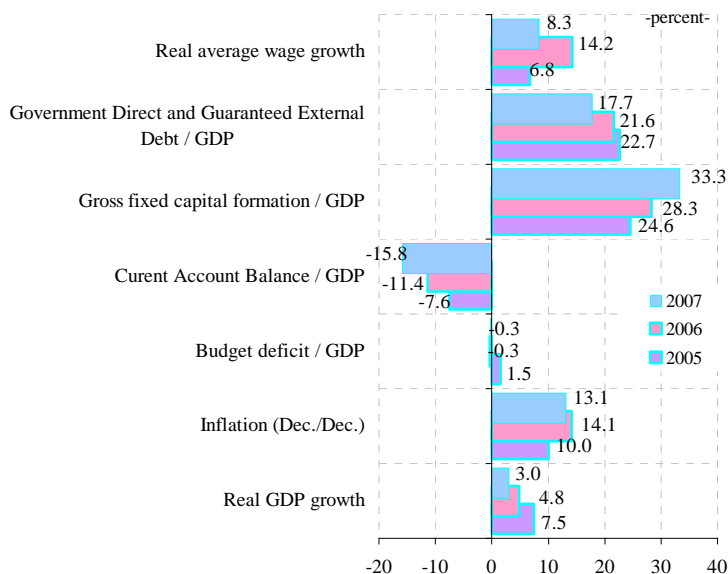
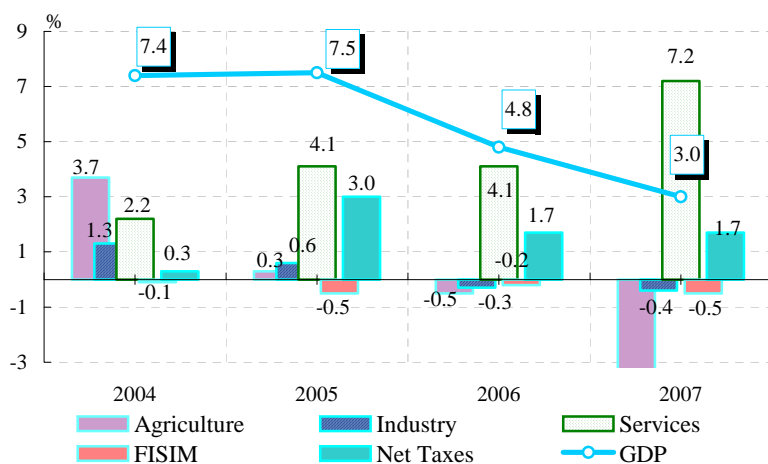


Chart no. 2. Contribution to real GDP growth (in % to previous year)



*Source: National Bureau of Statistics of the Republic of Moldova

categories of resources, services continued to hold the highest weight within the GDP formation (61.1%, versus 56.7% in 2006), followed by net taxes on products and import with the weight of 17.0% (versus 16.6%), industry – by 14.8% (versus 14.7%), agriculture – by 9.9% (versus 14.5%) and financial intermediation services indirectly measured (FISIM) – by minus 2.8%.

Services and net taxes displayed the highest contribution to the GDP real growth – 7.2 percentage points and 1.7 percentage point, respectively. Agriculture and industry showed a negative contribution of 5.0 and 0.4 percentage points, respectively (chart no. 2).

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

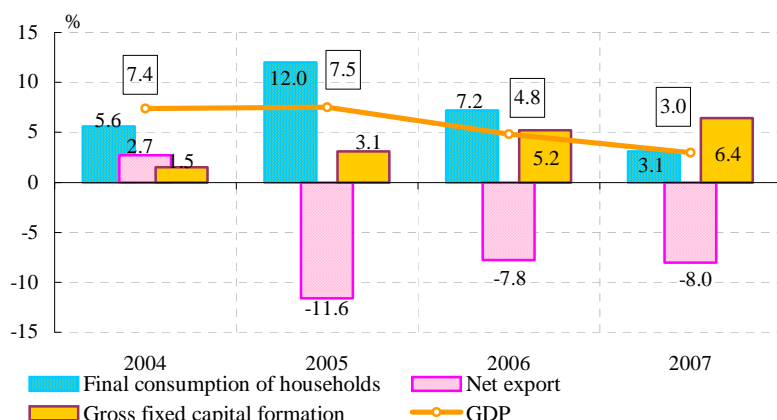
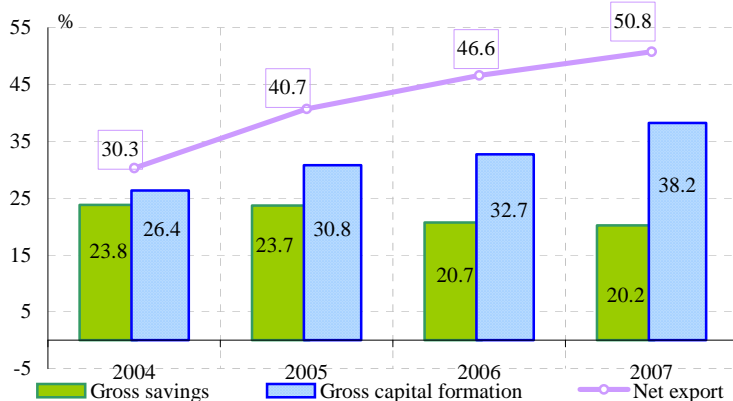


Chart no. 4. Dynamics of indicators (percent of GDP, %)



From the point of view of **GDP use**, the increment of the domestic aggregated demand by 7.5% resulted in the increase (though by 2.1 times lower as compared to 2006) of the final consumption by 3.8% (including that of households – by 3.4%) and by the increase of the gross capital formation by 20.3% (including that of the gross fixed capital formation – by 22.7%). The negative balance of net export

advanced by 17.1% versus 2006, and recorded an increase of imports by 13.4% and of exports – by 9.5%.

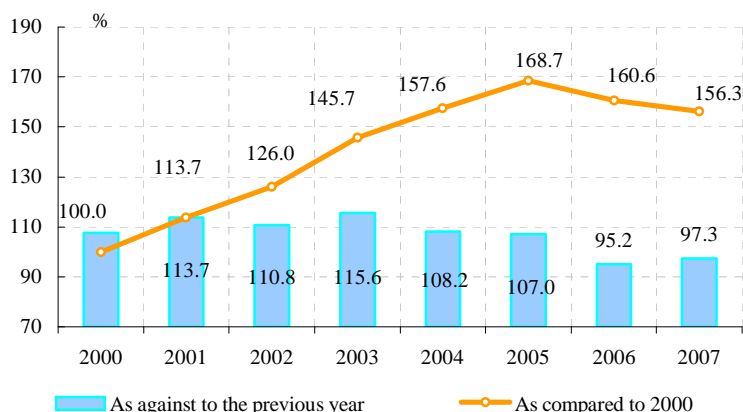
Within the **GDP structure by categories of uses**, the weight of final consumption in 2007 reduced by 1.3 percentage point as compared to 2006, and constituted 112.6%. At the same time, gross capital formation went up to 38.2% of the GDP value (chart no. 4).

The investment rate, determined by the ratio of gross fixed capital

formation and gross value added per economy, constituted 40.1%, which is a higher value as compared to previous years (34.0% in 2006 and 29.3% in 2005).

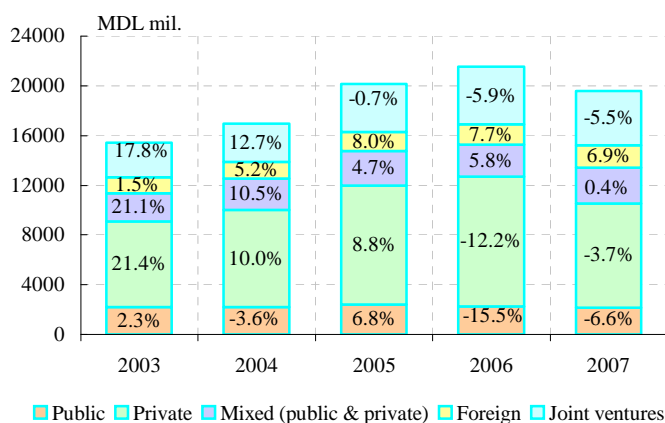
In 2007 the **industrial production** of entities of all types of ownership recorded a real decrease by 2.7% versus the previous year and accounted for 26186.8 million lei in current prices. At the same time, the production volume in 2007 advanced as compared to 2000 by 56.3%.

Chart no. 5. Industrial production real growth index



points. At the same time, the mining and quarrying industry recorded a real increase by

Chart no. 6. Volume and growth rate of industrial production by forms of ownership*



* For 2007 data are shown by large enterprises, subject to monthly statistics

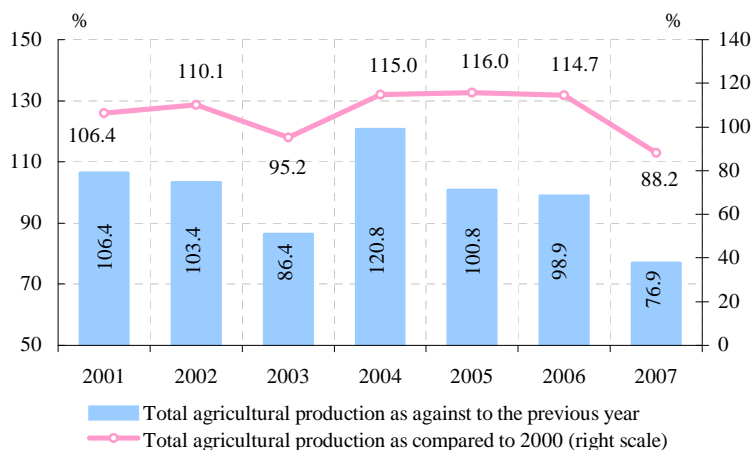
In 2007 the **industrial production** of large and medium-sized enterprises subject to monthly statistics equalled to 19567.2 million lei in current prices and recorded a 2.7%-decrease versus the previous year (chart no. 5). This fact was mainly determined by the reduction of the production volume within the processing industry enterprises by 3.3% in real terms, which led to the decrement of the industrial production by 3.0 percentage

points. At the same time, the mining and quarrying industry recorded a real increase by 3.6%, while in the activity of energy and heating supply, gas and water supply – by 1.9% versus the previous year.

The labour productivity within the industrial sector in the period of January–December 2007 went up by 3.4% versus the similar period of the previous year. It should be mentioned that out of total number of enterprises subject to monthly statistics (686 enterprises), 53.1% reduced their industrial production volume versus 2006.

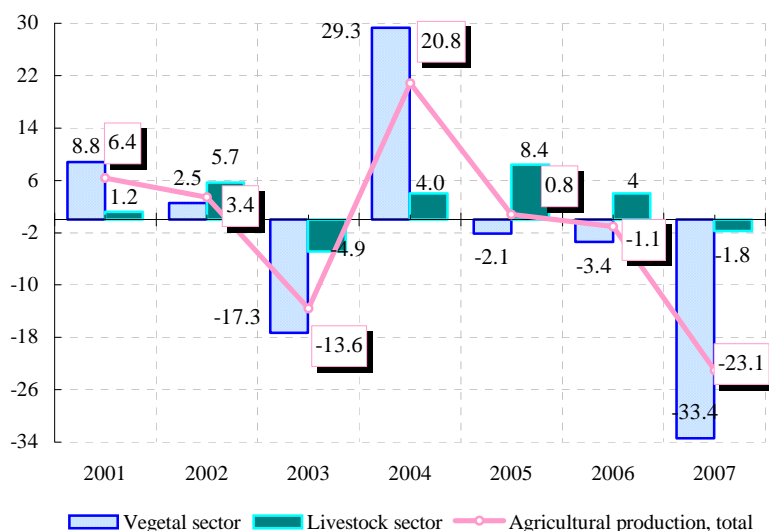
The analysis of the industrial production volume by forms of ownership revealed positive dynamics for enterprises with foreign capital – by 6.9% and for enterprises with joint (public and private) capital – by 0.4%, which accounted for 23.8% of the total production volume. Simultaneously, enterprises with other forms of ownership recorded decreases of the industrial production volume (chart no. 6).

Chart no. 7. Real growth of agricultural production



Agricultural production, according to preliminary estimations, totalled 12550.0 million lei in 2007, decreasing in real terms by 23.1% versus the previous year and by 11.8% versus 2000 (chart no. 7). The reduction of the

Chart no. 8. Agricultural production dynamics (versus the previous year,%)



agricultural production was mainly caused by the emphasized growth of the vegetal production (by 33.4%), while the animal production reduced only by 1.8% versus the previous year (chart no. 8). Thus, the vegetal production contributed by 22.5 percentage points to the diminution of total production, while the animal production – by 0.6 percentage point on the total agricultural production volume.

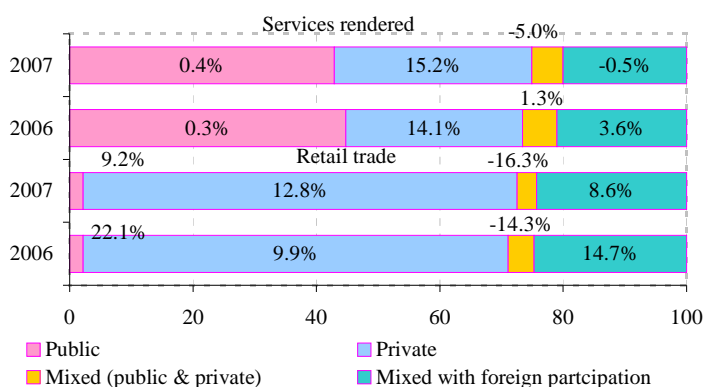
The total volume of **retail trade** equalled to 28304.0 million lei, by

8.0% higher in real terms as compared to the level recorded during the previous year.

The volume of retail trade carried out in 2007 **through commercial units** constituted 16892.3 million lei, by 10.5% more in real terms versus the previous year.

The analysis of the sales volume within the ownership structure revealed the reduction of the retail trade only within joint (public and private) commercial units, by 16.3% (chart no. 9). At the same time, the greatest part of trade was carried out through private commercial units (which represented 70.3% of total), and recorded an increase of 12.8%. Rises of sales volumes were also recorded within commercial units with public and joint ownership (with foreign capital participation), by 9.2% and 8.6%, respectively.

Chart no. 9. Structure and dynamics of retail trade and of services by forms of ownership (%)



In 2007 goods in an amount of 11411.7 million lei (according to estimations) were traded in the markets of the country, by 4.4% more as compared to the previous year.

In 2007 **services rendered to the population** equalled to 11853.2 million lei and recorded an increase in comparable prices by 3.9% versus the level of 2006.

Services rendered to the population by officially registered units in 2007 totalled 9582.2 million lei, and posted

an increase in comparable prices by 4.2% versus the level of 2006.

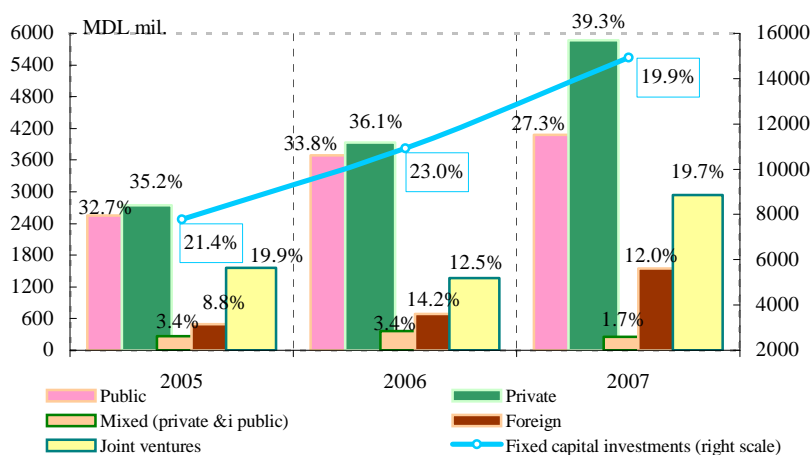
This growth was due to the increase of the volume of services within units with private ownership (by 15.2%) and public ownership (by 0.4%), which held the highest weights in the total value of services, 32.0 and 42.9%, respectively (chart no. 9). Simultaneously, the

volume of services within units with joint (public and private) ownership with foreign capital participation declined by 5.0 and 0.5%, respectively, as compared to 2006.

During the analyzed period, individuals rendered services to the population in an amount of 2271.0, or by 2.5% more versus the previous year.

In 2007 *fixed capital investments* in economy were assigned in an amount of 14935.9

Chart no. 10. Volume and structure of fixed capital investments by forms of ownership



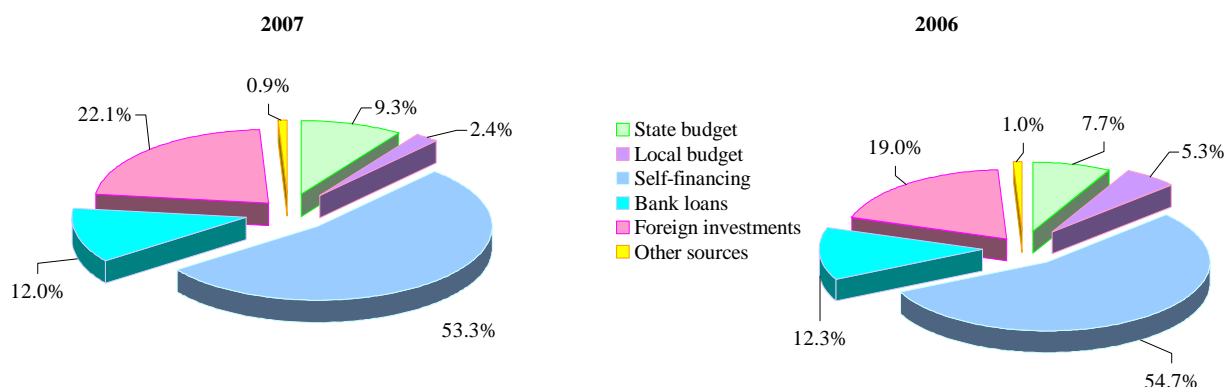
million lei, which represented 119.9% versus the level of 2006 (chart no. 10). At the same time, the volume of constructions and assembly works (56.8% of total investments) went up by 20.5% in comparable prices versus the level recorded in the previous year.

Out of total investments, the most important ones (72.7%) were carried out in the non-governmental sector, including in private enterprises (39.3%), in

joint enterprises (19.7%) and foreign enterprises (12.0%), which recorded an increase of 31.8, 56.7 and 12.1%, respectively. At the same time, investments in the public sector and in the enterprises with joint (public and private) ownership without foreign participation decreased by 3.3 and 18.5% versus the previous year.

The highest share of investments was carried out on the account of the funds of economic agents and population – 53.3% and of foreign investments – 22.1%. State and local budgets contributed by 11.7% (chart no. 11).

Chart no. 11. Structure of fixed capital investments by sources of financing (%)



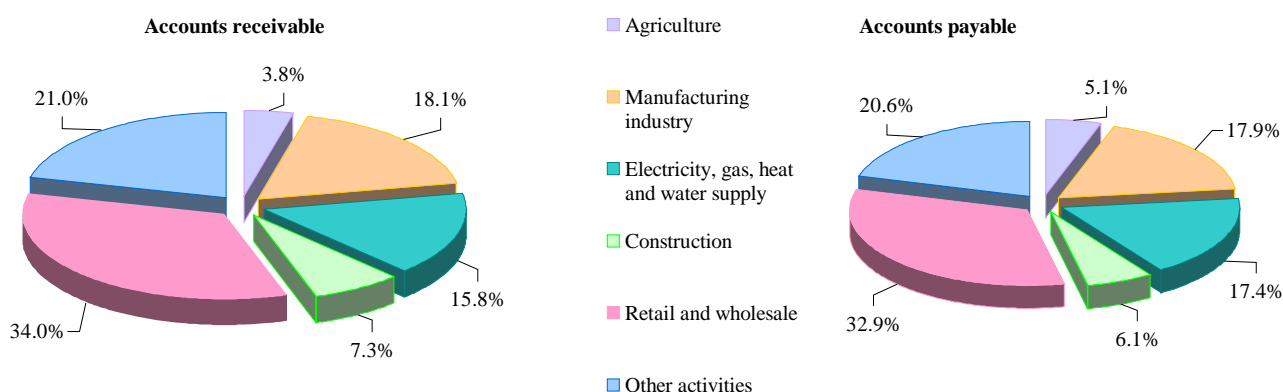
The analysis of the specific structure of investments in fixed capital revealed the channelling of the most part of investments (39.8% of the total volume) to buildings' construction

(except for dwellings), followed by investments in the equipment and machines acquisition (30.8%). An amount of 19.9% of fixed capital investments was targeted to dwellings' construction, while for transport means 8.1% were assigned.

Short-term accounts receivable amounted as of September 30, 2007 to 38511.5 million lei, including those related to commercial invoices – 29664.3 million lei (77.0%). The stock of short-term accounts receivable advanced by 24.1% versus the end of 2006.

Short-term accounts payable of enterprises as of the same date equalled to 65197.2 million lei, their stock enlarged by 13.7% as compared to as of December 31, 2006. Short-term accounts receivable and payable of economic agents in breakdown by economic activities are shown in chart no. 12.

Chart no. 12. Short-term accounts receivable and payable by main economic activities as of 30.09.2007 (%)



In 2007 the **economically active population** (according to data of quarterly questionnaires carried out in 12000 households) constituted 1313.9 thou persons, decreasing by 3.2% as compared to 2006. The **activity rate*** of the population aged 15 and over accounted for 44.8%. The number of unemployed, according to the International Labour Office (ILO) totalled approx. 66.7 thou persons (decreasing by 33.2 thou persons versus the previous year) matching to an **unemployment rate** of 5.1% (7.4% in 2006).

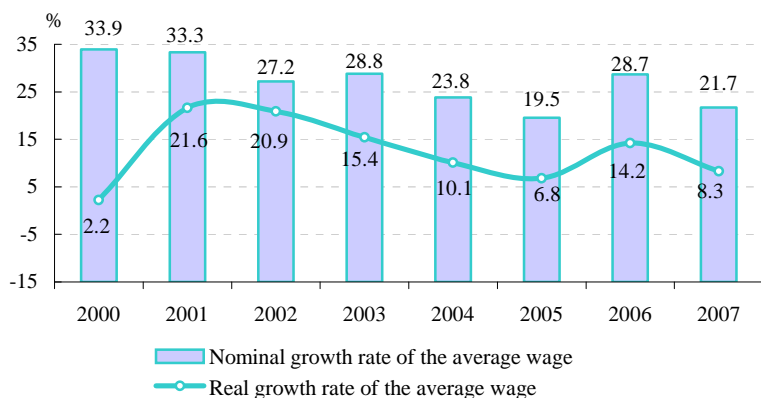
The number of employees per economy** (621.6 thou employees) reduced as compared to 2006 by 27.1 thou persons (by 4.2%). The agricultural sector scored the highest staff reduction (by 18.1%). Staff reductions were also observed in the processing industry (by 6.7%), in the field of healthcare and social assistance (by 3.9%), education (by 2.9%), public administration (by 2.5%), transportation and communications (by 1.9%), energy, heating, gas and water supply (by 1.6%). At the same time, staff increases were recorded in the financial activity (by 14.4%), mining and quarrying industry (by 9.5%), constructions (by 11.2%) and trade (by 5.9%).

The average monthly wage of an employee of the national economy went up by 21.7%, in real terms by 8.3% versus the previous year and accounted in 2007 for 2065.0 lei (chart no. 13).

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

** For enterprises with 20 and more employees (5718 economic and social agents)

Chart no. 13. Evolution of the average annual wage



Wage increases occurred during the year within all economic activities, and the wage level was applied according to the provisions of the Decision of the Government of the Republic of Moldova no. 575 of 24.05.2007 on the establishment of the minimum wage quantum throughout the country, starting with 01.04.07, in an amount of 400 lei per month for a full working program of 169 hours (average per

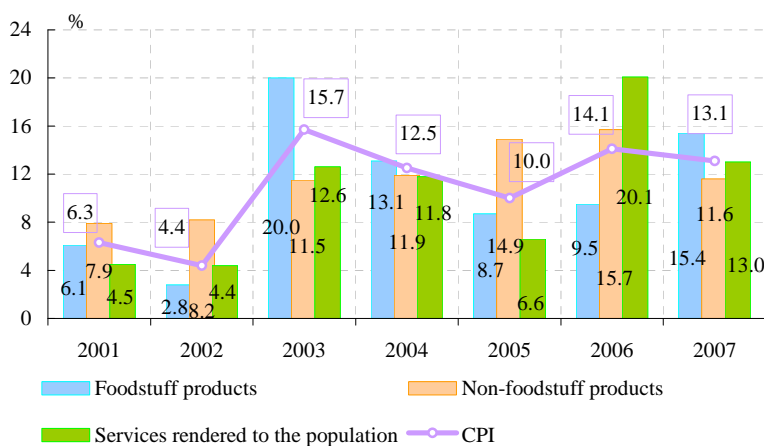
month) and according to the provisions of the Law of the Republic of Moldova no. 355-XVI of 23.12.2005 on the wage system of the budgetary sector.

The wage fund accounted for 14093.8 million lei. As of December 31, 2007 the wage arrears reduced by 42.2 million lei versus December 31, 2006 and constituted 72.5 million lei.

Evolution of prices

The inflation rate as of December 31, 2007 measured by consumer prices index constituted 13.1% as compared to the level of 14.1% recorded at the end of 2006 (chart no.14). Within the components' structure, the highest prices increase (by 15.4%) was recorded for foodstuff products, followed by services rendered to the population (by 13.0%) and to non-foodstuff products (by 11.6%).

Chart no. 14. Dynamics of inflation level



The annual inflation calculated during the reporting period through the consumer prices index displayed an opposite evolution (chart no. 15) and embarked upon a descendant trend in the first semester of 2007 (from 14.1% as of December 31, 2006 to 10.4% as of June 30, 2007), after which the highest level of 2007 was recorded in September and October – 14.0%. The prices growth rate was tempered and accounted for 13.5% at the end of November and 13.1%

at the end of the year.

Non-foodstuff products posted during 2007 the highest contribution to prices increase (approx. 5.3 percentage points, or approx. 40.5% /rate), followed by foodstuff products with

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

	2006			2007		
	Price growth	contribution	Contribution / CPI	Price growth	contribution	Contribution / CPI
CPI	14.1	14.1	100.0%	13.1	13.1	100.0%
Foodstuff products	9.5	4.2	29.8	15.4	4.9	37.4
Non-food products	15.7	4.8	34.0	11.6	5.3	40.5
Paid services	20.1	5.1	36.2	13.0	2.9	22.1

Source: NBS, NBM

significant rises of prices were recorded within **foodstuff products** for vegetal oil – by 50.7%, fresh fruit – by 30.0%, dietetic eggs – by 25.1%, milk and dairy products – by 24.4%, miller's and bakery products – by 22.8%, vegetables – by 22.0%, meat, meat products and canned meat – by 15.3%, strong drinks – by 14.2%. At the same time, prices reductions were registered for potatoes – by 50.7%) and for sugar –by 2.6%.

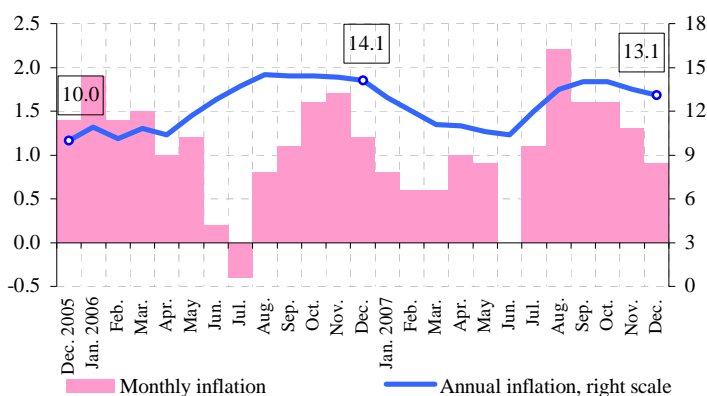
The prices growth rate on **non-foodstuff products** in 2007 was mainly conditioned by prices increases on medicines (by 18.2%), fuel (by 13.0%), knitted wear (by 12.6%), ready-made clothes (by 11.7%), footwear (by 11.0%), make-up and perfumery items (by 9.7%) and building materials (by 8.9%).

Within the group of **services rendered to the population** the inflation was mainly induced by the increase on tariffs by 19.9% on utilities (water supply and sewerage – by 34.4%, energy supply – by 31.0%, gas supply – by 10.6% and central heating – by 6.6%).

Prices increases were also recorded within public catering (by 28.4%), dwellings' reparation and maintenance (by 15.4%), education (by 12.3%), healthcare (by 10.5%).

Annual average inflation constituted 12.3% in 2007 versus 12.7% in 2006, including on foodstuff products – 11.0%, on non-foodstuff products – 13.1% and on services rendered to the

Chart no.15. Inflation dynamics (%)



population – 14.3%.

Industrial producer prices advanced from the beginning of 2007 by 28.4% and recorded a 15.5 percentage point-increase as compared to the previous year, mainly on the account of 2.1- time increase of producers' prices of the energy, heating, gas and water supply. Prices of the producers from mining and quarrying industry and processing industry went up by 13.8 and 11.2%, respectively.

The reasons that did not allow during 2007 for the maintenance of inflation within the unitary limit (up to 10.0%) were practically the same that influenced the prices increase at the international level, namely, the considerable increase on energy resources and

agricultural production. These increases were amplified in the Republic of Moldova by a faster growth of prices on natural gas and by the considerable drought that brought about a more emphasized growth of prices on agricultural products, generating the increase of inflationary expectations.

In the course of 2007 the Republic of Moldova recorded a significant net foreign currency inflow (5.8 times higher versus 2006). In order to avoid the excess fluctuations and a more vivid appreciation of the national currency, the National Bank of Moldova conducted periodic interventions and purchased USD 367.3 million. This, in its turn, led to the spring of monetary indicators, which also influenced negatively the inflation rate dynamics.

It should be mentioned that the measures undertaken by the National bank of Moldova in collaboration with the Government of the Republic of Moldova allowed the maintenance of a descendant trend of inflation under the conditions of utterly external and internal unfavourable conditions, creating, thus, grounds for continuing the process of inflation reduction, for ensuring and maintaining prices stability.

Public Finance Sector*

In 2007 the revenues of the *national public budget*** were projected in an amount of 21997.6 million lei, while expenditures – in an amount of 23074.1 million lei.

The revenues of the national public budget, according to preliminary data, equalled to 22219.6 million lei, which is 101.0% of the projected amount, by 24.6% (4392.4 million lei) more as compared to 2006. According to operative data, the expenditures of the national public budget equalled to 22353.3 million lei, and represented 96.9% of the yearly budget projections. The national public budget registered a deficit of 133.7 million lei (0.3% of the gross domestic product for 2007).

Tax collections (82.7% of total revenues) constituted 18379.3 million lei and were carried out in an amount of 100.7% versus tax revenues foreseen for 2007.

Non-fiscal revenues totalled 1401.3 million lei, or 109.6% of projections. Their weight in the total amount of the national public budget revenues accounted for 6.3%. *Revenues from public institutions' special funds* equalled to 1332.7 million lei, *special funds revenues* – 187.4 million lei and *grants* – 918.9 million lei, of which 906.0 million lei represented external grants.

Out of total volume of the national public budget expenditures, 62.7% were used for social programs performance, 16.5% – for the national economy fields, 6.9% – for defence, public order maintenance and national security, 5.7% – for general state services. *State budget revenues* in 2007 constituted 14004.5 million lei (at the level of 100.4% versus the provisions of State budget law no. 348-XVI of 23.11.2006 and further completions), surpassing by 2890.6 million lei (26.0%) the volume of revenues collected in 2006. The state

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

** The national public budget includes the state budget, the budget of state social insurance, budgets of administrative and territorial units, healthcare insurance funds

budget expenditures constituted 14211.5 million lei (98.3% as compared to the yearly budget projections), by 29.0% higher versus the previous year.

The state budget in 2007 was closed with a deficit of 207.0 million lei as compared to the projected deficit of 499.8 million lei.

The basic revenues in the state budget were achieved in an amount of 12343.0 million lei, exceeding the yearly projections by 0.4%. *The basic expenditures of the state budget* were carried out in an amount of 12120.2 million lei, or at the level of 99.7% of yearly projections. Thus, the basic components of the state budget accumulated a surplus of 222.8 million lei.

In 2007 the ***budgets of administrative and territorial units*** accumulated incomes in an amount of 5646.8 million lei, which is 102.7% versus the yearly projections. Expenditures were carried out at the level of 94.4%, and equalled to 5627.0 million lei. The budgets of administrative and territorial units were closed with a surplus of 19.8 million lei.

As of December 31, 2007 ***the external state debt*** constituted USD 765.8 million (the equivalent of 8668.2 million lei), increasing by USD 47.6 million as compared to the level recorded as at the end of 2006. The ***domestic state debt*** totalled 3748.66 million lei. Out of total amount of the domestic state debt, the debt to the National Bank of Moldova constituted 2332.19 million lei.

Balance of payments*

The main external factors that influenced in 2007 the national economy and the balance of

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

	2005	2006	2007 (pr.)
CURRENT ACCOUNT	-226.44	-386.91	-694.68
Goods and services	-1212.24	-1587.26	-2296.35
Goods	-1191.50	-1591.46	-2316.00
exports (FOB)	1104.58	1052.96	1360.73
imports (FOB), including:	-2296.08	-2644.42	-3676.73
imports of energy resources (except for electricity)	-425.86	-544.89	-644.70
Services	-20.74	4.20	19.65
exports	398.94	488.55	646.10
imports	-419.68	-484.35	-626.45
Income	410.26	400.67	423.39
receivable, of which:	539.27	605.84	709.97
compensation of residents from labour abroad	520.00	573.00	649.00
payable, of which:	-129.01	-205.17	-286.58
dividends and distributed branch profits	-6.07	-55.08	-52.74
reinvested income and undistributed branch profits	-27.35	-41.59	-103.32
interest on loans and on governmental debt securities ***	-48.77	-54.57	-68.20
Current transfers	575.54	799.68	1178.28
inflow, of which:	618.76	859.63	1258.78
workers' remittances from abroad	395.08	602.82	842.26
outflow	-43.22	-59.95	-80.50
CAPITAL AND FINANCIAL ACCOUNT	48.49	281.62	528.20
Capital transfers	-3.83	-22.78	-7.96
Direct investment	197.55	242.62	447.25
of which: in the national economy	197.39	241.88	459.28
equity capital and reinvested earnings	106.98	160.61	326.91
loans from parent companies	90.41	81.27	132.37
Portfolio investment	-6.95	-4.79	-4.56
Assets*	-1.19	-0.21	-0.07
equity securities		-0.21	-0.07
debt securities	-1.19		
Liabilities**	-5.76	-4.58	-4.49
equity securities	0.60	1.78	1.67
debt securities	-6.36	-6.36	-6.16
Financial derivatives (net), – banks	-1.59	0.19	-0.47
Other investment	-8.07	207.14	622.80
Assets*	-77.93	-73.16	55.44
trade loans	-25.43	-6.38	-6.12
currency and deposits abroad	-52.50	-66.78	61.56
Liabilities**	69.86	280.30	567.36
trade loans	60.10	46.79	116.38
long-term loans ***	-12.06	174.40	299.27
disbursed	155.73	354.72	542.19
reimbursed	-167.79	-180.32	-242.92
short-term loans	-0.43	7.08	19.77
deposits of non-residents within the national banking system	12.64	53.32	60.56
other liabilities	9.61	-1.29	71.38
Reserve assets *	-128.62	-140.76	-528.86
Errors and omissions	177.95	105.29	166.48
Informative:			
Remittances from abroad through banks performed by individuals	683.24	854.55	1218.30

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

payments were the US dollar depreciation versus the European currency and the global inflationary processes revealed through the increase of import prices, mainly on energy resources. The evolution of the balance of payments was also influenced by:

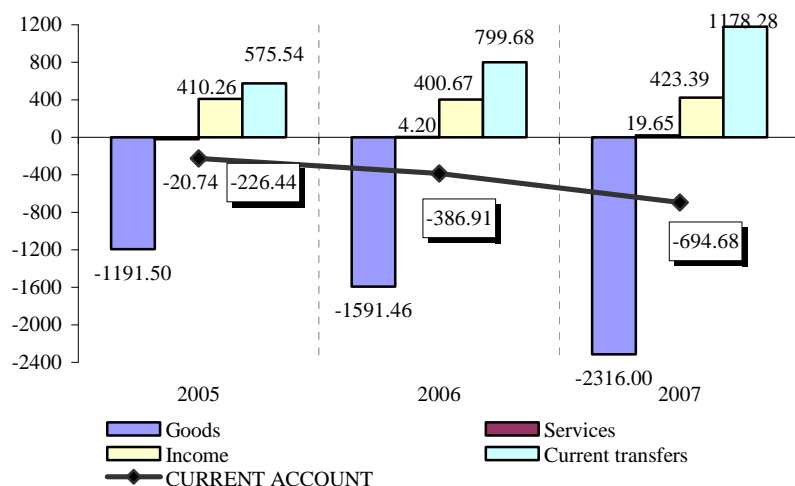
- intensification of relations with international organizations;
- increase of grants and of external assistance for budget support, poverty reduction and liquidation of drought aftermath of summer 2007;
- inflow of foreign investment;
- growth of the volume of loans contracted from abroad by banks and economic agents;
- embargo on Moldovan alcoholic beverages import to Russia and the suspension thereof in November 2007;
- increase of official reserve assets.

The main aggregates of the balance of payments are shown in table no. 3.

* Preliminary data

Current account of the balance of payments, according to preliminary data, registered a deficit in an amount of USD 694.7 million (chart no. 16), by 79.5% more as compared to 2006, while the ratio between the current account and GDP reached the level of 15.8%,

Chart no. 16. Main components of the current account (USD, million)



increasing by 4.4 percentage points.

The current account impairment was determined by the growth of the trade balance deficit. The summary surplus of income and current transfers covered 69.8% of the external trade with goods and services deficit.

The value of the external trade with goods and services advanced versus 2006 by 35.1% and totalled USD 6310.0 million.

Exports to imports ratio

constituted 46.6% and reduced as compared to the previous year by 2.7 percentage points.

Table no. 4. Dynamics of Foreign Trade with Goods

	Unit of measure	2005	2006	2007
Exports of goods (EX)	USD, million	1104.58	1052.96	1360.73
	% versus the previous year	111.1	95.3	129.2
Imports of goods (IM)	USD, million	-2296.08	-2644.42	-3676.73
	% versus the previous year	131.3	115.2	139.0
Trade balance (EX-IM)	USD, million	-1191.50	-1591.46	-2316.00
	% versus the previous year	158.0	133.6	145.5
Foreign trade with goods (EX+IM)	USD, million	3400.66	3697.38	5037.46
	% versus the previous year	124.0	108.7	136.2
Exports / GDP	%	37.0	30.9	31.0
Imports / GDP	%	-76.8	-77.6	-83.6
Trade balance / GDP	%	-39.9	-46.7	-52.7
Exports to imports ratio	%	48.1	39.8	37.0
Economy's openness degree (EX+IM) / GDP	%	113.8	108.5	114.6

The deficit of the external trade with goods and services amounted to USD 2316.0 million (FOB prices), by 45.5% more versus the previous year (table no. 4). The ratio of the trade balance with goods to GDP expanded by 6.0

percentage points and amounted to 52.7%. It is to be mentioned that trade deficit in absolute

value exceeded exports with goods by USD 955.3 million.

Chart no. 17. Exports and imports of goods, yearly dynamics (USD, million)

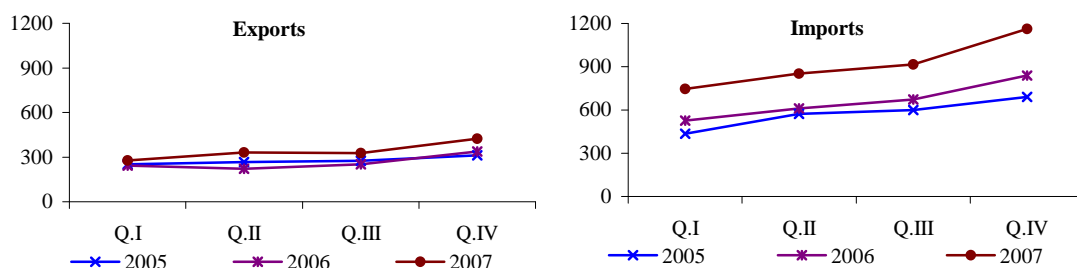


Chart no. 17 shows that the imports growth rate (39.0%) surpassed the exports growth

rate (29.2%).

Table no. 5. Trade balance (FOB – CIF) with goods by groups of countries

	2005	2006	2007	2007 versus 2006
	USD, million			%
European Union, of which:	-681.96	-796.15	-1146.32	144.0
Belgium	-21.22	-22.87	-32.34	141.4
Bulgaria	-34.22	-23.47	-30.42	129.6
Czech Republic	-21.75	-24.58	-37.03	150.7
France	-30.72	-40.11	-40.29	100.4
Germany	-126.21	-144.89	-200.65	138.5
Italy	8.80	-38.84	-61.94	159.5
United Kingdom	-5.47	1.71	8.60	5.0 times
The Netherlands	-21.28	-15.60	-29.64	190.0
Poland	-52.52	-46.39	-65.64	141.5
Romania	-250.65	-322.46	-453.34	140.6
Hungary	-26.55	-27.50	-55.70	2.0 times
Balkan countries, of which:	-61.38	-80.32	-116.95	145.6
Turkey	-56.76	-77.85	-117.69	151.2
CIS, of which:	-381.24	-633.45	-846.33	133.6
Belarus	-13.56	-0.42	-39.27	93.5 times
Kazakhstan	10.43	18.11	34.22	189.0
Russia	44.07	-226.81	-268.07	118.2
Ukraine	-434.28	-434.55	-578.02	133.0
Uzbekistan	0.70	0.68	-10.71	
Other countries, of which:	-76.40	-131.66	-238.46	181.1
China	-37.13	-66.34	-119.30	179.8
South Korea	-2.92	-12.17	-25.94	2.1 times
Total	-1200.98	-1641.58	-2348.06	143.0

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

According to NBS data, the negative balances recorded with Ukraine, Romania, Germany and China displayed the highest contribution to trade deficit (table no. 5).

Exports were concentrated in an amount of 80.3% (table no. 6) to 10 countries – Russia, Romania, Ukraine, Italy, Germany, Belarus, Poland, Kazakhstan, United Kingdom and Turkey.

Within the structure of exports with goods, *agricultural products* prevailed and their weight accounted for 37.8%, of which: alcoholic beverages – USD 134.2 million (decreasing by 28.0%); fruit and nuts – USD 92.9 million (increasing by 43.8%); sunflower oil – USD 49.3 million (increasing by 53.9%); fruit and vegetable juice – USD 48.8 million (increasing 2.8 times); sunflower seeds – USD 29.7 million (increasing 2.0 times).

Exports with goods after processing went up by 26.7% and totalled USD 344.8 million, their weight in total exports with goods equalled to 25.7%. Goods after processing were mainly textiles and items thereof – USD 233.4 million, footwear and parts thereof – USD 38.9 million, and the main importer countries were Italy, Romania and Germany.

Table no. 6. Exports with goods by groups of countries

	2005	2006	2007	Weight		2007 versus 2006
	USD, million			2006	2007	2006
				%		
European Union, of which:	443.38	537.66	679.30	51.3	50.6	126.3
Austria	11.68	13.14	30.88	1.2	2.3	2.4 times
Belgium	14.56	14.13	11.22	1.3	0.8	79.4
Bulgaria	7.63	14.11	27.27	1.3	2.0	193.3
France	16.49	23.85	24.77	2.3	1.9	103.9
Germany	47.43	51.92	86.28	4.9	6.4	166.2
Italy	133.44	116.87	140.20	11.1	10.4	120.0
Lithuania	6.32	8.55	10.17	0.8	0.8	118.9
United Kingdom	11.14	27.34	34.12	2.6	2.5	124.8
The Netherlands	6.53	9.29	14.40	0.9	1.1	155.0
Poland	25.30	39.22	48.36	3.6	3.6	123.3
Romania	111.66	155.56	211.18	14.8	15.7	135.8
Slovak Republic	15.06	22.72	8.87	2.2	0.7	39.0
Hungary	14.74	14.63	5.07	1.4	0.4	34.7
Balkan countries, of which:	26.77	32.50	40.89	3.1	3.0	125.8
Turkey	24.66	28.46	32.09	2.7	2.4	112.8
CIS, of which:	551.36	424.13	550.28	40.6	41.2	129.7
Azerbaijan	3.72	4.76	8.74	0.5	0.7	183.6
Belarus	71.16	73.96	81.97	7.0	6.1	110.8
Kazakhstan	17.30	24.15	45.54	2.3	3.4	188.6
Russia	347.48	182.01	232.75	17.3	17.3	127.9
Ukraine	99.91	128.79	167.87	12.2	12.5	130.3
Other countries, of which:	69.75	57.32	71.34	5.0	5.2	124.5
Switzerland	7.39	14.23	22.58	1.4	1.7	158.7
U.S.A.	37.48	16.23	15.18	1.5	1.1	93.5
Sudan	0.13	1.73	10.85	0.2	0.8	6.3 times
Total	1091.26	1051.61	1341.81	100.0	100.0	127.6

Source: NBS, shuttle trade not included

Table no. 7. Imports of goods by groups of countries (CIF countries)

	2005	2006	2007	Weight		2007 versus 2006
				2006	2007	
		USD, million			%	
European Union, of which:	1125.34	1333.81	1825.62	49.8	49.6	136.9
Austria	35.58	31.31	46.04	1.2	1.2	147.0
Belgium	35.78	37.00	43.56	1.4	1.2	117.7
Bulgaria	41.85	37.58	57.69	1.4	1.6	153.5
Czech Republic	26.18	30.17	42.96	1.1	1.2	142.4
France	47.21	63.96	65.06	2.4	1.8	101.7
Germany	173.64	196.81	286.93	7.3	7.8	145.8
Greece	6.62	14.44	20.25	0.5	0.5	140.2
Italy	124.64	155.71	202.14	5.8	5.5	129.8
Lithuania	18.32	23.13	33.28	0.9	0.9	143.9
United Kingdom	16.61	25.63	25.52	1.0	0.7	99.6
The Netherlands	27.81	24.89	44.04	0.9	1.2	176.9
Poland	77.82	85.61	114.00	3.2	3.1	133.2
Romania	362.31	478.02	664.52	17.7	18.0	139.0
Slovak Republic	15.47	17.43	22.52	0.6	0.6	129.2
Slovenia	13.74	18.97	26.32	0.7	0.7	138.8
Hungary	41.29	42.13	60.77	1.6	1.6	144.2
Balkan countries, of which:	88.15	112.82	157.84	4.2	4.4	139.9
Turkey	81.42	106.31	149.78	3.9	4.1	140.9
CIS, of which:	932.60	1057.58	1396.61	39.2	37.7	132.1
Belarus	84.72	74.38	121.24	2.8	3.3	163.0
Kazakhstan	6.87	6.04	11.32	0.2	0.3	187.4
Russia	303.41	408.82	500.82	15.2	13.6	122.5
Ukraine	534.19	563.34	745.89	20.9	20.1	132.4
Uzbekistan	1.20	2.12	14.41	0.1	0.4	6.8 times
Other countries, of which:	146.15	188.98	309.80	6.8	8.3	163.9
China	37.75	66.71	120.30	2.5	3.3	180.3
South Korea	2.95	12.21	26.01	0.5	0.7	2.1 times
Switzerland	17.07	21.32	28.43	0.8	0.8	133.4
U.S.A.	28.52	22.62	30.03	0.8	0.8	132.8
Total	2292.24	2693.19	3689.87	100.0	100.0	137.0

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

According to NBS data, in 2007, 80.7% of total imports derived from 10 countries: Ukraine, Romania, Russia, Germany, Italy, Turkey, Belarus, China, Poland and France (table no. 7).

Within the structure of imports by groups of goods, *mineral products* held the highest weight (21.4%) and totalled USD 788.4 million, of which: gasoline or bitumen oils – USD 405.2 million; derrick gas and other gas hydrocarbons – USD 256.8 million; energy supply – USD 87.3 million.

Other significant items were, as follows: *machinery and apparatuses* – USD 544.6 million; *cast iron, iron, steel and items thereof* – USD 219.5 million; *plastic and items thereof* – USD 178.4 million; *cars and other vehicles for passengers' transportation* – USD 144.0 million; *pharmaceuticals* – USD 114.2 million; *tractors* – USD 58.7 million; *cigarettes and cigars* – USD 58.6 million; *clothes* – USD 54.8 million; *furniture* – USD 52.7 million.

Balance of services was closed with a surplus of USD 19.7 million, which is 0.4% of GDP.

The volume of services rendered to non-residents went up by 32.2%, up to the level of USD 646.1 million, at the same time, non-residents rendered services in the total amount of USD 626.4 million, by 29.3% more versus

the previous year (table no. 8).

Table no. 8. Services

	2005	2006	2007	2007 versus 2006
	USD, million			%
Balance of services	-20.74	4.20	19.65	4.7 times
Exports	398.94	488.55	646.10	132.2
Imports	-419.68	-484.35	-626.45	129.3
Transportation	22.47	52.18	47.40	90.8
Exports	169.55	223.75	292.01	130.5
Imports	-147.08	-171.57	-244.61	142.6
Trips	-38.04	-75.61	-48.80	64.5
Exports	103.18	111.75	164.24	147.0
Imports	-141.22	-187.36	-213.04	113.7
Communications	32.09	42.19	46.68	110.6
Exports	59.37	71.19	82.52	115.9
Imports	-27.28	-29.00	-35.84	123.6
Other services	-37.26	-14.56	-25.63	176.0
Exports	66.84	81.86	107.33	131.1
Imports	-104.10	-96.42	-132.96	137.9

Balance of income was closed with a surplus of USD 423.4 million (table no. 9), which represents 9.6% of GDP.

Table no. 9. Income balance

	2005	2006	2007	2007 versus 2006
	USD, million			%
Income balance	410.26	400.67	423.39	105.7
Credit	539.27	605.84	709.97	117.2
Debit	-129.01	-205.17	-286.58	139.7
Compensation of employees	476.83	522.60	592.89	113.5
Credit	520.00	573.00	649.00	113.3
Debit	-43.17	-50.40	-56.11	111.3
Investment income	-66.57	-121.93	-169.50	139.0
Credit	19.27	32.84	60.97	185.7
Debit	-85.84	-154.77	-230.47	148.9
Income on direct investment	-44.96	-108.79	-173.56	159.5
Credit			0.03	
Debit	-44.96	-108.79	-173.59	159.6
Income on portfolio investment	2.68	8.35	11.76	140.8
Credit	5.12	10.87	14.96	137.6
Debit	-2.44	-2.52	-3.20	127.0
Income on other investment	-24.29	-21.49	-7.70	35.8
Credit	14.15	21.97	45.98	2.1 times
Debit	-38.44	-43.46	-53.68	123.5

Income inflow constituted USD 710.0 million, by 17.2% more as compared to the previous year, while income outflow – USD 286.6 million, increasing by 39.7%.

Income from residents working abroad was estimated at USD 649.0 million, which represented 91.4% of total income inflows.

Income on investments registered a negative balance in an amount of USD 169.5 million.

The main payments scheduled for the interest service were, as follows: service on government bonds – USD

1.8 million, on NBM loans – USD 2.2 million, governmental loans – USD 25.4 million (of which USD 10.8 million were rescheduled), to banks – USD 5.7 million and to enterprises of other sectors – USD 33.2 million (including service on loans received from affiliated companies – USD 17.5 million).

Current transfers registered a surplus of USD 1178.3 (table no. 10), the ratio of current

Table no. 10. Current transfers

	2005	2006	2007	2007 versus 2006
	USD, million			%
Balance of current transfers	575.54	799.68	1178.28	147.3
Credit	618.76	859.63	1258.78	146.4
Debit	-43.22	-59.95	-80.50	134.3
Grants and technical assistance	132.09	146.14	209.59	143.4
Credit	132.84	147.61	209.93	142.2
Debit	-0.75	-1.47	-0.34	23.1
Education and professional training	16.86	15.67	18.20	116.1
Credit	17.53	16.43	19.00	115.6
Debit	-0.67	-0.76	-0.80	105.3
Humanitarian aid	9.84	10.50	7.88	75.0
Credit	9.99	10.50	7.93	75.5
Debit	-0.15		-0.05	-
Fees to international organizations	-4.68	-5.85	-4.13	70.6
Credit		0.05	0.02	40.0
Debit	-4.68	-5.90	-4.15	70.3
Workers' remittances	391.98	596.36	826.45	138.6
Credit	395.08	602.82	842.26	139.7
Debit	-3.10	-6.46	-15.81	2.4 times
Other current transfers	29.45	36.86	120.29	3.3 times
Credit	63.32	82.22	179.64	2.2 times
Debit	-33.87	-45.36	-59.35	130.8

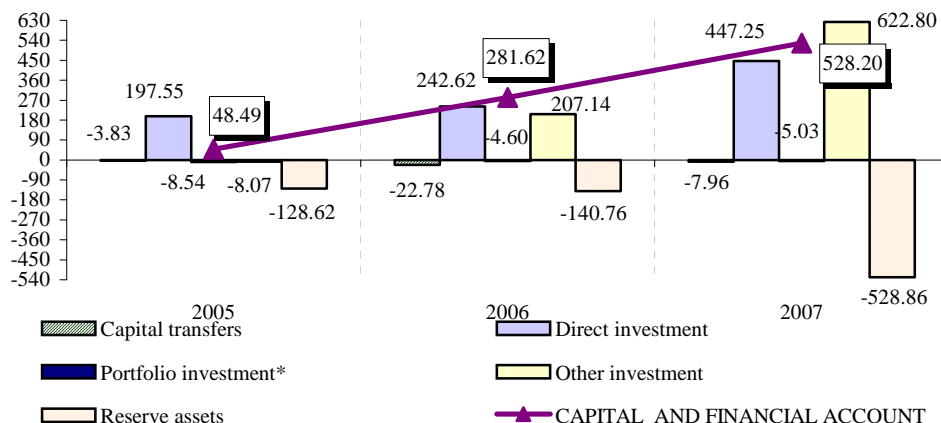
transfers to GDP constituted 26.8%, as compared to 23.5% in the previous year.

Transfers inflows increased by 46.4% versus the previous year, while outflows – by 34.3%. The value of grants and of technical assistance extended to Moldova in 2007 by international organizations and foreign governments was evaluated at USD 209.9 million. Humanitarian aid inflows registered by customs statistics constituted USD 7.9 million.

The amount of international fees paid by Moldova equalled to USD 4.2 million.

Transfers carried out by employees working abroad held the highest weight (69.9%) in total current transfers inflows from abroad and were estimated at USD 842.3 million.

Chart no. 18. Main components of capital and financial account (USD, million)



*including financial derivatives

Capital and financial account of the balance of payments registered net inflows in an amount of USD 528.2 million (chart no. 18).

Capital transfers totalled net outflows in an amount of USD 8.0 million.

Direct foreign investment (table no. 11) in the national economy was evaluated in the net value of USD 459.3 million, of which USD 223.6 million – in the equity capital. Earnings reinvested by non-residents were estimated at USD 103.3 million.

Table no. 11. Direct investment (USD, million)

	2005			2006			2007		
	inflow	outflow	net	inflow	outflow	net	inflow	outflow	net
Direct investment	264.44	66.89	197.55	376.63	134.01	242.62	543.19	95.94	447.25
Abroad	1.60	1.44	0.16	8.51	7.77	0.74	5.51	17.54	-12.03
in the national economy	262.84	65.45	197.39	368.12	126.24	241.88	537.68	78.40	459.28
equity capital	98.81	19.18	79.63	129.12	10.10	119.02	243.21	19.62	223.59
banking sector	2.22	4.42	-2.20	33.18		33.18	39.98		39.98
other sectors	96.59	14.76	81.83	95.94	10.10	85.84	203.23	19.62	183.61
Reinvested earnings	27.35		27.35	41.59		41.59	103.32		103.32
banking sector	8.45		8.45	7.09		7.09	16.42		16.42
other sectors	18.90		18.90	34.50		34.50	86.90		86.90
other capital (other sectors)	136.68	46.27	90.41	197.41	116.14	81.27	191.15	58.78	132.37
Structure by sectors of direct investment flows in the national economy (%)									
banking sector	4.1	6.8	3.2	10.9		16.6	10.5		12.3
other sectors	95.9	93.2	96.8	89.1	100.0	83.4	89.5	100.0	87.7

Drawings on new loans from non-resident parent companies (other capital) constituted USD 191.2 million, declining versus the previous year by 3.2%. Reimbursements were scheduled in an amount of USD 58.8 million, of which USD 44.4 million were actually paid.

The stock of direct foreign investment accumulated in the national economy by the end of 2007 was evaluated at USD 1812.8 million, of which: equity capital and reinvested earnings – USD 1314.2 million, other capital – USD 498.6 million.

Net direct investment carried out by residents abroad was estimated at USD 12.0 million.

Portfolio investment flows (table no. 12) were insignificant and the net outflow in an amount of USD 4.6 million was conditioned by principal payments due on Eurobonds.

Table no. 12. Portfolio investment (USD, million)

	2005	2006	2007
Portfolio investment	-6.95	-4.79	-4.56
Assets (transactions with securities issued by non-residents)	-1.19	-0.21	-0.07
Equity securities		-0.21	-0.07
Other sectors		-0.21	-0.07
Bonds and other debt securities	-1.19		
Banks	-1.19		
Liabilities (transactions with securities issued by residents)	-5.76	-4.58	-4.49
Debt securities	0.60	1.78	1.67
Banks	0.56	1.66	1.42
sale of shares	2.47	1.73	1.60
repurchase of shares	-1.91	-0.07	-0.18
Other sectors	0.04	0.12	0.25
sale of shares	0.20	0.25	0.79
repurchase of shares	-0.16	-0.13	-0.54
Bonds and other debt securities	-6.36	-6.36	-6.35
Governmental sectors	-6.36	-6.36	-6.35
Monetary market instruments			0.19
Governmental sector			0.19

Note: Resident - non-resident transactions are not included in the balance of payment

Financial derivatives included foreign exchange swap operations carried out by banks, which registered in 2007 net outflows in an amount of USD 0.5 million.

Other investment recorded net capital inflow in an amount of USD 622.8 million, external assets decreased by USD 55.4 million, while liabilities to non-residents went up by USD 567.4 million.

External loans by sectors are shown in table no. 13.

The National Bank of Moldova disbursed USD 33.3 million of the IMF financing program and reimbursed USD 22.1 million from previously contracted loans.

Table no. 13. External loans (USD, million)

	2005		2006		2007	
	disbursed	reimbursed*	disbursed	reimbursed*	disbursed	reimbursed*
Monetary authorities loans (NBM from IMF)		21.62	65.15	24.10	33.27	22.05
Governmental loans	25.91	40.70	118.84	61.03	79.30	51.68
of which: rescheduled			87.71	14.44	31.94	21.18
Banking loans	15.48	14.29	24.20	17.04	161.43	39.23
long-term	15.48	12.29	24.20	17.04	142.98	39.23
short-term		2.00			18.45	
Other sectors' loans	124.13	101.40	159.05	83.59	295.81	137.81
long-term	114.34	93.18	146.53	78.15	286.64	129.96
of which: rescheduled	2.51	10.50				
short-term	9.79	8.22	12.52	5.44	9.17	7.85
TOTAL	165.52	178.01	367.24	185.76	569.81	250.77
TOTAL except for rescheduled according to the schedule	163.01	167.51	279.53	171.32	537.87	229.59

Chart no. 19. Reserve assets of the Republic of Moldova



The Government carried out real drawings of loans in an amount of USD 47.4 million, while real payments totalled USD 30.5 million.

It should be mentioned that in 2007 banks disbursed considerable amounts borrowed from abroad (USD 161.4 million, as compared to USD 24.2 million in 2006),

which revealed the confidence of external creditors in the national banking system.

The economic agents of other sectors received external loans in an amount of USD 295.8 million. According to the schedule, USD 137.8 million were foreseen for reimbursements, but only USD 121.1 million were actually paid, while the unpaid amounts (arrears) were entered under other liabilities.

At the end of 2007 *the official reserve assets* of the state equalled to USD 1333.7 million (chart no. 19).

The official reserves advanced as a result of effective transactions entered in the balance of payments in an amount of USD 528.9 million and of the fluctuation of the exchange rate of other currencies against USD – by USD 31.6 million.

During the reporting year, the National Bank of Moldova purchased in the domestic market the equivalent of USD 367.3 million.

The external debt service was assigned USD 77.5 million from reserves, embassies' maintenance – USD 12.0 million, fees for international organizations – USD 2.9 million.

External debt of the Republic of Moldova

The gross external debt at the end of 2007 constituted USD 3300.3 million (table no. 14).

Table no. 14. External debt by sectors (USD, million)

	31.12.2005	31.12.2006	31.12.2007
Governmental sector	657.61	718.23	765.83
Short-term	36.30	0.13	
Other debt liabilities*	36.30	0.13	
Arrears	36.30	0.13	
Long-term	621.31	718.10	765.83
Bonds and notes	25.40	19.04	12.69
Loans	595.91	699.06	753.14
Monetary authorities	95.44	140.96	159.36
Long-term	95.44	140.96	159.36
Loans	95.44	140.96	159.36
Banks	86.71	150.54	362.14
Short-term	50.95	106.78	207.24
Loans			18.45
Currency and deposits	50.95	106.78	178.49
Other debt liabilities*			10.30
Long-term	35.76	43.76	154.90
Loans	35.76	43.76	154.90
Other sectors	954.57	1133.99	1472.09
Short-term	685.66	793.38	961.98
Loans	1.34	8.47	10.25
Trade credits	338.64	387.42	510.64
Other debt liabilities*	345.68	397.49	441.09
Arrears	53.25	73.72	94.37
Other	292.43	323.77	346.72
of which debt for energy resources	288.58	319.74	345.10
Long-term	268.91	340.61	510.11
Loans	268.91	340.61	510.11
Direct investment: Intercompany lending	284.97	380.06	540.87
Debt liabilities to direct investors	284.97	380.06	540.87
Arrears*	16.64	24.61	42.23
Other	268.33	355.45	498.64
TOTAL	2079.30	2523.78	3300.29

*corresponds to other liabilities from the net international investment position

Within the structure by sectors of the external debt, the economic agents of other sectors held the highest weight – 44.6%. The banking sector's debt recorded a considerable increase during 2007: from USD 150.5 million to USD 362.1 million, or 2.4 times, following the disbursement of new loans within the credit line from international financial institutions, as well as from affiliated banks from abroad.

The external public and publicly guaranteed debt enlarged from USD 876.4 million at the end of 2006 to USD 938.7 million at the end of 2007 (table no. 15). The

external private non-guaranteed debt constituted USD 2361.6 million, increasing by 43.4%.

Table no. 15. External public and publicly guaranteed debt and non-guaranteed private sector debt (USD, million)

	31.12.2005	31.12.2006	31.12.2007
Public and publicly guaranteed debt	773.75	876.36	938.65
<i>Short-term</i>	<i>36.30</i>	<i>0.13</i>	
Other debt liabilities*	36.30	0.13	
Arrears (on principal and interest)	36.30	0.13	
<i>Long-term</i>	<i>737.45</i>	<i>876.23</i>	<i>938.65</i>
Bonds and notes	25.40	19.04	12.69
Loans	712.05	857.19	925.96
Non-guaranteed private debt	1305.55	1647.42	2361.64
<i>Short-term</i>	<i>736.61</i>	<i>900.16</i>	<i>1169.22</i>
Loans	1.34	8.47	28.70
Currency and deposits	50.95	106.78	178.49
Trade loans	338.64	387.42	510.64
Other debt liabilities*	345.68	397.49	451.39
Arrears (on principal and interest)	53.25	73.72	94.37
Other	292.43	323.77	357.02
<i>Long-term</i>	<i>283.97</i>	<i>367.20</i>	<i>651.55</i>
Loans	283.97	367.20	651.55
Direct investments: Intercompany lending	284.97	380.06	540.87
Debt liabilities to foreign investors	284.97	380.06	540.87
Arrears*	16.64	24.61	42.23
Other	268.33	355.45	498.64
Total	2079.30	2523.78	3300.29

* corresponds to other liabilities from the net international investment position

Table no. 16. External loans and debt securities, by sectors (USD, million)

	31.12.2005	31.12.2006	31.12.2007
Public debt	729.36	839.39	906.61
Monetary authorities	95.44	140.96	159.36
Loans (from IMF)	95.44	140.96	159.36
Direct governmental debt	633.92	698.43	747.25
Loans	575.39	679.39	734.56
Arrears on loans	33.13		
Debt securities	25.40	19.04	12.69
Private debt guaranteed by the government**	44.39	36.97	32.04
Other sectors	44.39	36.97	32.04
Loans	41.22	36.84	32.04
Arrears on loans	3.17	0.13	
Private non-guaranteed debt	623.53	829.45	1315.49
Banks	35.76	43.76	173.35
Loans	35.76	43.76	173.35
Other sectors	587.77	785.69	1142.14
Loans	517.88	687.36	1005.54
Arrears on loans	69.89	98.33	136.60
TOTAL	1397.28	1705.81	2254.14

* including arrears on principal and interest

** loans under the government's guarantee, serviced by debtor and by the government

External liabilities in the form of loans and securities (table no. 16) were distributed, as follows: 40.2% – public debt, 58.4% – private non-guaranteed debt, and 1.4% – private guaranteed debt. It should be mentioned that the private non-guaranteed debt advanced in the course of 2007 by 58.6%.

External loans and debt securities by creditors are

shown in table no. 17.

During 2007 the National Bank of Moldova received from IMF loans in an amount of USD 33.3 million and reimbursed USD 22.1 million.

The governmental sector benefited from USD 47.4 million from credits contracted previously. Real payments of principal on loans and securities equalled to USD 36.0 million.

The stock of liabilities of economic agents under the government's guarantee

diminished at the end of 2007 by 13.3% as compared to the end of 2006. No new loans under the government's guarantee were contracted. Real payments on principal constituted USD 4.8 million.

The private sector benefited from new loans in an amount of USD 648.4 million, of which USD 161.4 million were contracted by banks, and the rest – by economic agents of other sectors. Real payments on principal were carried out by private economic agents in an amount of USD 200.8 million.

Table no. 17. External loans and debt securities by creditors' (USD, million)

	31.12.2005	31.12.2006	31.12.2007
Monetary authorities	95.44	140.96	159.36
IMF	95.44	140.96	159.36
Direct governmental debt	633.92	698.43	747.25
Multilateral creditors	387.80	412.69	461.67
IBRD, IDA	370.60	393.39	434.47
EBRD	5.38	4.41	3.44
EU	3.55		
IFAD	8.27	12.26	19.35
CEB		2.63	4.41
Bilateral creditors	220.72	266.70	272.89
USA	58.10	56.99	56.74
Japan	24.06	22.26	22.51
Russia	98.30	137.32	135.84
Other	40.26	50.13	57.80
Debt securities	25.40	19.04	12.69
Private debt guaranteed by the government**	44.39	36.97	32.04
Multilateral creditors	20.88	17.30	13.47
EBRD	20.88	17.30	13.47
Other creditors	23.51	19.67	18.57
Private debt non-guaranteed by the government	623.53	829.45	1315.49
Multilateral creditors	82.04	85.26	107.03
Other creditors	541.49	744.19	1208.46
TOTAL	1397.28	1705.81	2254.14

*including arrears on principal and on interest,

** Loans under the government's guarantee, serviced by debtor and by the government

Thus, external liabilities in the form of loans and securities, including related arrears, advanced during the analyzed period up to USD 2254.1 million, as a result of net inflows (USD 465.4 million), net accruals on interest-related arrears (USD 7.2 million), of the influence of the exchange rate of USD against other currencies (USD 65.0 million), as well as of other adjustments (USD 10.8 million).

Indicators revealing the external indebtedness of the Republic of Moldova are shown in table no. 18.

Table no. 18. Indicators of External Indebtedness of Moldova

	Unit	2005	2006	2007
External debt at the end of the year	USD, million	2079.30	2523.78	3300.29
Exports of goods and services	USD, million	1503.52	1541.51	2006.83
External debt in form of loans and debt securities	USD, million	1397.28	1705.81	2254.14
Service of external public debt in form of loans and debt securities* (according to schedule)	USD, million	99.65	123.76	82.45
Service of external public debt in form of loans and debt securities* (effective payments)	USD, million	87.36	98.16	82.57
Service of external governmental debt** (effective payments)	USD, million	52.41	66.45	53.29
Service of external public debt in form of loans and debt securities* (according to schedule)/exports of goods and services	%	6.6	8.0	4.1
Service of external public debt in form of loans and debt securities* (effective payments)/exports of goods and services	%	5.8	6.4	4.1

*including service of loans under the government's guarantee

**including service of loans under the government's guarantee carried out by the government

2. Activity of the National Bank of Moldova

Implementation of the monetary and foreign exchange policy in 2007

Within the economic policy of the Government, the National Bank of Moldova elaborates and implements the monetary and foreign exchange policy targeted to ensuring and maintaining price stability. Without prejudice to its fundamental objective, the National Bank promotes and maintains a financial system based on market principles and supports the general economic policy of the Government.

In the course of 2007 the implementation of the monetary policy was achieved in compliance with the Monetary and foreign exchange policy of the National Bank of Moldova for 2007, coordinated with the economic and financial authorities of the Government of the Republic of Moldova and approved by the Council of administration of NBM on December 7, 2006.

Objectives of the monetary and foreign exchange policy

The monetary and foreign exchange policy, including the main activity directions for the achievement of the basic attributions of the National Bank of Moldova for 2007, was worked out pursuant to the Law on the National Bank of Moldova.

Upon the elaboration of the Monetary and foreign exchange policy of the National Bank of Moldova for 2007 there were used, as follows:

- Scenarios of the economy development of the Republic of Moldova submitted within the Framework of medium-term expenses for 2007-2009, Strategy for Economic Growth and Poverty Reduction (SEGPR), which forecast a GDP growth by 4.0% in 2007;
- State Budget Law for 2007;
- Strategy of the Government of the Republic of Moldova and of the National Bank of Moldova on the development of the financial sector of the Republic of Moldova in the period of 2005-2010.

With a view to supporting the economic growth, the monetary policy was targeted to the inflation level reduction, to the continuous strengthening of the banking system and to the maintenance of conditions favourable to the economic development in the foreign exchange market, financial and credit market. Thus, the Monetary and foreign exchange policy of the National Bank of Moldova for 2007 was worked out with the purpose of achieving the fundamental objective and of maintaining the inflation rate within the limit of 10.0%.

In order to achieve the fundamental objective within the limit provided for 2007, the National Bank of Moldova promoted the monetary and foreign exchange policy based on the following monetary indicators:

- a) reserve money growth within the ceiling limit of 9.7%;
- b) broad money M2 growth within the ceiling limit of 20.0%;

c) monetisation degree M2 (ratio of broad money M2 to GDP) at the level of 32.0% at the end of 2007.

Evolution of the monetary policy framework during 2007

In 2007 the Government of the Republic of Moldova, the National Bank and the International Monetary Fund continued the implementation of the provisions stipulated in the Memorandum on the Economic and Financial Policies for 2006-2008.

The Agreement on the exchange of information between the National Bank of Moldova and the National Bureau of Statistics was signed on July 4, 2007.

During 2007 the monetary and foreign exchange policy and the budget and tax policy were coordinated within the Liquidity Management Committee founded by the National Bank of Moldova and the Ministry of Finance in 2006, with the objective of efficient collaboration with a view to achieving the attributions of liquidities management and monitoring in the financial market.

The National Bank of Moldova and the Ministry of Finance signed on September 12, 2007 the “Plan of conversion of state loans contracted from the National Bank of Moldova into state securities”.

The Ministry of Finance transferred on December 31, 2007 the balances of treasury accounts with banks to the National Bank of Moldova in an amount of: Budget of State Social Insurances – 531.0 million lei, National Healthcare Insurances Commission – 428.8 million lei and Administrative and Territorial Units – 512.2 million lei.

In the course of the reporting year the state debt to the National Bank of Moldova in an amount of 160.0 million lei was paid out, while the deficit of the national public budget was maintained within the limit of 0.26% of GDP.

Implementation and promotion of the monetary and foreign exchange policy in 2007

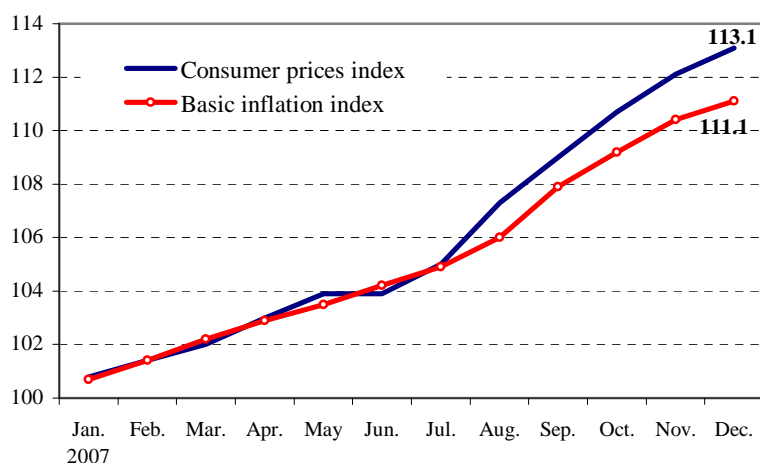
The implementation and the promotion of the monetary policy during 2007 was influenced by the external shocks related to the increase of import prices on mineral oil products, on power resources and natural gas, which contributed to the growth of costs by economic agents. A negative impact on the macroeconomic stability was delivered by the adverse weather conditions, which caused a significant reduction of the agricultural products supply and led to an enhancement of inflationary anticipations followed by a high demand of foodstuff products in the period of July-October. The massive in-flows of foreign currency, which advanced during 2007 as compared to 2006 by approx. 42.6% (USD 363.75 million), represented another factor that produced a negative influence on the monetary and foreign exchange stability.

Therefore, the evolution of the gross domestic product, the situation of the balance of payments of the state and the dynamics of consumer prices was different from the macroeconomic forecast, which served as the reference point in elaborating and achieving the Monetary and foreign exchange policy of the National Bank of Moldova for 2007.

Results of the monetary and foreign exchange policy during 2007

According to preliminary calculations of the National Bureau of Statistics, the real GDP growth in 2007 constituted 3.0%. The increase of exports with goods and services recorded 30.2%, while that of imports – 41.1% versus the previous year. The average exchange rate for 2007 constituted MDL 12.1362 per USD 1, while the state budget registered a deficit in an amount of 0.4% of GDP.

Chart no. 20. Cumulative evolution of prices indices for 2007 (%)



At the end of 2007 the inflation constituted 13.1%, including prices for foodstuff products went up by 15.4%, for non-foodstuff products by 11.6% and for services rendered to the population by 13.0%.

The basic inflation index* for 2007 constituted 11.1%, by 2.0 percentage points under the inflation rate level, exceeding by 1.1 percentage point the limit of the initially forecast inflation indicator, which fact denoted the

influence of the monetary indicator on the consumer prices increase in 2007 (chart no. 20)

The exceeding of the inflation rate by 3.1 percentage points of the initially forecast limit for 2007 was determined by:

1. Monetary factor – monetary issue (reserve money advanced by 46.4%) as a result of significant acquisitions of foreign currency carried out by the National Bank of Moldova with the purpose of avoiding excess fluctuations of the nominal exchange rate of the national currency against USD.
2. Non-monetary factors:
 - a) increase of prices for foodstuff products (mainly for bakery products, meat, dairy products, fruit and vegetables) as a result of the adverse weather conditions both in the Republic of Moldova, and in the region;
 - b) significant increase of prices for power resources in the world market;
 - c) inflation registered on products and services with regulated prices, including for water supply and sewerage (34.4%), energy supply (31.0%), medicines (18.2%), fuel (13.0%), natural gas (10.6%), medical care (10.5%), central heating (6.6%).
- 3) Inflationary expectations.

* Index calculated by exclusion method (local foodstuff products, fuel, energy supply and gas were excluded), based on CPI published by the National Bureau of Statistics of the Republic of Moldova in "Statistic Bulletin of Prices".

It should be mentioned that the inflation rate for 2007 decreased by 1.0 percentage point

versus 2006 (the inflation rate was 14.1%), though the regional and world trends were in their ascension, which was characteristic to most of the neighbouring countries, affecting certain member-countries of the European Union, as well. The main factor that influenced negatively the inflation rate at the world level was the sharp prices increase on power resources and

Table no. 19. Reserve money components at period-end (MDL, million)

Monetary indicators	2006	2007	Changes	
			Relative growth %	Absolute growth MDL, million
Reserve money	6512.3	9537.2	46.4	3024.9
Currency in circulation	5145.8	6664.9	29.5	1519.1
Banking reserves	1366.1	2872.2	110.2	1506.1
Required reserves	936.1	1948.0	108.1	1011.9
Other reserves	430.0	924.2	114.9	494.2
Deposits of state enterprises	0.4	0.1	-75.0	-0.3

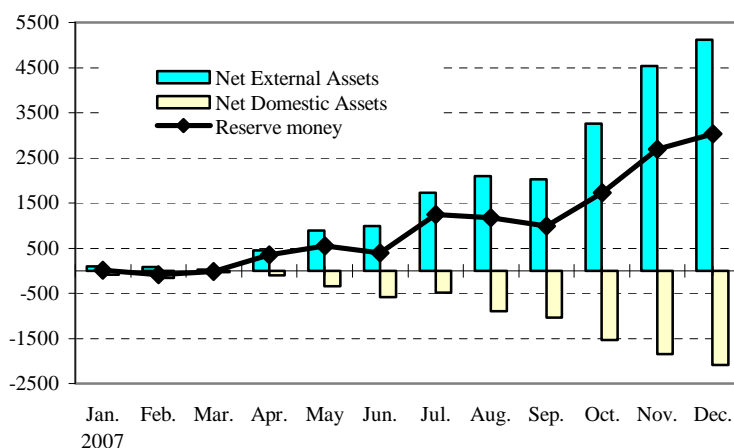
on agricultural products.

Dynamics of monetary indicators

Reserve money

In 2007 *reserve money** went up by 46.4% (3024.9 million lei) versus the previous year and constituted 9537.2 million lei at the end of December 2007 (chart no. 21). The reserve money growth was mainly generated by the evolution of the *net external assets* of the National Bank of Moldova, which increased by 5113.6 million lei, or by 62.8% as compared to the end of 2006. The main factor that backed their evolution represented the net foreign

Chart no. 21. Dynamics of reserve money components versus December 2006 (MDL, million)



currency acquisitions in the interbank foreign exchange market carried out with the purpose of avoiding excess fluctuations of the exchange rate.

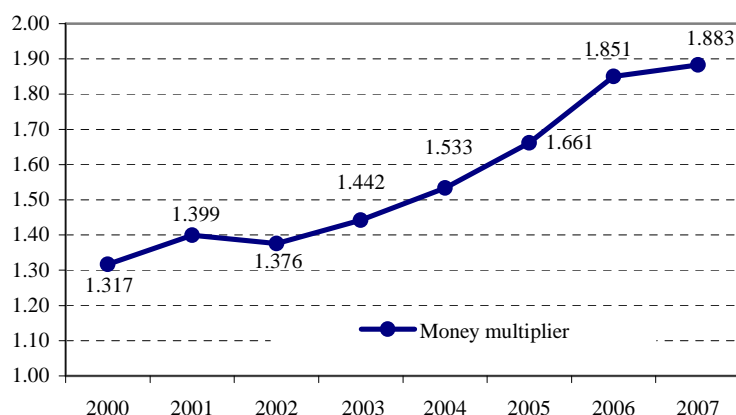
At the same time, the *net domestic assets* diminished by 2088.7 million lei, or 2.3 times versus the end of 2006, as a result of the decrease of claims to the Government by 1774.9 million lei, of the claims of the National Bank of Moldova to banks – by 983.5 million lei and of the increase of other items by 669.6 million lei.

Within the reserve money structure at the end of 2007 the weight of currency in circulation reduced by 9.1 percentage points, from 79.0% to 69.9%. Simultaneously, the weight of banking reserves advanced from 21.0% to

* Reserve money includes currency in circulation (outside the banking system), banking reserves (required reserves in Moldovan lei of banks with the National Bank of Moldova and cash money with banks' vaults) and sight deposits of other organisations held with the National Bank of Moldova.

30.1%. The growth of the weight of banking reserves was conditioned by the increase of the required reserves ratio by 5.0 percentage points (by 649.3 million lei), following the Decision of the Council of administration no. 238 of September 12, 2007 and by the increase of other banking reserves, as a result of the growth of the currency demand from the national economy.

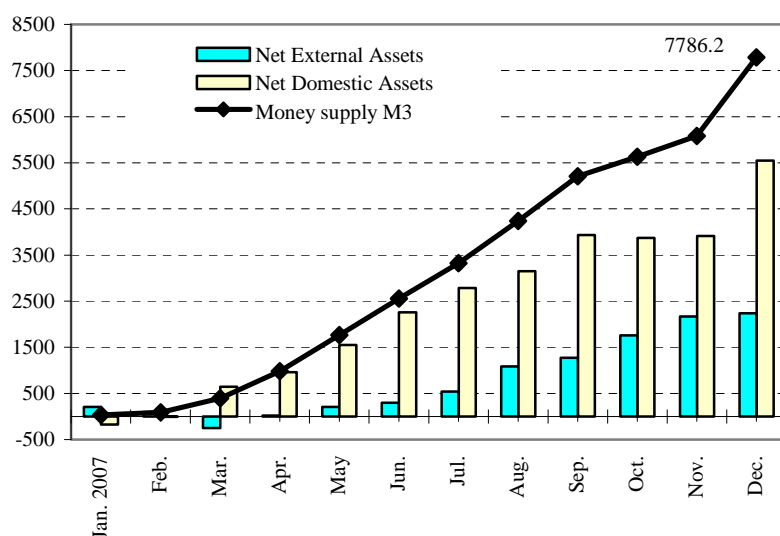
Chart no. 22. Evolution of the monthly average money multiplier (at period-end)



During 2007 the monetary multiplier effect followed the ascendant trend recorded in the recent years, which revealed the continuous increase of the financial intermediation within the domestic economy. *Monetary multiplier* (ratio between monthly average reserve money and monthly average broad money M2) went up in 2007 from 1.851 to 1.883 (chart no. 22). During the analyzed year the process of money multiplication recorded minor growth trends as compared to the previous years. Thus,

the annual average growth rate in 2002–2006 constituted 8.6%, while in 2007 it registered 1.7%. This phenomenon may be explained by the decrease of the broad money M2 growth rate versus the growth rate of reserve money in the course of 2007. Another factor that moderated the money multiplication process was the enhanced growth of the banks' Tier I Capital as compared to the previous year (34.9% in 2006 and 37.8% in 2007).

Chart no. 23. Dynamics of money supply M3 components versus December 2006 (MDL, million)



Evolution of money supply

At the end of 2007 **broad money (M2)*** constituted 18396.7 million lei, increasing by 5911.5 million lei, or by 47.3% versus the end of 2006.

At the same time, **money supply (M3)**** advanced by 7786.2 million lei, or by 39.8% and constituted 27344.2 million lei as of December 31, 2007.

The increase of money supply M3 during 2007 was determined by the ascendant evolution of its components, mainly as a result of the increment of *net domestic assets* of the banking system by 5547.5 million lei (55.0%)

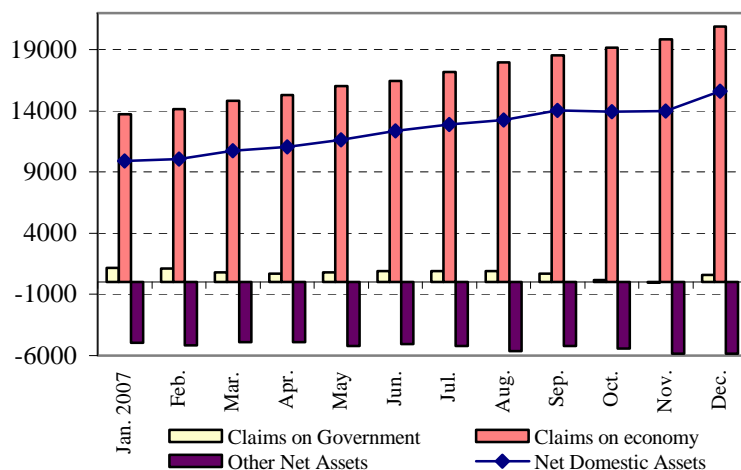
* Broad money M2 includes currency in circulation (M0), deposits in MDL and money market instruments.

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

and of the *net external assets* of the banking system – by 2238.7 million lei (23.6%) as compared to the end of 2006 (chart no. 23). The higher growth of the net domestic assets of the banking system as compared to the net external assets was due to the higher yields on banks' operations in national currency versus those in foreign currency.

The dynamics of *net domestic assets* of the banking system was conditioned by the decrease by 694.7 million lei, or by 54.6% of the *claims to the Government* and the increase by 7116.0 million lei (51.7%) of the *claims to the economy*.

Chart no. 24. Evolution of the components of net domestic assets of the banking system (MDL, thousand)



Following the higher increase of the banks' Tier I Capital as compared to 2006, the structure of the net domestic assets of the banking system underwent certain changes. Thus, at the end of 2007 the weight of claims to the Government diminished by 8.9 percentage points and constituted 3.7% of the net domestic assets of the banking system, the claims to the economy lessened by 2.9 percentage points and reached the level of

133.5% of total net domestic assets, while *other net items* of the net domestic assets of the banking system advanced by 11.8 percentage points and accounted as at the end of 2007 for minus 37.2% of total.

The growth of the net domestic assets of the banking system during 2007 was determined by the increase of *net international reserves of the banking system* by 2343.7 million lei and the decrease of *other external assets* (convertible and non-convertible) by 105.0 million lei. At the end of 2007, following the increase of the attractiveness of operations in the national currency, the structure of net international reserves of the banking system suffered essential

Table no.20. Money supply components at period-end (MDL, million)

Period	2006	2007	Growth, %	Absolute growth
Money supply (M3)	19558.0	27344.2	39.8	7786.2
Broad money (M2)	12485.2	18396.7	47.3	5911.5
Currency in circulation (M0)	5145.8	6664.9	29.5	1519.1
Deposits	14397.2	20661.9	43.5	6264.7
in MDL	7324.4	11714.5	59.9	4390.1
in foreign currency	7072.8	8947.4	26.5	1874.6
Money market instruments	15.0	17.3	15.3	2.3

modifications. Thus, the *net international reserves of the National Bank of Moldova* enlarged by 5121.6 million lei versus the end of 2006 and reached the level of 13280.3 million lei, while the *banks' net international reserves* fell by 2777.9 million lei and

equalled at the end of 2007 to minus 1425.4 million lei.

Under these conditions, the net international reserves of the National Bank of Moldova went up within the structure of net external assets of the banking system by 27.3 percentage points and accounted for 113.5% of total as compared to the end of 2006.

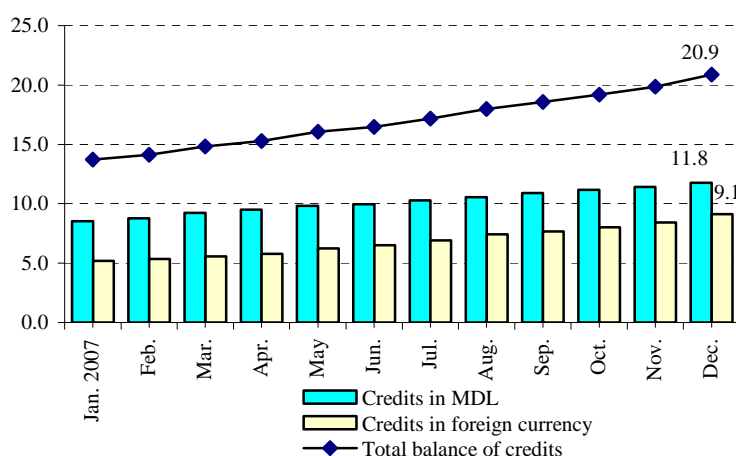
The analysis of liability components of money supply (M3) denoted that their 39.8%-increase was mainly determined by the significant growth of deposits in national currency, which contributed by 56.4% of the money supply M3 growth rate. Deposits in foreign currency and currency in circulation contributed by 24.1% and 19.5% respectively, of the money supply M3 growth rate.

Therefore, at the end of 2007 as compared to the end of 2006, the weight of deposits in national currency in the total money supply M3 stepped up by 5.4 percentage points and equalled to 42.8%, while the weight of deposits in foreign currency and of currency in circulation diminished by 3.5 and 1.9 percentage points and constituted 32.7 and 24.4%, respectively.

Currency in circulation

Currency in circulation (M0) advanced in 2007 by 29.5% (1519.1 million lei) versus the previous year and totalled 6664.9 million lei at the end of December 2007. The monthly average growth rate of currency in circulation constituted 2.3%. During 2007 currency in circulation displayed a trend different from that of the previous years and scored a significant increase in December (9.9%-increase, or by 599.6 million lei versus November 2007). The structure of cash issue of the financial institutions in 2007 differed from that of 2006 and indicated a considerable growth of currency demand from the domestic economy, especially for the payment of dividends, income, state securities amortization and purchase (2.3 times), agricultural products acquisition (54.5%), scholarships (40.7%) and foreign currency acquisition from individuals (31.6%).

Chart no. 25. Evolution of credits to economy (MDL, billion)



Credits market

The dynamics of credits market in 2007 was determined by an enhanced growth of loan demand from the domestic economy. **The total balance of credits to economy*** equalled to 20883.8 million lei at the end of 2007, increasing by 51.7%, or by 7116.0 million lei (chart no. 25).

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

During the reporting year, loans were highly demanded by the industry and trade sector (increasing by 47.8% or by 3312.0 million lei), which held the weight of 49.0% of total credits. At the same time, the financial market development led to 2.3-time increase of consumer credits (or by 1659.6 million lei) and of credits for real estate, construction and development by 79.3% (or by 1190.7 million lei), the weights of which accounted for 14.2 and 12.9%, accordingly (table no.21).

Table no.21. Breakdown of loans by sectors of economy (MDL, million)

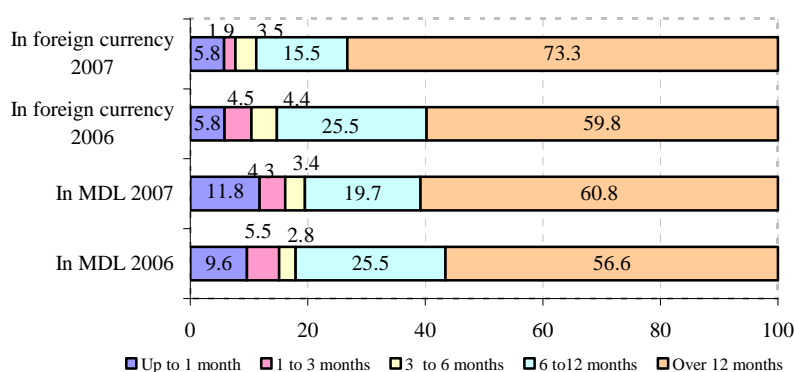
	As of 31.12.2006	Weight in 2006, %	As of 31.12.2007	Weight in 2007, %	Absolute change MDL, million	Change %
Loans to agriculture and food industry	2643.4	19.2	2918.7	14.0	275.3	10.4
Loans for real estate, construction and development	1502.2	10.9	2692.9	12.9	1190.7	79.3
Consumer credit	1302.6	9.5	2962.2	14.2	1659.6	2.3 times
Loans to energy and fuel industry	205.7	1.4	427.8	2.0	222.1	2.1 times
Loans to industry /trade	6923.9	50.3	10235.9	49.0	3312.0	47.8
Loans for road construction and transportation	478.4	3.5	469.4	2.2	-8.9	-1.9
Other loans	711.6	5.2	1176.8	5.6	465.2	65.4
Total	13767.8	100.0	20883.8	100.0	7116.0	51.7

The balance of credits in national currency registered an increase by 3259.9 million lei (38.3%), up to 11768.9 million lei, which represented 56.4% of total bank credits.

The volume of credits in national currency advanced by 41.8% and totalled 14515.2 million lei, as compared to 13.4%-increase recorded during the previous year.

Credits were extended for a longer period and the weight of credits with terms of over 12 months increased from 56.6% in 2006 to 60.8% in 2007), while the weight of credits with

Chart no. 26. Term structure of credits (%)



terms of 6 to 12 months reduced by 5.8 percentage points, down to the level of 19.7% in 2007, which reflected the on-going process of medium-term and long-term financing of the domestic economy.

The balance of credits in foreign currency constituted 9114.9 million lei (USD 805.3 million) at the end of 2007 and advanced by 3856.1 million lei (USD 397.8

million), or by 73.3%.

The volume of credits in foreign currency totalled 11971.8 million lei, increasing by 88.4% versus the previous year. Their equivalent in foreign currency enlarged by USD 502.6 million (2.0 times) and constituted USD 986.5 million.

During the reporting period credits in foreign currency extended for a longer period (over 12 months) kept their highest share (73.3% of total), increasing by USD 433.5 million.

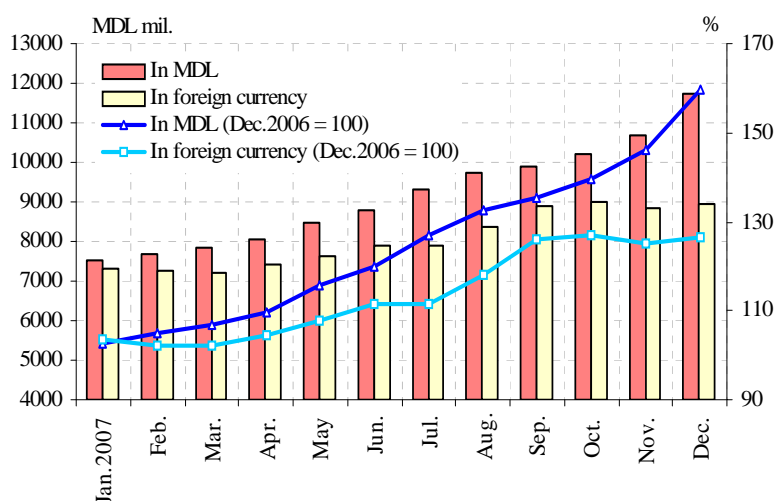
The annual average weighted interest rate on credits in national currency slightly advanced by 0.67 percentage point, from 18.18% in 2006 to 18.85% in 2007.

The dynamics of interest rates on credits in foreign currency extended over the analyzed year was relatively stable, **the annual average weighted interest rate on credits in foreign currency** dipped from 11.06% in 2006 to 10.88% in 2007.

Deposits market

The balance of deposits* within the banking system equalled at the end of 2007 to 20661.9 million lei, surpassing by 43.5% (6264.7 million lei) the level of the previous year (chart no. 27). The

Chart no. 27. Evolution of deposits in 2007



growth of the total balance of deposits was generated by both components, the one in national currency displayed a more accelerated dynamics (59.9%) as compared to that in foreign currency (26.5%).

At the same time, the increase of deposits in national currency in 2007 (by 4390.1 million lei, or by 59.9%) up to the level of 11714.5 million lei was higher as compared to 2006 (by

770.1 million lei, or by 11.7%).

Term deposits in national currency, with the weight of 27.3% in total money supply (M3), went up by 77.4%, up to 7455.9 million lei. Their increase was mainly due to deposits of individuals, which advanced by 78.1% (2769.6 million lei) versus the end of 2006.

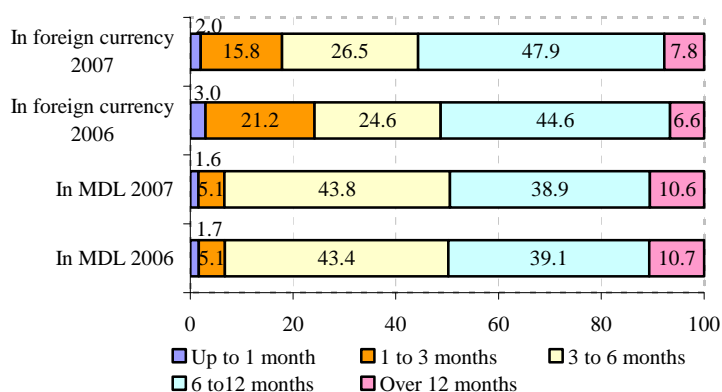
The balance of deposits in foreign currency of residents, expressed in MDL, totalled 8947.4 million lei (the equivalent of USD 790.5 million), increasing by 1874.6 million lei, which is 29.9% of the annual growth of deposits within the banking system.

The balance of term deposits in foreign currency of residents stepped up by 37.3%, to 6717.7 million lei. Expressed in USD, they enlarged by USD 214.3 million and constituted USD 593.5 million at the end of 2007. Simultaneously, **term deposits in foreign currency of individuals** held 88.4% of this growth and increased by 37.6% (USD 189.5 million) versus the end of 2006.

Consequently, the weight of deposits in foreign currency within the total deposits structure diminished by 5.8 percentage points, and conditioned thus the decrease of the level of deposits' dollarization from 49.1% in December 2006 to 43.3% in December 2007.

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

Chart no. 28. Structure of term deposits in MDL and in foreign currency (%)



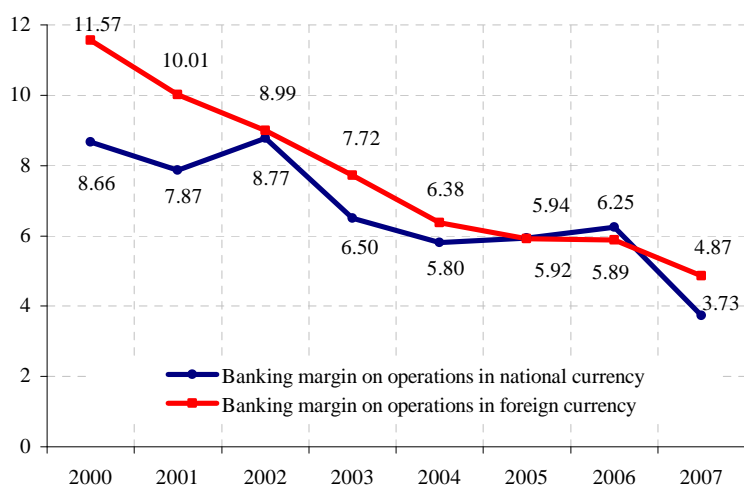
The volume of term deposits attracted by banks during the reporting year constituted 21053.6 million lei, increasing by 54.0% as compared to 2006. In 2007 the growth rates of the volumes of term deposits in national currency recorded a significant increase (70.9% in 2007 versus the 5.3%-increase in 2006), up to the value of 10154.6 million lei. Deposits with terms of 3 to 6 months held the basic segment (43.8%) within the structure, like in the previous year, being followed by deposits with terms

of 6 to 12 months, the weight of which dipped by 0.2 percentage point, down to 38.9 percentage points.

The volume of term deposits in foreign currency attracted in 2007 increased by 3167.1 million lei (41.0%), up to the value of 10899.0 million lei. Out of total term resources in foreign currency, deposits of individuals held 87.4%. According to terms, deposits with terms of 6 to 12 months prevailed within the structure of deposits in foreign currency and constituted 5224.0 million lei, or 47.9% of total (increasing by 1772.8 million lei), being followed by deposits with terms of 3 to 6 months with the weight of 26.5% (increasing by 1.9 percentage point as compared to the previous year).

The annual average interest rate on deposits in national currency advanced by 3.20 percentage points versus 2006, and constituted 15.13% in 2007.

Chart no. 29. Dynamics of the banking margin on operations in national currency and in foreign currency (percentage points)



The annual average interest rate on term deposits in foreign currency went up by 0.84 percentage point as compared to the previous year and posted 6.01%.

During the analyzed year the bank margin (difference between the average rate on credits and deposits) continued its ascendant trend recorded in the period of 2000-2006. Thus, the bank margin related to the operations in national currency diminished by 2.52 percentage points, down to the level of 3.73 percentage points, while the bank margin related to transactions in foreign currency reduced by 1.02

percentage point and accounted for 4.87 percentage points in 2007 (chart no. 29). It should

be mentioned that in 2007 the reduction rate of the bank margin was much higher as compared to the average reduction rate recorded during previous years. In 2000-2006 the average reduction rate of the bank margin on operations in national currency constituted 4.5% and on operations in foreign currency – 10.5%, while in 2007 the bank margin on operations in national currency lessened by 40.3% and on operations in foreign currency – by 17.3%.

Monetary policy instruments

In 2007 the money market continued to host foreign currency inflows and conduct issuances in cases of its acquisition by the National Bank of Moldova.

With a view to achieving its fundamental objective – maintenance of price stability, the National Bank of Moldova undertook measures of liquidity management by sterilizing the excess liquidity. In order to render the sterilization operations more efficient, modifications were operated on the interest rates policy and the required reserves ratio.

Interests rates policy

In 2007 the National Bank of Moldova promoted a prudent rates policy and acted promptly depending on the inflation rate dynamics and the modifications of macroeconomic indicators.

The rates policy promoted by the National Bank of Moldova during the reporting year had the purpose of influencing the liquidity level from within the banking system in a way that would ensure the price stability. This policy was based on the principle of base rate maintenance at a real positive level, and the harmonization of the rates on the main monetary policy operations with the base rate.

Table no.22. Interest rates on monetary instruments

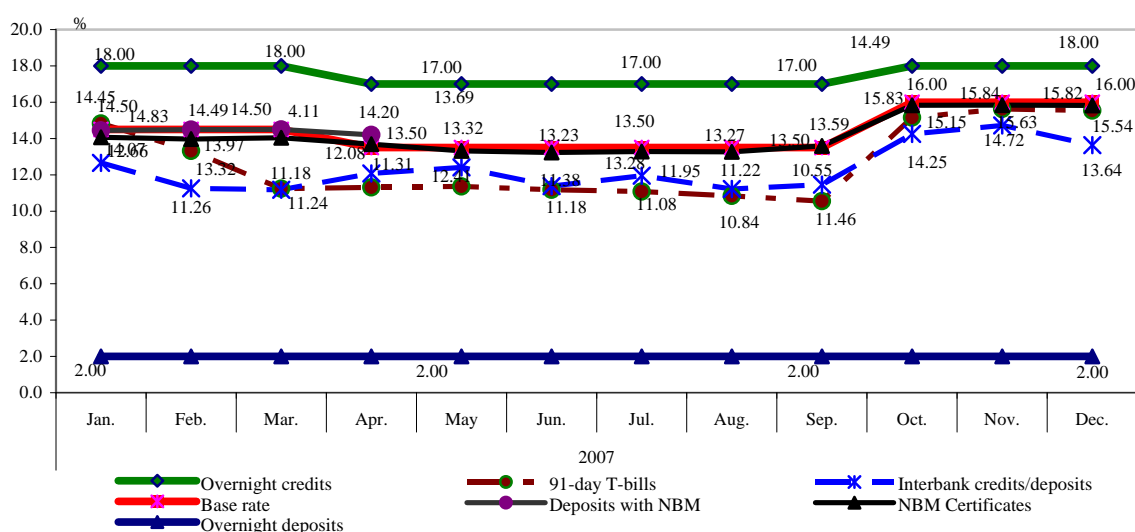
Date of enforcement	Decision
April 20, 2007	<ul style="list-style-type: none"> – Base rate was reduced from 14.5 to 13.5% per year; – Rate on overnight credits was diminished from 18.0 to 17.0% per year; – Rate on overnight deposits was maintained at the level of 2.0% per year.
August 3, 2007	<ul style="list-style-type: none"> – Base rate was maintained at 13.5% per year; – Rate on overnight credits was maintained at 17.0% per year; – Rate on overnight deposits was maintained at 2.0% per year.
September 26, 2007	<ul style="list-style-type: none"> – Base rate was increased from 13.5 to 16.0% per year; – Rate on overnight credits was increased from 17.0 to 18.0% per year; – Rate on overnight deposits was maintained at 2.0% per year.
November 9, 2007	<ul style="list-style-type: none"> – Base rate was maintained at 16.0% per year; – Rate on overnight credits was maintained at 18.0% per year; – Rate on overnight deposits was maintained at 2.0% per year.

The reversal of the inflation trend recorded during Quarter I, 2007 allowed the National Bank of Moldova to reduce the interest rates on monetary regulation instruments in the first half of the year, after which the interest rates were increased in the second semester of the year following the change in the inflation trend.

Thus, in April 2007, the National Bank of Moldova reduced the base rate by 1.0 percentage point and fixed it at the level of 13.5%. The further dynamics of macroeconomic indicator allowed the National Bank to maintain the rates at the same level for a 5-month period.

In September 2007, following the inflation rate increase under the impact of the growth of prices on foodstuff products, as a result of adverse weather conditions and of the prices increase for power resources in the world market and of the higher growth of monetary indicators, the National Bank of Moldova enlarged the base rate by 2.5 percentage points, up to 16.0% per year. Simultaneously, the rate on overnight credits was also increased by 1.0 percentage point.

Chart no. 30. Dynamics of the interest rates corridor in 2007



Along with the base rate increase, the National Bank of Moldova raised (at the end of September) the level of rates applied on liquidity sterilization operations.

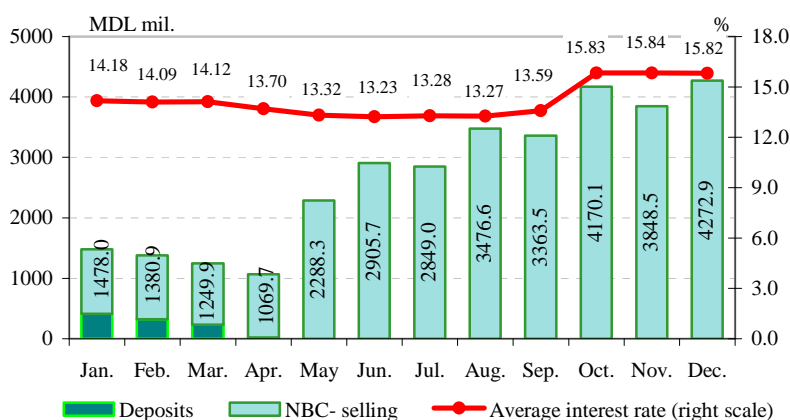
The interest rates on standing facilities offered by NBM to banks worked as the threshold and the ceiling of the rates corridor in the interbank money market. At the same time, it is to be mentioned that the rates dynamics in the interbank money market corresponded with the actions undertaken by NBM.

The base rate on long-term credits was maintained during the analyzed period at the level of 10.5% per year.

Liquidity Management Operations of the National Bank of Moldova

The open market operations remained in 2007 the main liquidity management instruments. During the reporting year the National Bank of Moldova operated the following changes in the application of the main liquidity management instruments: deposits attraction from banks was suspended starting with Quarter II, 2007; the excess liquidity sterilization was mainly achieved through auctions of placing the Certificates of the National Bank of Moldova; at the NBC-selling auctions there were accepted banks, which are not primary dealers in the state securities market; the National Bank of Moldova ceased to announce the auctioned

Chart no. 31. NBM sterilization operations in the money market in 2007



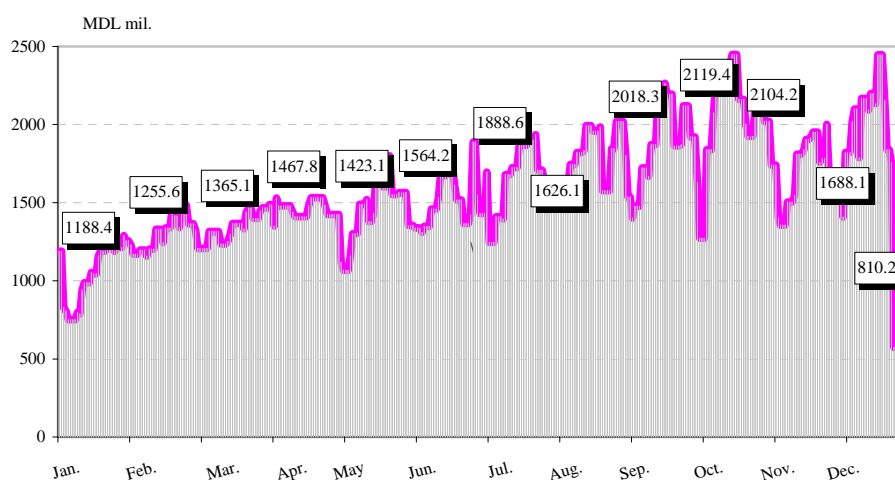
volumes, announcing the minimum accepted price only; banks' demands were integrally accepted; the maturity of sterilization operations was reduced, and the frequency of operations intensified.

At the same time, it should be mentioned that, beside the listed factors, it was the increase of the rate on sterilization operations that conditioned the significant growth of the sterilization operations volumes.

The daily average balance of the open market operations of the National Bank of Moldova was maintained at the level of 1587.2 million lei versus 970.8 million lei in 2006.

In 2007 the daily balance of liquidity sterilization operations reached higher values, the maximum level was recorded in October – 2448.3 million lei. At the end of December the balance of sterilization operations dipped to the value of 810.2 million lei, as a result of the

Chart no. 32. Balance of sterilization operations carried out by NBM in 2007



transfer of the balance of accounts of the National Social Insurance House, of the National Healthcare Insurance Company and of the budgets of administrative and territorial units to the single account of the State Treasury with the National Bank of Moldova (chart no. 32).

During the first three months of 2007 the National Bank of Moldova carried out

sterilization operations at the rate of over 14.0% per year. Starting with April, the National Bank of Moldova diminished along with the base rate the maximum accepted rates on its operations, as well, which in the next 6 months reached the level of approx. 13.0% per year. During the last three months of 2007 the National Bank of Moldova announced new levels of sterilization operations – of 15.79, 15.84 and 15.90% per year for the maturities of 7, 14 and 28 days, which were maintained up to the end of 2007.

The monthly average value of interest rates on sterilization operations fluctuated from the minimum level of 13.23% per year, recorded in June, to the level of 15.84% per year registered in November 2007.

The annual average weighted rate of sterilization operations totalled 14.40% per year, versus 9.62% in 2006.

The total cost incurred by the National Bank of Moldova upon the excess liquidity sterilization constituted 226.7 million lei during the reporting year.

NBC-selling operations

In 2007 the National Bank of Moldova intensified gradually the frequency of NBC-selling auctions, and carried out at the beginning of the year 2 weekly auctions for the maturities of 14 and 28 days, and starting with May 2007, the National Bank of Moldova resorted to weekly issue of NBC with three maturities, including NBC with 7-day maturity.

The Certificates of the National Bank of Moldova were placed through 144 auctions carried out by the National Bank of Moldova within which banks' demands were integrally accepted. The average nominal interest rate on NBC issued through these auctions fluctuated in the course of the year from the minimum level of 12.79% per year recorded in January to the maximum level of 15.90% per year recorded during Quarter IV, 2007.

The average interest rate on NBC issued in 2007 equalled to 14.40% per year, and the average term accounted for 16 days.

The balance of Certificates of the National Bank of Moldova in circulation as of December 31, 2007 constituted 810.2 million lei at purchase price.

Deposits operations

Starting with April 2007 the National Bank of Moldova renounced to attract deposits from banks through auctions in favour of a more liquid instrument – Certificates of the National Bank of Moldova.

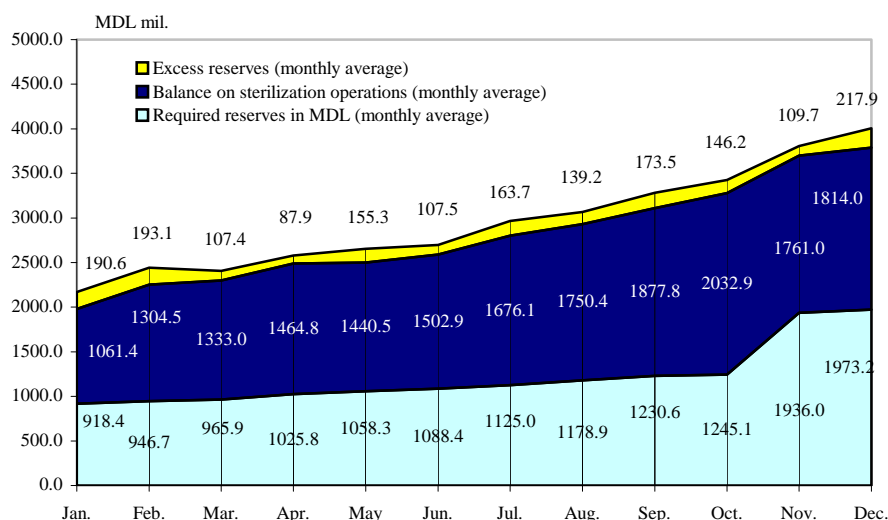
In the course of January-March 2007, twelve deposit auctions were carried out. The auctioned volume accounted for 1040.0 million lei, the amount of banks' demands at deposit auctions equalled to 1002.5 million lei, by 37.5 million lei, or by 3.6% less versus the auctioned volume, while the volume of accepted demands constituted 986.0 million lei.

The average weighted interest rate on deposits accepted in Quarter I, 2007 equalled to 14.47% per year, increasing by 7.26 percentage points versus the rate of the previous year. The average maturity of placements was 69 days, as compared to 62 days recorded in the previous year.

Required reserves

In 2007 the required reserves made up by banks in MDL were used as an additional monetary policy instrument with the purpose of reducing the level of excess liquidity within the system (chart no. 33).

Chart no. 33. Dynamics of monetary policy operations and of the excess liquidity on banks' LORO accounts in 2007



During the first 9 months of 2007 the National Bank of Moldova maintained the required reserves ratio at the level of 10.0% from funds attracted by banks.

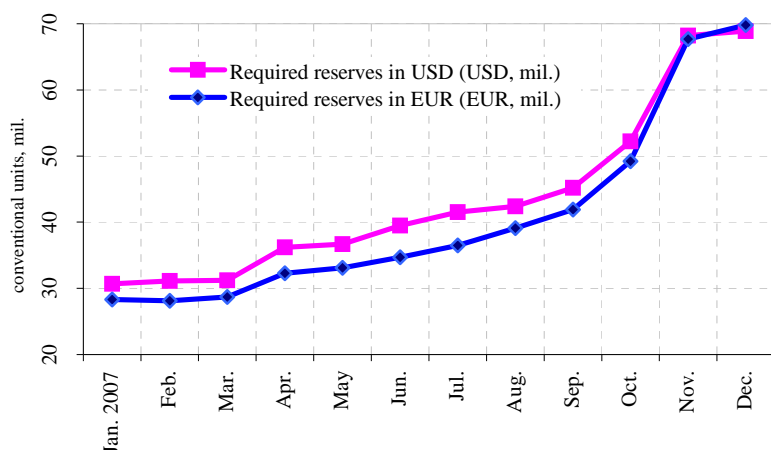
Under the conditions of inflationary pressures intensification, along with the base rate increase, the National Bank of Moldova resorted to the adjustment of the minimum required reserves ratio. The Council of administration of the National Bank of Moldova

decided at its meeting of September 12, 2007 on the gradual increase of the required reserves ratio in free convertible currency by 5.0 percentage points, and set it up in an amount of 13.0% of the calculation base – starting with the tracing period of funds attracted by banks October 16-31, 2007 and in an amount of 15.0% of the calculation base – starting with the tracing period of attracted funds November 1-15, 2007.

At the same time, in order to decrease the inflationary pressures, the ratio of required reserves in Moldovan lei was also augmented, from 10.0 to 15.0%, starting with the application period November 1-15, 2007.

The increase of the ratio of required reserves in MDL allowed for the additional sterilization of excess liquidity, aiming at inflation trend inversion. The increase of the ratio of required reserves in free convertible currency stimulated the moderation of the foreign exchange market situation.

Chart no. 34. Dynamics of required reserves in USD and in EUR in the course of 2007



As of December 31, 2007 the amount of required reserves maintained by banks in Moldovan lei equalled to 1998.4 million lei, enlarging 2.1 times as compared to the required reserves maintained by banks at the end of December 2006.

The required reserves maintained by banks in free convertible currency equalled as of December 31, 2007 to USD 67.8 million and EUR 69.3 million,

increasing by USD 37.7 million and EUR 45.4 million, or 2.3 times and 2.9 times, respectively, as compared to their volume at the end of December 2006 (chart no. 34).

Standing facilities

The functioning mode of standing facilities (overnight deposits and credits), established by the National Bank of Moldova in the course of 2007, allowed banks to efficiently manage own liquidities and offered the National Bank a flexibility in the monetary policy achievement.

Overnight deposit facility

Starting with April 2007 the overnight deposit facility was constantly available to banks. Under the conditions of the excess liquidity within the banking system, banks resorted frequently in 2007 to overnight deposit facility.

In 2007 the overnight placements, calculated as the daily average balance, constituted 67.3 million lei. The daily average balance recorded uneven fluctuations over the reporting year and the minimum level was recorded in April (10.0 million lei), while the maximum level of the daily average balance was recorded in December (132.6 million lei).

Overnight credit facility

Given the increased excess liquidity observed in the banking system during the analyzed year, the overnight credit facility was not frequently used by banks. In April and partially in May and October only, on the background of the excess liquidity reduction within the banking system under the influence of several seasonal factors, did certain banks resort to overnight credits. The volume of overnight credits extended to banks by the National Bank of Moldova in 2007 totalled 432.1 million lei, while the daily average value amounted to approx. 1.2 million lei.

Debt monitoring

The National Bank of Moldova continued in 2007 the monitoring of credits extended to banks in the period of 1992–2002 for lending the housing construction co-operatives based on a decision of the Parliament and the Government of the Republic of Moldova.

The balance of credits extended to banks diminished by 17.7%, and amounted as at the end of the year to 33.5 million lei.

The volume of paid out loans in the course of the reporting year equalled to 7.2 million lei, including payments carried out in advance that accounted for 6.7 million lei, or 93.1% of the amount of loans paid out in 2007.

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

Government's debt to the National Bank of Moldova

In 2007 the management of the state domestic debt was carried out by the National Bank of Moldova pursuant to State Budget Law for 2007 no. 348–XVI of 23.11.2006 with further

modifications, to Law on public debt, state guarantees and state re-financing no. 419–XVI of 22.12.2006 and to Law on the National Bank of Moldova no. 548–XIII of 21.07.1995.

Table no.23. Dynamics of state debt contracted from the National Bank of Moldova
(MDL, million)

Destination	Balance as of 31.12.2006	Loans paid in 2007	Balance as of 31.12.2007	Weight %
<i>1.Loans contracted previously from NBM:</i>				
- for external debt servicing	1510.9	160.0	1350.9	57.9
- for state budget deficit financing	261.5	–	261.5	11.2
- for SS timely repurchase	319.8	–	319.8	13.7
Total loans	2092.2	160.0	1932.2	
<i>2. SS in the NBM portfolio</i>	400.0	–	400.0	17.2
Total state debt to NBM	2492.2	160.0	2332.2	100.0

The state debt contracted from the National Bank of Moldova equalled as of December 31, 2007 to 2332.2* million lei and was made up of the debt on loans contracted previously from the National Bank of

Moldova in an amount of 1932.2 million lei and of the debt represented by state securities in the portfolio of the National Bank of Moldova in an amount of 400.0 million lei (at purchase price).

The state debt contracted previously from the National Bank of Moldova at the end of 2007 lessened by 160.0 million lei, or by 6.4% as compared to the end of 2006, as a result of the reimbursement by the Ministry of Finance of loans according to the provisions of the State Budget Law for 2007.

Re-conclusion of loans

In 2007 the National Bank of Moldova, pursuant to the Law on the National Bank of Moldova and to the State Budget Law for 2007, reconcluded the loans extended previously to the government under the conditions of pledging negotiable state securities at market interest, for a term of 91 days, as the market interest rate ranged between 10.45 and 15.76% per year.

As of December 31, 2007 the average weighted rate on credit portfolio equalled to 15.42% per year, versus 9.26% per year as of December 31, 2006.

On September 12, 2007 the National Bank of Moldova and the Ministry of Finance approved the Plan of conversion of state loans contracted from the National Bank of Moldova into state securities, which provided for loans conversion into SS in the course of Quarter I, 2008.

State securities portfolio of the National Bank of Moldova

State securities re-issuances from the NBM own portfolio carried out in 2007 were performed at the maturity of 91 days. The interest rates on issued securities evolved from 10.45% per year in September to 15.76% per year in October 2007, while the yearly average constituted 12.78% per year.

The average weighted rate on state securities held within the portfolio as of December 31, 2007 recorded the level of 15.60% per year, by 6.64 percentage points more as compared to the level recorded at the end of December 2006.

* without accrued interest

State deposits placed with the National Bank of Moldova

In 2007 the Ministry of Finance placed with the National Bank of Moldova deposits in MDL with the term of 1 month up to 1 year, according to the provisions of the Agreement between the National Bank of Moldova and the Ministry of Finance of December 12, 2006.

The average weighted interest rate on deposits placed in the course of 2007 recorded the level of 11.83% per year.

As of December 31, 2007 the balance of placed deposits constituted 367.0 million lei. The average weighted rate on deposits constituted 15.0% per year, while the average term on the deposits of the Ministry of Finance totalled 301 days.

Money market

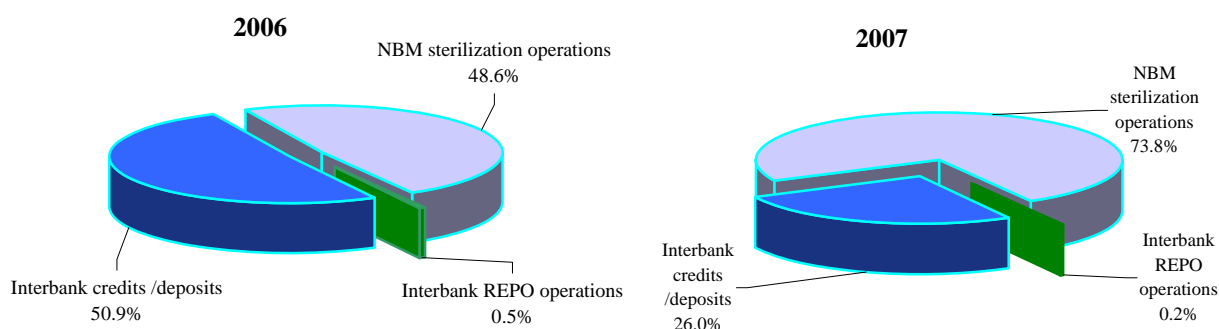
Interbank money market

The turnover in the interbank money market reached in 2007 the level of 43805.2 million lei, increasing 2.2 times as compared to the previous year. This significant growth was due to the intensification of operations with the National Bank of Moldova, and the volume of transactions on this segment constituted 32353.1 million lei, or 73.8% of total turnover in the interbank market, as compared to the weight of 48.6%, recorded in 2006.

The volume of transactions in the interbank segment equalled to 11452.1 million lei, increasing by 1087.1 million lei, or by 10.5% versus 2006.

In 2007, like in the previous years, the main operations in the turnover of interbank transactions were represented by interbank credits/deposits that amounted to 11372.0 million lei (99.3% of total), followed by interbank REPO operations, which constituted 80.1 million lei (0.7%). In 2007, similarly to 2006, the overnight transactions were mainly represented by credits and deposits, which accounted for 88.6% of the total value.

Chart no. 35. Interbank market operations



During 2007 the interest rates on interbank transactions (excluding the National Bank of Moldova) displayed an ascendant trend following the rates policy promoted by the National Bank of Moldova with a view to maintaining price stability. The growth of the base rate of the National Bank of Moldova to 16.0% per year, approved by the Council of administration

of the National Bank of Moldova on September 26, 2007 had the most emphasized impact on the evolution of the rates level in the interbank market (interbank segment). Consequently, in October 2007 the interest rate in the interbank market recorded, as compared to the previous year, a 2.79-percentage point increase and accounted for 14.25% per year.

Chart no. 36. Interbank transactions (MDL, million)

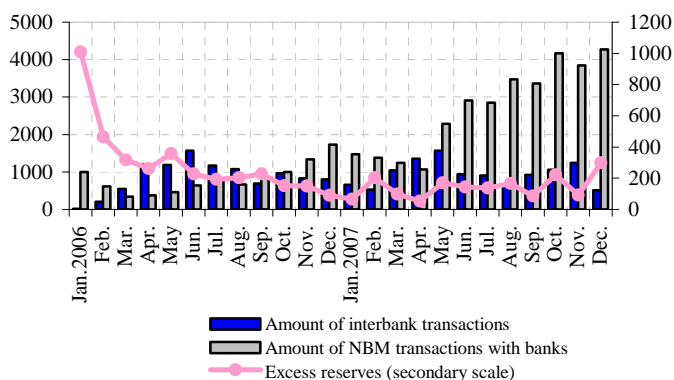
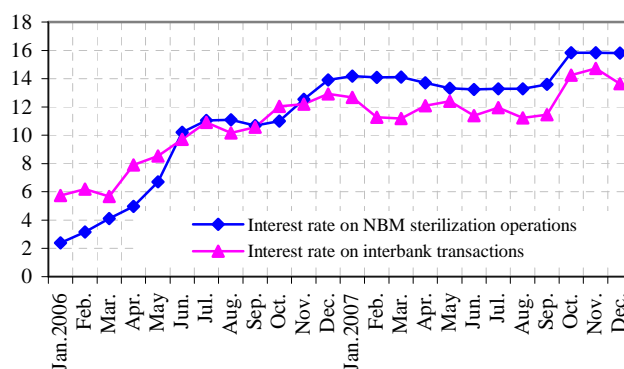


Chart no. 37. Evolution of interest rates (%)



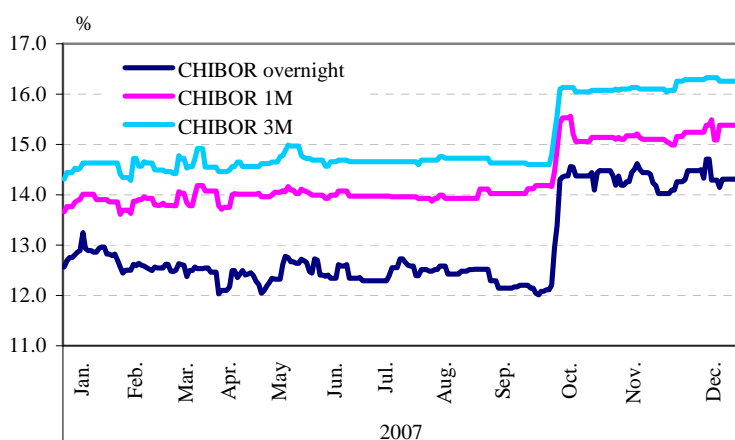
The monthly average rate on interbank operations at the end of the reporting year constituted 13.64% per year, by 0.74 percentage point more as compared to the rate recorded in December 2006. At the same time, the annual average interest rate on interbank transactions advanced versus the previous year by 2.46 percentage points, and accounted for 12.43% per year.

In 2007 the maturity of transactions concluded between banks enlarged and the average weighted term amounted to about 4 days, increasing by 1 day versus 2006.

Reference rates in the interbank money market

The curve of CHIBOR* yields in the course of 2007 acted in compliance with the situation in the money market. In the first semester rates displayed a moderate fluctuation, after which, during Quarter III, 2007, they showed stability, except for the overnight maturity (which followed its variations). During the last days of September 2007, the interbank reference rates enlarged significantly being influenced by the modifications of the National Bank of Moldova operated on the rates of monetary policy instruments.

Chart no. 38. Evolution of CHIBOR reference rates



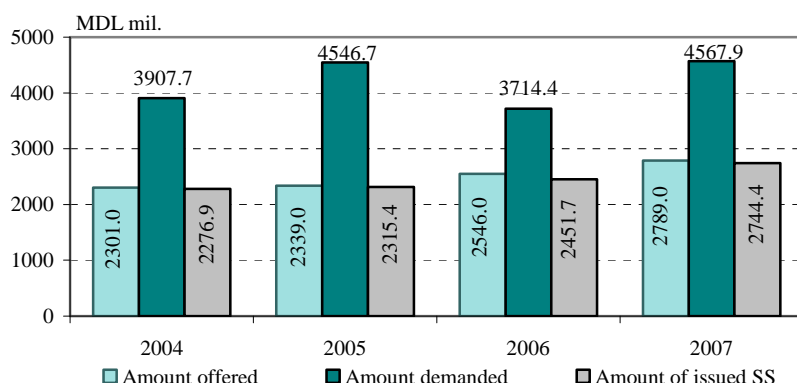
* The average interest rate on which the contributing banks are available to lend funds in MDL to other banks in the interbank money market

At the end of December the interbank reference rates recorded the following values: CHIBOR overnight – 14.31% per year versus 12.56% at the end of 2006, CHIBOR 1 month – 15.38% versus 13.66% and CHIBOR 3 months – 16.26% versus 14.31%.

Primary market of state securities

Acting as the fiscal agent of the state in organizing the placement and redemption of state securities (SS) in the form of book entries, the National Bank of Moldova carried out during the reporting year 168 state securities issuances.

Chart no. 39. SS supply, demand and sales (MDL, million)

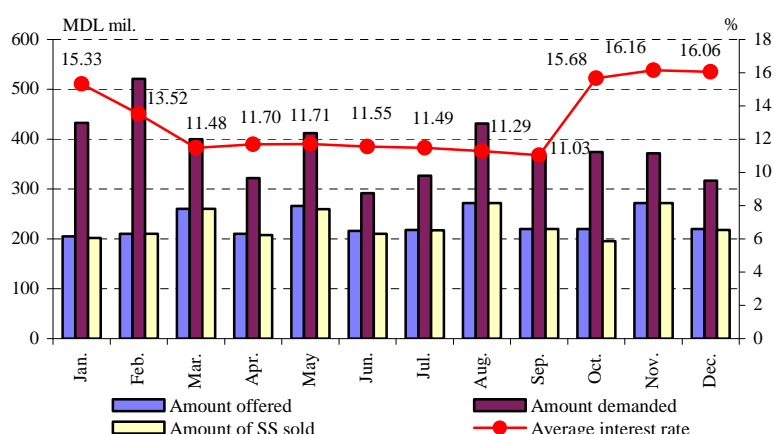


The Ministry of Finance offered in the primary market auctions state securities in an amount of 2789.0 million lei – by 243.0 million lei more as compared to 2006 (chart no. 39).

Like in the previous years the demand exceeded the supply of the Ministry of Finance, increasing as compared to the previous year by 853.5 million lei and accounted for the maximum value in the SS market history. Thus, the demand of state securities in the auctions

carried out in the primary market in 2007 constituted 4567.9 million lei, surpassing the supply of the Ministry of Finance 1.6 times.

Chart no. 40. Monthly dynamics of SS supply, demand and sales volume at primary market auctions in 2007



The value of state securities in circulation equalled to 2744.4 million lei, which represents 98.4% of the supplied volume (in 2006 this indicator constituted 96.3%).

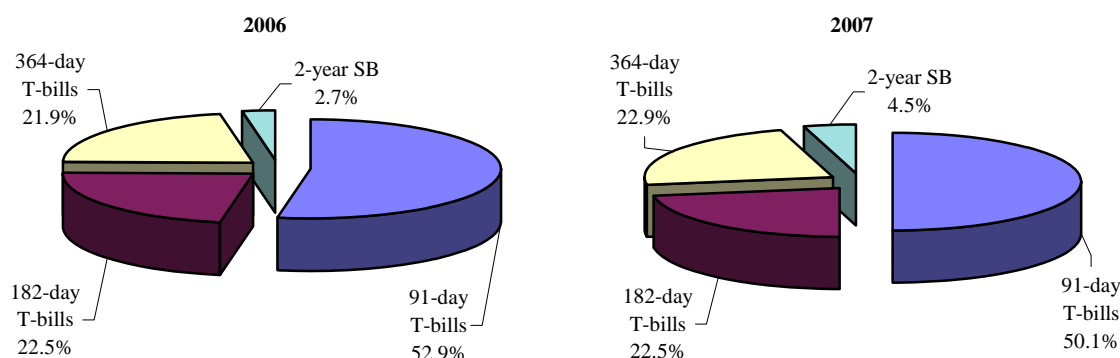
The monthly demand of state securities was net superior to the supply, the maximum value was recorded in February (521.1 million lei), while the minimum value – in June (291.6 million lei) (chart no. 40).

The weight of acquisitions by banks in own portfolios and the weight of acquisitions on the account of non-bank investors in the total value of SS sold at auctions kept almost the same level as in 2006 – 92.6% and 7.4%, respectively. It should be pointed out that, following a 10-year period, the foreign

investors showed up again in the state securities market at the end of 2007 and their share in the total volume of acquisitions constituted 0.1%.

Compared to 2006, the structure of state securities issuances in 2007 did not register essential modifications (chart no. 41).

Chart no. 41. Structure of SS issuances by types



State securities with the maturity of up to 1 year were issued with three terms: 91 days, 182 days and 364 days, the weight of these in the issued volume accounted for 95.5%.

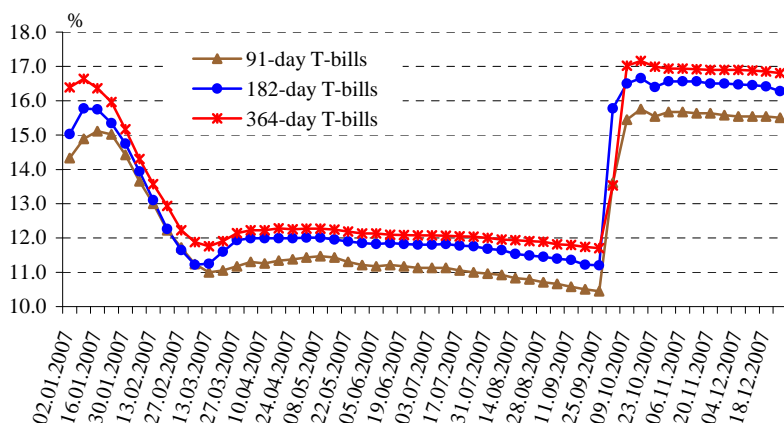
Like in the previous years, most of state securities were issued with 91-day maturity, which represented 50.1% of the total volume of issuances launched by the Ministry of Finance.

Simultaneously, the Ministry of Finance succeeded in placing a greater volume of state bonds (SB), their share increased from 2.7% in the previous year to 4.5% in 2007. Twelve issuances of 2-year maturity SB with floating interest were launched during monthly auctions.

The annual average maturity of state securities issued during the reporting year went up from 186 days in 2006, to 203 days in 2007.

The high demand of state securities made up on the background of the excess liquidity observed in the money market during the first months of 2007 generated an essential decrease of yields on this financial instrument, and the monthly average interest rate on SS

Chart no. 42. Dynamics of nominal interest rates on SS with the maturity of up to 1 year issued in 2007



with the maturity of up to 1 year downsized from 15.33% per year in January to 11.48% per year in March.

The intensification by the National Bank of Moldova of sterilization operations of excess liquidity starting with Quarter II, 2007 resulted in SS interest rates preserving, which fluctuated until September from 11.03 to 11.71% per year.

The increase of interest rates on monetary regulation instruments operated by the National Bank of Moldova at the end of September 2007, was immediately perceived in the SS market and the yields on state securities in the last three months of the year amounted to a level close to the NBM base rate (16.0% per year).

For the most part of 2007 the real interest rates on traded state securities were positive, except for the months of July-September, when an inflation increase was registered.

Table no.24. Average weighted yields on traded State Securities (%)

	91-day T-bills	182-day T-bills	364-day T-bills	2-year SB
2006	6.46	7.56	9.90	11.93
2007	12.66	13.32	13.65	15.31

Note: effective yields are shown for state bonds.

It should be mentioned that, unlike in the previous year, the yields on state securities issued during 2007 for all three maturities posted almost similar values (chart no. 42).

The annual average interest rate on state securities with the maturity of up to 1 year, adjudged in 2007, enlarged as compared to 2006 from 7.34% per year to 13.02% per year.

The nominal average weighted yields on state securities traded during the last two years at primary market auctions are shown in table no. 24.

The volume of state securities in circulation, placed through the primary market auctions, went up as against as of December 31, 2006 by 163.6 million lei, or by 12.0% and recorded as of December 31, 2007 the level of 1529.3 million lei at nominal value.

Secondary market of state securities and of NBM Certificates

In the course of 2007 a new process of strengthening and developing the secondary market of both state securities and NBM Certificates took place.

The total volume of selling-buying transactions of state securities concluded in the secondary market displayed a positive evolution from 30.6 million lei in 2006 to 179.4 million lei in 2007.

The annual nominal average yield on state securities with the maturity of up to 1 year, traded in 2007, doubled as compared to the previous year and equalled to 12.91% per year.

The volume of NBM Certificates traded in the secondary market during the analyzed year advanced considerably – 18.5 times versus the previous year and reached the level of 319.0 million lei, at the rate of 15.17% and with the average weighted term until maturity of 16 days.

REPO transactions with state securities

REPO operations with state securities as the instrument of liquidity management of the money market participants recorded during the reporting period a descendant trend.

The volume of securities traded through REPO agreements in the interbank market registered 80.1 million lei, decreasing by 21.6 million lei as compared to the previous year.

The annual average weighted rate on transactions concluded through REPO agreements went up by 6.07 percentage points versus 2006 and reached the level of 14.37% per year.

Activity of primary dealers in the state securities market

During 2007, eleven primary dealers activated in the state securities market and contributed to the normal course of the auctions of state securities placement in the primary market and to their liquidity in the secondary market.

The volume of bids submitted by primary dealers at the auctions of state securities placement in 2007 constituted 4306.5 million lei.

In the course of 2007 the primary dealers purchased state securities in an amount of 2553.5 million lei, which constituted 91.6% of the supply made by the Ministry of Finance (in 2006 this indicator constituted 91.1%).

Out of total volume of adjudged state securities, 87.9% (or 2411.6 million lei) were purchased by primary dealers on own name and account, which constituted an increase versus 2006 as for the absolute value and not as for the weight.

In 2007 the activity of primary dealers in the secondary market of state securities posted a significant evolution.

The total volume of SS traded in 2007 by the primary dealers constituted 178.4 million lei, increasing by 147.8 million lei as compared to the previous year. It is to be noted that the absolute and relative growth versus 2006 of the volume of transactions concluded between the primary dealers and their clients registered 73.0 million lei or 40.9% of total selling-buying transactions, versus 5.2 million lei or 17.0% in 2006.

According to the provisions stipulated in the Agreements on carrying out the functions of a primary dealer in the dematerialised SS market concluded between the National Bank of Moldova and banks-primary dealers, the primary dealers ensured, during the analyzed period, daily SS quotations through the “Interbank messages” system.

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

The Book-Entry System of the National Bank of Moldova, with a high level integration interaction with the automated interbank payments system ensures the storing and the real time settlement of operations with state securities and NBM Certificates. For this purpose, the system has the functions of management of financial instruments, of accounts and of payment events related to securities in circulation.

State securities in the total amount of 4767.6 million lei at nominal value were recorded as of December 31, 2007 in the Book-Entry System, and the breakdown by issuers is shown below:

I. Ministry of Finance – SS in the total amount of 3951.3 million lei, including:

- 1529.3 million lei, or 38.7% SS issued through the primary market auctions;
- 2006.5 million lei, or 50.8% SS issued and delivered to the National Bank of Moldova for the guarantee of the state’s reconcluded loans;

- 415.5 million lei, or 10.5% SS issued through the conversion of loans extended previously to the state.

II. National Bank of Moldova – NBM Certificates in the total amount of 816.3 million lei, issued through primary market auctions.

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

Banks

- as of 31.12.2007 - 1404.8 million lei
- as of 31.12.2006 - 1237.1 million lei

Other investors (including Deposit Guarantee Fund)

- as of 31.12.2007 - 124.5 million lei
- as of 31.12.2006 - 128.6 million lei

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

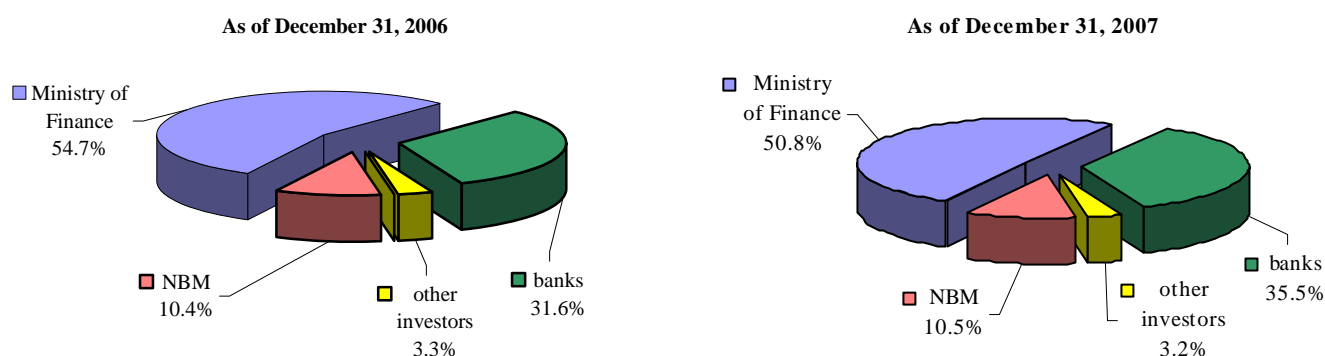
- as of 31.12.2007 - 2006.5 million lei
- as of 31.12.2006 - 2140.5 million lei

National Bank of Moldova

- as of 31.12.2007 - 415.5 million lei
- as of 31.12.2006 - 409.0 million lei

As for the structure of SS registered as of December 31, 2007 in BES by holders, it reflects the main trend of the last years, and namely, the increase of the share held by banks for investment purposes and the decrease of the share held by the Ministry of Finance (chart no. 43), as a result of the loans repayment in the amount provided in the State Budget Law.

Chart no. 43. Structure of state securities in circulation by portfolios



Certificates of the National Bank of Moldova in an amount of 816.3 million lei at nominal value were recorded in banks' portfolios.

During the reporting period, 7182 operations were recorded in BES of the National Bank of Moldova in an amount of 89844.7 million lei (by 50613.4 million lei more as compared to the previous year), of which:

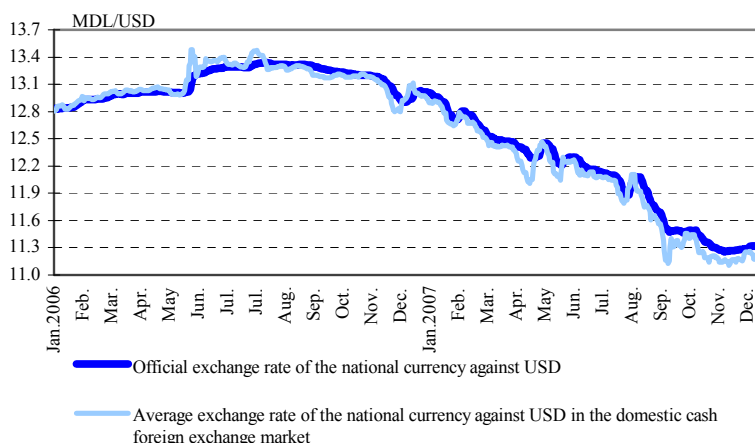
- primary market operations (new issuances) – 44060.8 million lei;
- redemption by the Ministry of Finance of state securities at maturity – 12459.4 million lei;
- repurchase by the National Bank of Moldova of Certificates of the National Bank of Moldova at maturity – 31695.7 million lei;
- selling-buying operations – 498.4 million lei;
- interbank REPO operations (stage I and II) – 165.8 million lei.
- pledge operations – 964.6 million lei.

Evolution of foreign exchange market

Exchange rate dynamics in 2007

During 2007 the nominal official exchange rate of the national currency against USD appreciated by 12.3% (from MDL 12.9050 per USD 1 as of December 31, 2006 to MDL

Chart no. 44. Dynamics of the official nominal exchange rate and the average exchange rate of the national currency against USD in the domestic foreign exchange market



11.3192 per USD 1 as of December 31, 2007), while the nominal official exchange rate of the national currency against EUR showed a lower appreciation, by 1.9% (from MDL 16.9740 per EUR 1 to MDL 16.6437 per EUR 1, respectively).

During 2007 an obvious trend of the national currency appreciation against USD was registered in the domestic foreign exchange market (chart no. 44).

The evolution of the average exchange rate of the national

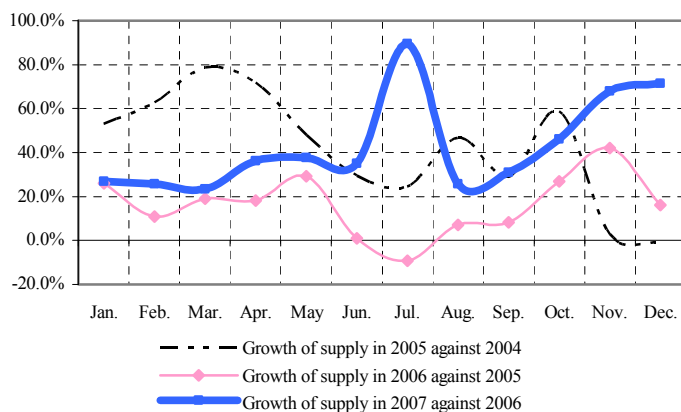
currency against USD in the domestic cash foreign exchange market displayed the same trend as the official exchange rate of the national currency against USD.

The official average exchange rate of the national currency against USD in 2007 constituted MDL 12.1362 per USD 1, as compared to MDL 13.1319 per USD 1 in 2006. The official average exchange rate of the national currency against EUR in 2007 constituted MDL 16.5986 per EUR 1, versus MDL 16.4918 per EUR 1 in 2006.

In the course of 2007 the evolution of the exchange rate of the national currency against USD in the domestic foreign exchange market was mainly influenced by the factors, as follows:

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

Chart no. 45. Growth rate dynamics of net foreign currency supply from individuals



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

investment and credits contracted from affiliates.

During the reporting year the increase of the growth trend of the net foreign currency supply from individuals following the increment of remittances from abroad played a major impact on the national currency appreciation. In 2007 the monthly growth rate of the net foreign currency supply from individuals was higher than that recorded in 2006. Factors that expressly determined the increase of the volume of liquidity in foreign currency in the domestic foreign exchange market in 2007 were as follows:

- 43.5%-increase versus 2006 of the net foreign currency supply from individuals (from USD 1193.6 million to USD 1712.3 million);
- 3.2-time increase of the net inflow related to direct investment, portfolio investment and credits contracted from affiliates (from USD 76.1 million to USD 240.7 million);
- 2.6-time increase of the net inflow related to private external credits, grants and technical assistance (from USD 111.1 million to USD 287.0 million).

Chart no. 46. Dynamics of the net inflow related to private external credits, grants and technical assistance

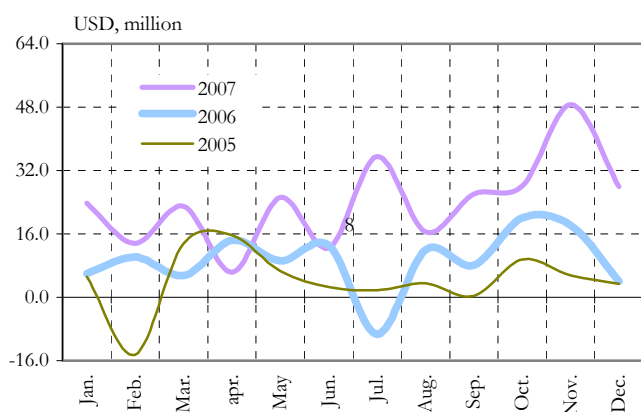
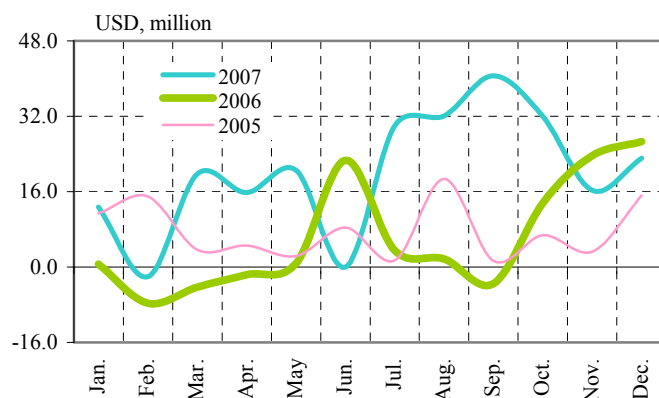


Chart no. 47. Dynamics of the net inflow related to direct investment, portfolio investment and credits contracted from affiliates



• Depreciation of exchange rate of USD against EUR in the international foreign exchange markets as a result of the subprime market crisis in the U.S.A. and of the strengthening of expectations related to the deepening of the depreciation trend of USD against EUR.

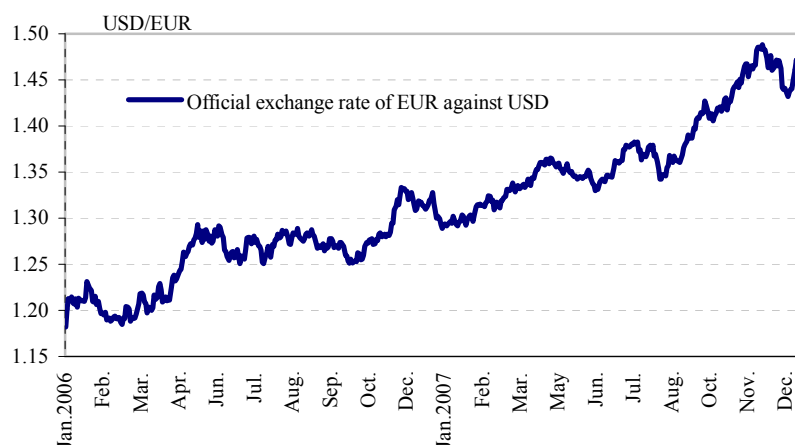
The depreciation trend of USD against EUR recorded in 2006, continued in the course of 2007, as well. The exchange rate of USD against EUR in the international markets during 2007 depreciated by 11.8%, from USD 1.3153 per EUR 1 at the end of 2006 to USD 1.4704 per EUR 1 at the end of 2007.

• Increase of foreign currency supply following the growth of deposits in Moldovan lei as a result of the partial conversion of funds from foreign currency into the national currency.

The attractiveness of the Moldovan leu as the saving currency contributed to the conversion of a part of the funds in foreign currency and their placement with banks in the form of sight deposits and term deposits in national currency, which conditioned the increase of the

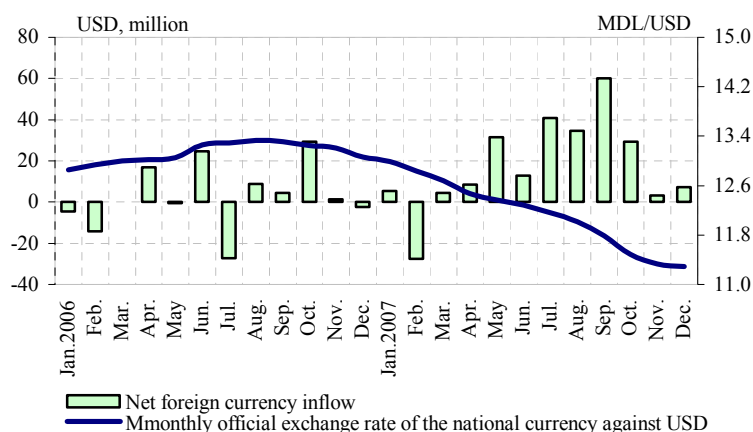
foreign currency supply in the domestic foreign exchange market. Thus, deposits in national currency went up during 2007 by 59.9%, while deposits in foreign currency advanced by 46.6%.

Chart no. 48. Evolution of exchange rate of EUR against USD in the international markets



The analysis of the banking statistics data shows that the **net positive foreign currency inflow** into the banking sector in 2007 constituted USD 210.6 million as compared to the net positive foreign currency inflow of USD 36.5 million registered in 2006. Thus, the net foreign currency inflow augmented in 2007 by USD 174.1 million, or 5.8 times versus the previous year.

Chart no. 49. Dynamics of the monthly official average exchange rate of the national currency against USD and of the net foreign currency inflow



During 2007 the highest net positive inflow was registered in September and accounted for USD 60.2 million (chart no. 49). It was in this very month that the maximal monthly appreciation of the national currency was recorded in an amount of 4.7% (from MDL 12.0789 per USD 1 as of August 31, 2007 to MDL 11.5075 per USD 1 as of September 30, 2007).

In 2007 the weight of USD diminished both in foreign currency

inflows and in foreign currency outflows. Thus, the weight of USD in inflows stepped back from 55.0% in January 2007 to 53.1% in December 2007, while in outflows – from 64.2% in January 2007 to 62.7% in December 2007.

The weight of EUR during 2007 within the structure of foreign currency inflows lessened from 40.9% in January 2007 to 36.8% in December 2007 and within the foreign currency outflows the weight of EUR advanced from 32.0% in January 2007 to 33.7% in December 2007.

In the course of the analyzed year the nominal effective exchange rate of the national currency (NEER) calculated against December 2000, taking into account the weight of the main trade partners within the external trade transactions appreciated by 7.9 percentage points, from 89.7% in December 2006 to 97.6% in December 2007.

The real effective exchange rate of the national currency (REER), which is an indicator that reflects the change of the MDL exchange rate in real terms against the currencies of the main

trade partners (calculated versus December 2000, taking into consideration the inflation level of the trade partner countries and the change of the monthly average exchange rate) constituted 104.7% in December 2007 (chart no. 50). During 2007 the real effective exchange rate of the national currency appreciated by 12.3 percentage points.

Chart no. 51 shows the evolution of the real effective exchange rate of the national currency taking into consideration the geographical channelling of exports and imports. The real effective exchange rate of the national currency calculated against the currencies of the trade partners from the CIS countries, versus December 2000, constituted 101.7% in December 2007. Its evolution was accompanied by the increase in 2007 of exports with goods in this region by 29.7%, as compared to 2006. In the course of 2007 the real effective exchange rate of the national currency calculated against the currencies of the trade partners from the CIS countries appreciated by 11.5 percentage points.

Chart no. 50. Dynamics of the nominal effective and real effective exchange rate of the national currency calculated on the basis of the weight of the main trade partners

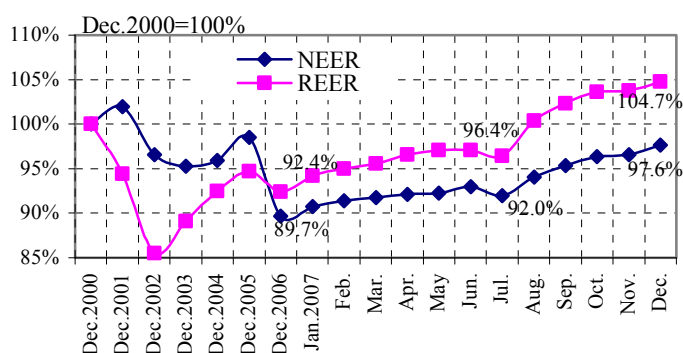
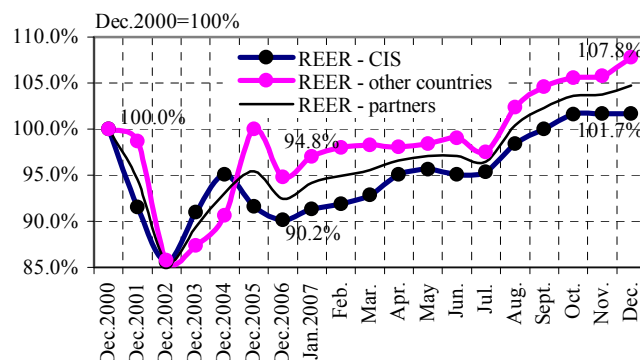


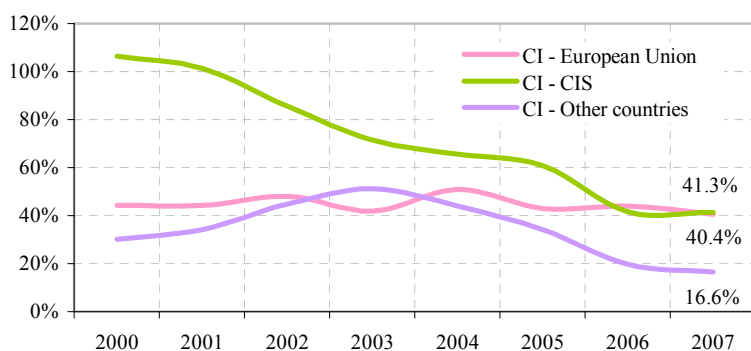
Chart no. 51. Dynamics of the real effective exchange rate of the national currency calculated on the basis of the weight of the main trade partners



The real effective exchange rate of the national currency calculated against the currencies of the trade partners from other countries, excluding the CIS countries, as compared to December 2000, constituted 107.8% in December 2007. In 2007 the real effective exchange rate of the national currency calculated against the currencies of trade partners from other countries, excluding the CIS countries, appreciated by 13.0 percentage points.

The growth of export of goods to other countries, excluding the CIS countries, was determined by the measures undertaken to diversify the external trade and to re-channelling

Chart no. 52. Competitiveness Index (CI) for domestic goods



from the markets of the CIS countries to the markets of the European Union countries.

The analysis of the competitiveness index, calculated as the ratio between the export of goods and services of the Republic of Moldova into the countries of the respective area and the import of goods and services from the countries of the

same area, revealed the following:

The competitiveness index calculated for the area of the CIS countries did not suffer essential changes and constituted 41.3% in 2007 (41.6% in 2006). The competitiveness index calculated for the European Union countries dipped from 44.1% in 2006 to 40.4% in 2007 due to the higher growth of imports from the European Union.

Foreign exchange market of the Republic of Moldova

The analysis of the foreign exchange market of the Republic of Moldova in 2007 denoted the ascendant trend of transactions carried out in the domestic foreign exchange market against MDL. The total turnover of currencies traded against MDL in this period equalled to the equivalent of USD 9153.6* million, increasing by 33.6% versus the previous year (table no. 25). Within the structure of the total turnover, foreign currency purchases in the domestic foreign exchange market against MDL constituted USD 4631.0 million, while sales – USD 4522.6 million.

Table no. 25. **Total turnover of transactions in the domestic foreign exchange market** (foreign currency purchases/sales against MDL) (equivalent in USD million)

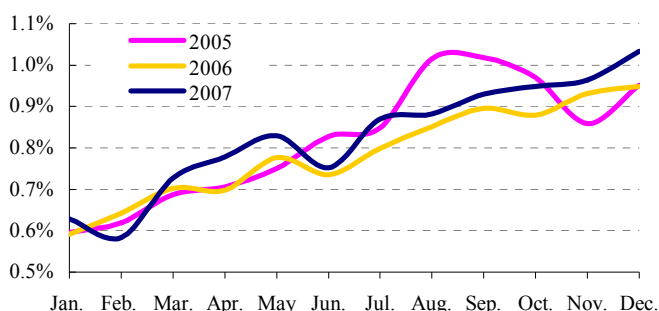
	Non-cash domestic foreign exchange market*						Cash domestic foreign exchange market**			Domestic foreign exchange market
	NBM	Resident banks	Non-resident banks	Legal entities	Others	Total	Foreign exchange bureaux of banks	Foreign exchange offices	Total	
Equivalent in USD, million										
2006	167.9	592.0	99.9	3630.0	292.7	4782.5	1690.2	380.9	2071.1	6853.6
2007	377.5	461.6	45.1	4694.7	551.2	6130.1	2392.6	630.9	3023.5	9153.6
Weight, %										
2006	2.4	8.6	1.5	53.0	4.3	69.8	24.7	5.5	30.2	100.0
2007	4.1	5.1	0.5	51.3	6.0	67.0	26.1	6.9	33.0	100.0
Growth rate against the previous year, %										
2007	2.2 ori	-22.0	-54.9	29.3	88.3	28.2	41.6	65.6	46.0	33.6

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

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

During 2007, the liquidity of the foreign exchange market** enlarged from 0.80% in 2006 to 0.83%. The components of this indicator, and namely, the daily average turnover of transactions in foreign currency against MDL and the gross domestic product increased, as compared to the previous year, by USD 9.6 million (from USD 26.9 million to USD 36.5 million) and by USD 988.1 million (from USD 3408.1 million to USD 4396.2 million), respectively (chart no. 53).

Chart no. 53. Foreign exchange market liquidity



Compared to the neighbouring states and the main trade partners of the Republic of

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

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

Table no. 26. Forex market liquidity by countries (%)

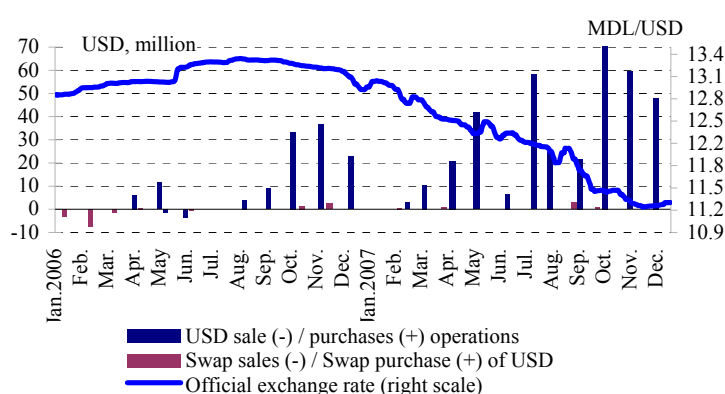
	2006	2006
Russian Federation	2.57	3.08
Moldova	0.80	0.83
Ukraine	0.51	0.59
Belarus	0.48	0.45

Moldova, the liquidity index of the foreign exchange market of the Republic of Moldova is more reduced than in the Russian Federation (3.08%) and is higher than in Ukraine (0.59%) and Belarus (0.45%) (table no. 26).

With a view to mitigating the excess fluctuations of the official nominal exchange rate of the national currency

against USD, during 2007, NBM conducted interventions in the domestic foreign exchange market by using the following instruments: USD purchase operations in an amount of USD 362.3 million and swap (selling/buying) reverse operations in the amount of the equivalent of USD 5.1 million (chart no. 54).

Chart no. 54. Official exchange rate of MDL /USD and the NBM interventions



The foreign exchange reserves of the state went up during 2007 by USD 558.4 million, or by 72.0%, from USD 775.3 million to USD 1333.7 million, which covers an estimated 3.7 import months.

The currency analysis of the structure of total turnover of foreign exchange transactions in the domestic foreign exchange market during 2006 and 2007 revealed the prevalence of transactions in free convertible currencies. In 2007 the annual weights of currencies in the total

turnover showed the following evolution: USD – 62.0%, EUR – 34.3%, RUB – 2.9% and other currencies – 0.8% (table no. 27).

Table no. 27. Structure of turnover by currencies

	Non-cash foreign exchange market		Cash foreign exchange market		Total foreign exchange market		In total turnover
	purchases	sales	purchases	sales	purchases	sales	
2006	Weight, %						
USD	74.7	73.5	47.6	53.3	61.8	70.8	66.3
EUR	20.7	22.5	50.3	41.4	34.8	25.0	29.9
RUB	4.4	3.6	1.3	2.5	2.9	3.5	3.2
Other currencies	0.2	0.4	0.8	2.8	0.5	0.7	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2007	Weight, %						
USD	66.7	71.3	48.9	40.0	57.8	66.4	62.0
EUR	29.7	25.3	47.5	53.9	38.6	29.8	34.3
RUB	3.3	2.9	2.5	2.9	2.9	2.9	2.9
Other currencies	0.3	0.5	1.1	3.2	0.7	0.9	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

market of the Republic of Moldova, while the weight of EUR raised by 4.4 percentage points.

The US dollar continued to prevail in the foreign exchange market transactions of the Republic of Moldova. Nevertheless, during 2007 as compared to 2006, USD yielded 4.3 percentage points of its weight in the domestic foreign exchange

Compared to 2006, foreign currency purchases carried out by the banks of the Republic of

Table no. 28. Main sources of foreign currency purchases by banks in the domestic foreign exchange market* (equivalent in USD, million)

	Foreign currency purchases in the domestic foreign exchange market against MDL							TOTAL
	NBM	resident banks	non-resident banks	legal entities	foreign exchange offices	individuals	other	
Equivalent in USD, million								
2006	22.9	294.5	71.2	1227.8	0.0	1477.3	165.0	3258.7
2007	5.1	231.7	38.9	1616.3	0.1	2136.5	286.3	4314.9
Weight, %								
2006	0.7	9.0	2.2	37.7	0.0	45.3	5.1	100.0
2007	0.1	5.4	0.9	37.5	0.0	49.5	6.6	100.0
Growth rate against the previous year, %								
2007	-77.7	-21.3	-45.4	31.6	-	44.6	73.5	32.4

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

by USD 388.5 million (31.6%) (table no. 28).

In 2007 foreign currency purchases by banks in the domestic foreign exchange market were mainly carried out from individuals (49.5%), businesses (37.5%), resident banks (5.4%) and non-resident banks (0.9%).

Table no. 29. Main directions of foreign currency sales by banks in the domestic foreign exchange market* (equivalent in USD, million)

domestic foreign exchange market (equivalent in USD, million)								
	Foreign currency sales in the domestic foreign exchange market against MDL							Total
	NBM	resident banks	non-resident banks	legal entities	foreign exchange offices	individuals	other	
Equivalent in USD, million								
2006	145.0	297.5	28.7	2402.2	0.0	283.9	56.7	3214.0
2007	372.4	229.9	6.2	3078.4	0.0	425.7	95.2	4207.8
Weight, %								
2006	4.5	9.3	0.9	74.7	0.0	8.8	1.8	100.0
2007	8.8	5.5	0.1	73.2	0.0	10.1	2.3	100.0
Growth rate against the previous year, %								
2007	2.6 ori	-22.7	-78.4	28.1	0.0	49.9	67.9	30.9

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

(28.1%) and to NBM by USD 227.4 million (2.6 times).

Table no. 30. Net balance of foreign currency purchase /sale transactions against MDL (equivalent in USD, million)

	Net balance							Total
	NBM	resident banks	non-resident banks	legal entities	foreign exchange offices	individuals	other	
Equivalent in USD, million								
2006	-122.1	-3.0	42.5	-1174.4	0.0	1193.4	108.3	44.7
2007	-367.3	1.8	32.7	-1462.1	0.1	1710.8	191.1	107.1

banks (5.5%).

The foreign currency surplus in the domestic foreign exchange market in the total amount of USD 1936.5 million (deriving mainly from individuals – USD 1710.8 million, or 88.3%) purchased by banks in 2007, was sold to businesses – USD 1462.1 million and to NBM –

Moldova in the domestic foreign exchange market in 2007 advanced by USD 1056.2 million, or by 32.4%. This growth was mainly due to the increase of purchases from individuals by USD 659.2 million (44.6%) and from businesses

Compared to 2006, foreign currency sales performed by the banks of the Republic of Moldova in the domestic foreign exchange market in 2007 advanced by USD 993.8 million, or by 30.9%, and were conditioned, in particular, by the increase of sales to businesses by USD 676.2 million

The sale of foreign currency by banks in the domestic foreign exchange market in 2007 was especially carried out to businesses (73.2%), to individuals (10.1%), to NBM (8.8%) and to resident

USD 367.3 million. The net balance of foreign currency selling/buying operations against MDL in 2007 constituted USD 107.1 million.

Dynamics of banks' assets and liabilities in foreign currency

As of December 31, 2007 the banks' *net balance sheet assets in foreign currency* (extended

Table no. 31. Net balance sheet assets in foreign currency by banks
(equivalent in USD, million)

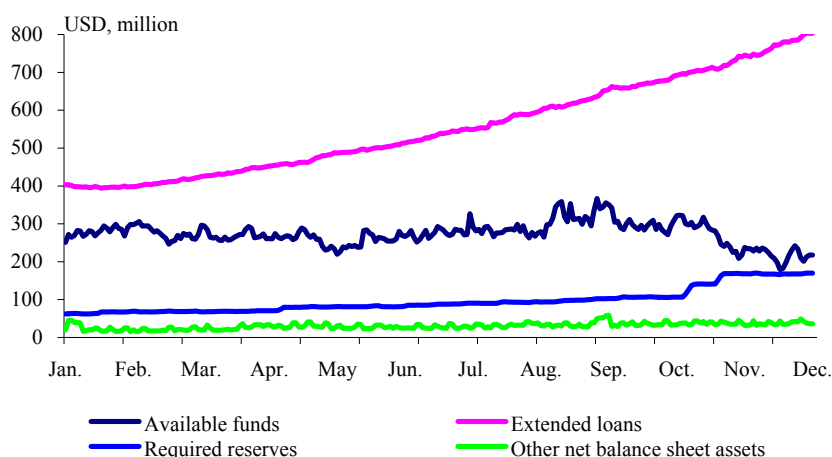
	Balance as of 31.12.2006	Weight in total %	Balance as of 31.12.2007	Weight in total %	Change against 31.12.2006 %
Loans	407.2	55.5	803.5	65.5	97.3
Foreign currency available funds	244.4	33.4	217.5	17.7	-11.0
Required reserves	61.6	8.4	169.8	13.9	2.8 ori
Other assets in foreign currency	19.9	2.7	35.8	2.9	79.9
Total net balance sheet assets in foreign currency	733.1	100.0	1226.6	100.0	67.3

loans, available funds, required reserves and other assets in foreign currency) enlarged as compared to as of December 31, 2006 by the equivalent of USD 493.5 million (from USD 733.1 million to USD 1226.6 million), which represented a 67.3%-increase (table no. 31).

Out of total net balance sheet assets in foreign currency, the balance of *credits extended in foreign currency* held the highest weight and constituted 65.5% as of December 31, 2007, which is by 10.0 percentage points more as compared to as of December 31, 2006. Compared to the end of 2006, the balance of credits extended in foreign currency as of December 31, 2007 went up by USD 396.3 million (from USD 407.2 million to USD 803.5 million), or by 97.3%.

balance of *credits extended in foreign currency* held the highest weight and constituted

*Chart no. 55. Dynamics of net balance sheet assets in foreign
currency of banks in 2007*



2007 the following weights: EUR – 55.1%, USD – 44.9%. It should be noted that at the end of 2007 versus the end of 2006 the weight of the balance of credits in EUR in the total

balance of credits in foreign currency enlarged by 16.0 percentage points (table no. 32).

Table no. 32. Loans in foreign currency within the banking system
(equivalent in USD, million)

	Balance as of 31.12.2006	Weight in total %	Balance as of 31.12.2007	Weight in total %	Change against as of 31.12.2006 %
EUR	159.4	39.1	442.4	55.1	2.8 times
Dolarî SUA	247.8	60.9	361.1	44.9	45.7
Total	407.2	100.0	803.5	100.0	97.3

The banks' *net balance sheet liabilities in foreign currency* recorded during the reporting period an increase by the

equivalent of USD 469.4 million (from USD 728.0 million as of December 31, 2006 to USD 1197.4 million as of December 31, 2007), or by 64.5% (table no. 33).

Table no. 33. Net balance sheet liabilities in foreign currency
(equivalent in USD, million)

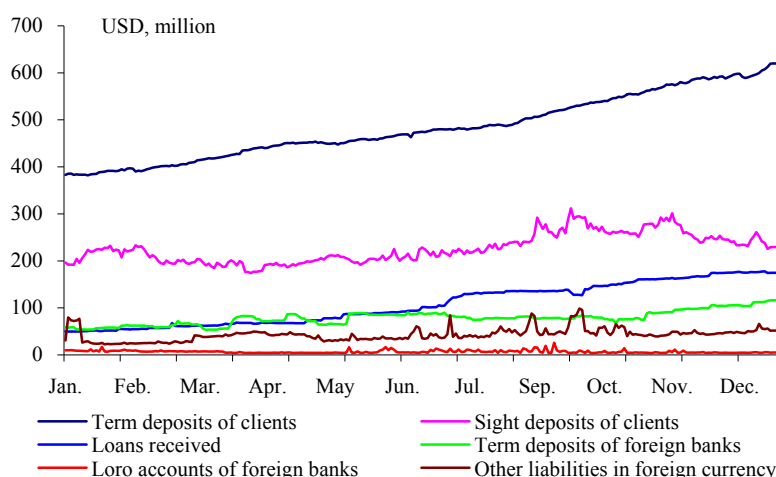
	Balance as of 31.12.2006	Weight in total %	Balance as of 31.12.2007	Weight in total %	Change against as of 31.12.2006 %
Clients' term deposits	382.0	52.5	620.1	51.8	62.3
Clients' sight deposits	197.5	27.1	229.6	19.2	16.3
Term deposits of foreign banks	50.0	6.9	174.8	14.6	3.5 times
Loans received	59.6	8.2	116.2	9.7	95.0
Loro accounts of foreign banks	10.4	1.4	5.0	0.4	-51.9
Other liabilities in foreign currency	28.5	3.9	51.7	4.3	81.4
Total	728.0	100.0	1197.4	100.0	64.5

The clients' *term deposits in foreign currency* held at the end 2007 the most significant weight in total net balance sheet liabilities in foreign currency (51.8%). The balance of such deposits stepped up at the end of the reporting year by USD 238.1 million versus the end of 2006

(from USD 382.0 million to USD 620.1 million), or by 62.3%.

At the end of the analyzed period the balance of the clients' *sight deposits in foreign currency* held 19.2% of total net balance sheet liabilities in foreign currency. In 2007 the

Chart no. 56. Net balance sheet liabilities in foreign currency in 2007



balance of these deposits advanced in absolute values by USD 32.1 million (from USD 197.5 million as of December 31, 2006 to USD 229.6 million as of December 31, 2007), or by 16.3%.

The weight of the balance of *credits received in foreign currency* in the banks' total net balance sheet liabilities in foreign currency equalled as of December 31, 2007 to 14.6%, versus 6.9% as of December 31, 2006. At the same time, at the end of 2007, the balance of credits received in foreign currency

advanced in absolute values by USD 124.8 million, or 3.5 times.

Table no. 34. Total deposits in foreign currency of banks' clients
(equivalent in USD, million)

	Balance as of 31.12.2006	Weight in total %	Balance as of 31.12.2007	Weight in total %	Change against 31.12.2006 %
EUR	297.0	51.3	560.2	65.9	88.6
USD	276.1	47.6	282.8	33.3	2.4
RUB	4.3	0.7	3.1	0.4	-27.9
Other currencies	2.1	0.4	3.6	0.4	71.4
Total by currencies	579.5	100.0	849.7	100.0	46.6

The balance of *foreign banks' term deposits in foreign currency* increased as of December 31, 2007 versus December 31, 2006 by USD 56.6 million (from USD 59.6 million to USD 116.2 million), or by 95.0%. Their weight in total net balance sheet liabilities in foreign currency at the end of 2007

constituted 9.7%, enlarging by 1.5 percentage point as compared to as of December 31, 2006.

The balance of LORO accounts of foreign banks fell during the reporting year by USD 5.4 million (from USD 10.4 million as of December 31, 2006 to USD 5.0 million as of December 31, 2007), or by 51.9%, and their weight in the total net balance sheet liabilities in foreign currency at the end of 2007 constituted 0.4%.

Major balance sheet liabilities in foreign currency of commercial banks (clients' term deposits and sight deposits) augmented as of December 31, 2007 versus the end of 2006 by USD 270.2 million (from USD 579.5 million to USD 849.7 million), or by 46.6%.

In 2007 the European currency was the most attractive currency for savings to banks' clients. The weight of the balance of deposits in EUR in the clients' total deposits in foreign currency constituted at the end of the reporting period 65.9%, increasing as compared to as of December 31, 2006 by 14.6 percentage points.

The analysis of changes in the weight of the balance of clients' deposits in USD at the end of 2007, versus the end of 2006, denoted its decrease by 14.3 percentage points (from 47.6% to 33.3%).

The open (long) foreign exchange position of banks' on all currencies displayed a 2.7-time increase at the end of 2007 versus the end of 2006 (from USD 9.6 million to USD 25.5 million).

As of December 31, 2007 the banks' open long foreign exchange position in USD went up as compared to the end of the previous year 2.5 times (from USD 3.7 million to USD 9.1 million), the open long foreign exchange position in EUR – 5.1 times (from USD 1.9 million to USD 9.7 million) and the open long foreign exchange position in RUB – 1.9 times (from USD 2.4 million to USD 4.6 million).

Foreign exchange regulation in 2007

In 2007 the modification operated by the National Bank of Moldova to the legal framework in the field of the foreign exchange regulation was especially conditioned by the modification of the enforced legislation of the Republic of Moldova, as well by the existent situation in the country's foreign exchange market. The National Bank of Moldova elaborated and promoted in 2007 the draft Law on foreign exchange regulation.

I. Law no. 419-XVI from 22.12.2006 on *public debt, state guarantees and state re-financing* entered into force in the course of the reporting year and replaced Law no. 943-XIII from 18.07.1996 on state debt and state guarantees. The newly enforced law allowed for the enlargement of the range of external commitments subject to monitoring by the Ministry of Finance of the Republic of Moldova. This fact conditioned the operation of amendments to the Instruction on external commitments of amendments, according to which the external commitments that are part of the public debt, defined by Law no. 419-XVI from 22.12.2006, shall not be subject to notification with the National Bank of Moldova.

II. Law no. 111-XVI from 27.04.2007 for modification and completion of some legislative acts introduced amendments to a series of legislative acts. In particular, Law no. 1164-XIII of 24.04.1997 for the application of Titles I and II of the Tax Code was completed with

Chapter IV, introducing the procedure of *capital legalization*, including for individuals in the form of funds, as well as limitations related to the capital of the legalization's subjects.

In order to implement the provisions of Law no.111-XVI from 27.04.2007, the National Bank of Moldova approved decisions, which include several provisions related to the field of the foreign exchange regulation, among which:

- specific features of the transfer abroad conducted by individuals-subjects of legalization (including by resident individuals that apply for permanent residence abroad), within the operations dealing with capital transfer, legalized funds transfer;
- specific features of the issuance by the National Bank of Moldova of permissions (authorizations) for the export from the Republic of Moldova of the legalized funds by individuals-subjects of legalization;
- compulsoriness of banks' reporting to the National Bank of Moldova on legalized funds and transfers abroad, within the foreign exchange operations related to capital transfer, carried out on the account of the legalized funds (upon the approval of the respective report's form and of the procedure of filling in thereof).

III. Law no.190-XVI from 26.07.2007 on *money laundering and terrorism financing prevention and combating* called for the need of modifying several normative acts of the National Bank of Moldova, including Regulation no. 10018-20 on the organization and functioning on the territory of the Republic of Moldova of foreign exchange offices and foreign exchange bureaux by hotels (hereinafter – Regulation no. 10018-20). In this context, the provisions related to the following issues can be highlighted:

- the compulsoriness of foreign exchange offices, hotels (organizations holding hotels) that own foreign exchange bureaux to work out and implement their own programs for money laundering and terrorism financing prevention and combating;
- procedures for identification and verification of the identity of individuals performing foreign exchange operations;
- identification and verification of the identity of the individual on whose name the foreign exchange operation is performed (of the effective beneficiary);
- the form of foreign exchange bulletin, forms of the registers of carried out operations, filling in of the register of identified individuals;
- the term of keeping the documents of foreign exchange operations record and of identified individuals record;
- recommendations on the elaboration by foreign exchange offices and hotels owning foreign exchange bureaux of programs for money laundering and terrorism financing prevention and combating. The foreign exchange offices of authorized banks are banks' subdivisions and are subject to the Recommendations on the elaboration by the banks of the Republic of Moldova of programs on money laundering and terrorism financing prevention and combating (approved by the decision of the Council of administration of the National Bank of Moldova no. 94 from 25.04.2002, with further modifications and completions);
- immediate informing and transferring by the National Bank of Moldova of the respective materials to the Centre for Combating of Economic Crimes and Corruption, in the event that traces of money laundering or terrorism financing were identified during the

control undertaken within the foreign exchange bureaux/ foreign exchange offices of the authorized bank/ foreign exchange bureaux by hotels.

In addition to the modification of Regulation no. 10018-20, a series of normative acts of the National Bank of Moldova was modified within the context of Law no. 190-XVI from 26.07.2007. The amendments operated to the normative acts related to the field of foreign exchange regulation stipulated, in particular, the observance by authorized banks, by other foreign exchange units and by “Poșta Moldovei” State Enterprise of the provisions under the legislation in the field of money laundering and terrorism financing prevention and combating and respective recommendations.

IV. Taking into consideration the results of the analysis of the monetary statistics, as well as the situation in the domestic foreign exchange market characterized by foreign currency surplus, the year of 2007 saw the operation of amendments to the *mechanism of foreign currency purchase by resident legal entities*, which had the purpose of granting to resident legal entities the opportunity to maintain and use according to the destination the foreign currency purchased in the domestic foreign exchange market against Moldovan lei, either in the form of sight deposits (including on current accounts), or in the form of term deposits. It should be mentioned that the operated amendments did not alter the purposes for which the legal entities may purchase foreign currency in the domestic forex market against MDL.

V. In 2007 the National Bank of Moldova adopted other regulations in the foreign exchange field, among which the following may be distinguished:

- rules regarding the issuance of a new license to the foreign exchange bureaux / hotel (organization) owning a foreign exchange bureaux in the event of the term expiry of the previously issued license;
- the procedure of compiling the Report on foreign exchange operations (related to the operations carried out through the foreign exchange offices of the authorized banks) was defined with a view to ensuring the compliance of the information on one and the same foreign exchange operation, which is to be reflected in various reports submitted by banks.

VI. In 2007 the National Bank of Moldova continued its activity related to the *draft Law on foreign exchange regulation* (hereinafter – draft Law), the elaboration of which took into account the suggestions and the objections of the concerned public authorities and of the authorized banks, as well as the recommendations submitted within the technical assistance mission of the International Monetary Fund.

The draft law was worked out to execute the decision of the Parliament of the Republic of Moldova no. 300-XVI from 24.11.2005 “On the Legislative Program for 2005-2009”. The draft law has the purpose of founding, at the organic law level, legal norms regarding the performance and the reporting of foreign exchange operations, the licensing and the carrying out of the activity of foreign exchange units, as well as regarding the foreign exchange control, set out for the purpose of the state’s foreign exchange policy implementation and ensuring the stability of the domestic foreign exchange market.

The elaboration of the draft Law harmonizes with measures foreseen for the implementation of the Plan of Actions Republic of Moldova – European Union related to Chapter 2.3 “Social

and economic reform and development”, with a view to implementing the measures for strengthening the convergence of key fields of the legislation of the Republic of Moldova with the legislation of the European Union. Thus, while working out the draft Law, the community legislation was taken into consideration (in particular, provisions of Art.59 related to safeguarding measures of the European Community Foundation Treaty and provisions of Attachment I to the Council Directive from 24.06.1988 for the application of Art. 67 of the Treaty (88/361/CEE)), as well as the legislation in the field of foreign exchange regulation of other states, including of several states of the European Union.

The draft Law was approved in November 2007 at the session of the Parliament of the Republic of Moldova in the first reading.

International collaboration

International Monetary Fund (IMF)

The Republic of Moldova has been a member of the International Monetary Fund (IMF) since August 12, 1992. At the end of 2007 the subscription fee of the Republic of Moldova with IMF constituted XDR 123.2 million (the equivalent of USD 194.5 million).

In 2007 the total payments related to the servicing of loans extended by IMF ran into USD 24.2 million (the equivalent of XDR 16.0 million), of which payments on principal related to the respective loans constituted USD 22.0 million (the equivalent of XDR 14.5 million), while payments on interest – USD 2.2 million (the equivalent of XDR 1.5 million).

During 2007 the relations of the National Bank of Moldova with IMF took place in the context of the IMF missions of assessment of the performances in the achievement of commitments under the PRGF* Program, as well as of yearly bilateral consultations based on Article IV of the IMF Statute.

Within the framework of the mission carried out in the period of April 25 – May 8, 2007 (the second evaluation mission of the financing facility for poverty reduction and economic growth), the IMF experts assessed the performance of the implementation of macroeconomic policies and structural reforms as laid down in the Memorandum on Economic and Financial Policies of November 29, 2006. The IMF mission evaluated the activity of the Government

Table no. 35. Financial arrangements with IMF

Type of facility	Approved amount (XDR, million)	Disbursed amount as of 31.12.2007 (XDR, million)	Weight of disbursements in total approved amount (%)	Stock as of 31.12.2007 (XDR, million)	Stock as of 31.12.2007 (USD million)
Extended Fund Facility (EFF)	135.0	87.5	64.8	14.6	23.0
Poverty Reduction and Growth Facility (PRGF)	221.8	92.8	41.8	86.4	136.3

of the Republic of Moldova and of the National Bank of Moldova within the context of achieving the commitments under the program funded through PRGF and the macroeconomic

expectations for 2007 from the viewpoint of the evolutions recorded in the respective period,

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

such as the increase of prices on natural gas and the likelihood of resuming the wine export to the Russian Federation.

On July 13, 2007 the IMF Board of Directors finalized the second assessment of the performances of the Republic of Moldova within the PRGF Program. This allowed for the disbursement of an amount equivalent to XDR 21.7 million (about USD 33.3 million) as of July 30, 2007.

The IMF experts noted that the economic results achieved by the Republic of Moldova were fine, and the way of implementing the PRGF Program was promising and the adjustment efforts undertaken by the authorities reduced the impact of external shocks of the previous year and contributed to the maintenance of the macroeconomic stability.

In the period of October 1-12, 2007, a group of experts from the IMF and the World Bank carried out an assessment of the financial sector (FSAP) of the Republic of Moldova.

The mission found out that, in general, the financial sector and, in particular, the banking sector, underwent a positive evolution as compared to the situation registered by the financial sector assessment mission in 2004. It was also mentioned that major performances were recorded within the evaluation of the observance degree of the effective banking supervision core principles worked out by the Basel Committee for banking supervision, versus the FSAP results of 2004.

The mission's assessment showed that the recent modification of the structure of the settlement system meant a lot for further development. The new system of interbank settlements was implemented and the full evaluation of the observance of principles of the Bank for International Settlements for payment systems proved that most of the core principles were fully observed.

Within the context of the mission of December 5-21, 2007, the IMF experts carried out the third assessment of the results of the program sustained through the funding facility for poverty reduction and economic growth (PRGF) and discussed within the regular consultations based on Article IV of the IMF Statute with the purpose of assessing the evolutions and the expectations of economic policies implementation.

The mission evaluated the performance related to the implementation of macroeconomic policies and of structural reforms as laid down in the updated Memorandum on Economic and Financial Policies (MEFP) for 2007 and mentioned the MEFP for 2008. The mission noted that the results of the program achievement recorded so far were positive.

The mission and the authorities of the Republic of Moldova made a preliminary agreement on a new Memorandum on Economic and Financial Policies for 2008.

In the period of June 9-10, 2007, the Annual IMF* and World Bank (WB) Constituency Meeting took place in Chișinău.

* The IMF and WB Constituency meetings gather together the countries that have a common representative in the IMF and WB Executive Board. Thus, the Netherlands Constituency, the annual meeting of which was organized in Chișinău, has 13 members—Armenia, Bosnia and Herzegovina, Bulgaria, Cyprus, Croatia, Georgia, Israel, Macedonia, Moldova, Montenegro, Romania and Hungary, while the Netherlands is the country promoting the interests of the whole group.

The topic of the forum included a series of issues related to the economic development, mainly focussing on: the role of the government in the access to financial services, the tax risks in the cooperation between the public and private sectors, the monetary policy's challenges within the framework of capital increase, structural issues and social concerns in the implementation of reforms, etc.

On December 12, 2007 NBM hosted an international seminar on: "Monetary policy transmission and inflation modelling", organized in collaboration with the International Monetary Fund. The seminar was attended by experts from the IMF, European central banks and European Commission, governance representatives, concerned authorities, and representatives of the banking sector and of the civil society of the Republic of Moldova. The audience had the opportunity to discover the experience of the Czech Republic, of Poland, Russia, the Netherlands, Albania and of other countries in the field of inflation targeting.

In the course of 2007 the IMF offered to the National Bank of Moldova technical assistance in the sphere of monetary policy framework improvement. Pursuant to the recommendations set out within the technical assistance, NBM worked out a plan of actions regarding the implementation of the inflation targeting strategy.

World Bank Group (WB)

As of December 31, 2007 the value of total commitments of the Republic of Moldova to the World Bank amounted to USD 432.4 million, of which USD 140.6 million (32.5%) constituted the debt of the Republic of Moldova to the International Bank for Reconstruction and Development (IBRD) and USD 291.8 million (67.5%) represented the stock of loans extended by the International Development Association (IDA).

In 2007, with a view to maintaining the achievement of the Economic Growth and Poverty Reduction Strategy of Moldova (EGPRS), the Republic of Moldova signed with IDA the agreement for the Grant offered by the International Development Department of the United Kingdom of Great Britain and Northern Ireland for funding the Program within the Poverty Reduction Support Credit (PRSC). The co-funding grant (in an amount of GBP 1.47 million) of the first Poverty Reduction Support Credit (PRSC 1) funded by the World Bank offered to the Republic of Moldova the resources for enabling the implementation of the reforms program sustained by the operations under PRSC.

During the reporting period the World Bank, within the framework of various projects, approved other loans and grants for the Republic of Moldova, of which the following can be mentioned:

- IDA loan in an amount of USD 16.0 million, within the Project of supporting the program of the road sector;
- IBRD grant in an amount of about USD 4.6 million, within the Environment Infrastructure Project of Moldova;
- IDA loan in the total amount of USD 17.0 million, within the Project of healthcare services and social assistance for Moldova, etc.

European Bank for Reconstruction and Development (EBRD)

The Republic of Moldova is part of the EBRD Initiative regarding the countries at the beginning of transition (CBT) launched in 2004 to stimulate the market activity of the countries with the lowest income level where EBRD carries out its operations.

On September 4, 2007 the Board of Directors of EBRD approved the new Strategy for the Republic of Moldova.

Within the framework of this strategy, EBRD will continue to grant support to the Republic of Moldova in its efforts to implement the program of new reforms for the improvement of the investment climate. The EBRD operational priorities include the general development of the private sector, the financial sector restructuring and consolidation and the rehabilitation of the country's infrastructure.

To support these objectives, EBRD will adopt the following operational priorities with a view to strengthening the financial sector of the Republic of Moldova:

- EBRD will continue to offer to partner banks access to additional credit lines for small-, medium-sized and micro enterprises, as well as for the Extended Fund Facility. EBRD will strive to cooperate with new partner banks and to grant assistance in the development and the promotion of new financial instruments, such as credit lines for energetic efficiency enhancement, leasing and mortgage funding. EBRD will examine the possibility to resume the investment process in the banks' capital, in leasing and mortgage companies in collaboration with other partners. EBRD will seek to offer technical assistance through the CBT Fund for the achievement of these priorities.
- EBRD will continue to support the development of micro financing, including through the programs for the micro enterprises via commercial banks and other selected non-bank financial institutions.
- EBRD will explore the opportunities of supporting the development of the non-bank financial sector through investments and technical assistance.

In 2007 BERD continued the funding of small-, medium-sized and micro enterprises of the Republic of Moldova by signing a credit line in an amount of EUR 5.0 million with a local commercial bank and through a non-bank financial institution, which benefited from a credit line in an amount of USD 1.0 million.

European Union (EU)

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

The main document of the PCA implementation is the Action Plan Republic of Moldova – European Union (RM-EU), which laid down the strategic objectives of the cooperation between EU and the Republic of Moldova for the period of February 22, 2005 – February 22, 2008. In the course of 2007 the National Bank of Moldova implemented all the measures provided for in the Action Plan RM-EU, in particular, the measures related to the objective

of "Economic growth consolidation and ensuring its medium-term sustainability", in the field of "Functional market economy", etc.

On April 16, 2007 the Council of Europe adopted the decision to offer to the Republic of Moldova macrofinancial grant assistance in an amount of EUR 45.0 million.

This financial assistance has the purpose of contributing to the balance of payments support and to the consolidation of the foreign exchange reserves of the Republic of Moldova. The assistance received from the European Community is aimed at complementing the funds offered to the Republic of Moldova by the International Financial Institutions and bilateral donors for the support of the economic stability and reforms program of the leading authorities.

Thus, the Republic of Moldova benefited from the first portion of the macrofinancial assistance in an amount of EUR 20.0 million within the financial support granted by the European Commission in 2007.

In addition to the macrofinancial assistance funds, the European Commission disbursed EUR 7.1 million with the purpose of poverty eradication. This grant was assigned through the European Union Food Security Program 2006.

Black Sea Trade and Development Bank (BSTDB)

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

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

The IX-th Annual Meeting of the Board of Directors of BSTDB and the Economic Forum of the Black Sea region countries "Business Day" took place in the period of June 17-18, 2007 in Chişinău.

Within the "Business Day" forum, there were put into discussion issues related to the role of international financial institutions for the economic development, especially, for the infrastructure sector, financial sector development, for the support of small- and medium-sized enterprises, and environment support, as well as of foreign investments.

In 2007 BSTDB granted two credit lines for trade funding in an amount of USD 8.0 million and EUR 4.0 million, respectively, through two banks of the Republic of Moldova.

Thus, there were four on-going projects of BSTDB in the Republic of Moldova as of December 31, 2007: two credit lines for trade funding, one credit line aimed for small- and medium-sized enterprises in an amount of USD 3.0 million granted through a non-bank financial institution and investments in the equity of a regional private fund.

Group of Banking Supervisors from the Central and Eastern Europe

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

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

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

In 2007, following the application of the Financial Market Authority of Austria, the National Bank of Moldova accepted its admission as the member of the BSCEE Group.

Collaboration with other central banks

In 2007 the National Bank of Moldova maintained an active collaboration with the central banks of other states.

Within the process of banks' authorization, the National Bank of Moldova requested relevant information from the supervising authorities (central banks and other authorities) and submitted, upon request, similar information to the supervising authorities.

Within the context of the regional development and collaboration, the National Bank of Moldova participated in the reunion of internal audit authorities of central banks of the CIS and Baltic countries, organized by the National Bank of Kyrgyzstan.

In 2007 the employees of the National Bank of Moldova participated in seminars and training courses organized by the following central banks: Deutsche Bundesbank, Banque de France, De Nederlandsche Bank, National Bank of Poland, Banca d'Italia, Czech National Bank, National Bank of the Republic of Macedonia, National Bank of Ukraine, etc.

Supervision and regulation of banks' activity*

As of December 31, 2007 on the territory of the Republic of Moldova there were operating 16 joint stock banks authorized by the National Bank of Moldova, including three subsidiaries of foreign banks. The total number of banking institutions amounted to 1044, of which 255 branches and 789 representative offices. In 2007, there were opened 32 branches, 72 representative offices and there were closed 4 branches and 22 representative offices.

A new bank was issued on December 17, 2007 the license of carrying out financial activities according to Art. 26 para (1) and para (2) it. b) of the Law on financial institutions (Decision of the Council of administration of the National Bank of Moldova no. 313 of 13.12.2007).

The total number of the staff employed within the banking system accounted as of December 31, 2007 for 9851, or by 831 more as compared to December 31, 2006. The assets within the banking sector amounted in average per each employee of the banking system to 3.2 million lei, which is by 28.0% more as compared to the end of 2006.

New prudential regulations

During 2007 a series of actions aimed at maintaining the banking system's stability and development was undertaken. Thus, the prudential regulations and the supervision methods were improved taking into account the existent normative framework, as well as the generally accepted standards of banking supervision.

With a view to intensifying the activity in the field of authorization, supervision and regulation of financial institutions' activity, new prudential requirements were set forth with the purpose of increasing the transparency degree of banks' shareholders, as well as the procedure of authorizing the foreign banks' investments in the local banks' capital was improved.

The definition of "affiliated persons" was reformulated specifying separately the persons affiliated to the legal entity, including to the bank, and the persons affiliated to the physical person.

The calculation of the net exposure to a person or a group of persons acting in common was modified. Consequently, the total exposure was diminished by the exposures backed with securities issued by the Ministry of Finance of the Republic of Moldova, the National Bank of Moldova (Certificates of the National Bank of Moldova) or by the Government of a member-country of the Organization for Economic Collaboration and Development.

The internal control systems of banks were also improved with a view to enhancing the transparency degree of the ownership structure, of the corporate governance and of the identification of banks' debtors, etc.

* According to credit and deposit account balances, in the balance sheet worked out following the Instruction on Elaboration and Submission by commercial banks of Financial Statements, approved by the Decision of the Council of Administration of the National Bank of Moldova no. 36 of 08.08.1997 (Official Monitor of the Republic of Moldova no.64-65 of 02.10.1997)

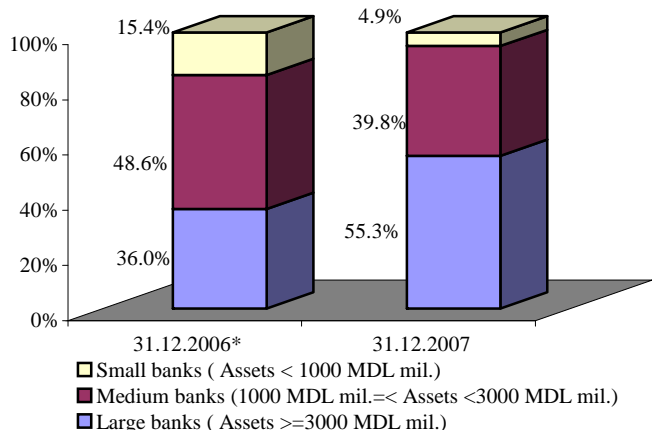
In order to offer a fair picture of the bank's assets, prudential requirements for the evaluation of risks related to assets other than credits and to conditional commitments were set forth, as well as for provisions creation for covering related losses. Thus, the classification of assets and of conditional commitments subject to credit risk shall be carried out by banks under conditions similar to credit classification taking into consideration the financial risk factors. In case the assets and the conditional commitments are affected by the circumstances and the conditions of a foreign country, as well, their evaluation will take into account the respective country risk.

Assets of banks

In the course of 2007 the banking system recorded a positive evolution, displayed by the quantitative and qualitative increase. Total assets of the banking system reached, as of December 31, 2007, the value of 31978.7 million lei, increasing versus December 31, 2006 by 9230.0 million lei (40.6%). Their weight in GDP went up from 50.8% to 59.9% (chart no. 59). The growth of assets was due to the increase of banks' liabilities by 7635.2 million lei (40.6%) and of the share capital by 1594.8 million lei (40.6%).

According to the modifications operated to the Instruction on elaboration and submission by banks of financial statements (DCA no.226 of August 30, 2007), starting with November

Chart no. 57. Assets of the banking sector of the Republic of Moldova by groups of banks in the period of 31.12.2006* – 31.12.2007 (%)



2007, banks shall create deductions for asset losses and provisions for conditional commitments losses. The creation as of December 31, 2007 of additional deductions in an amount of 34.5 million lei on assets other than credits did not bring about the decrease of assets as compared to the end of 2006.

During the reporting period the concentration of assets of the banking sector occurred as shown in chart no. 57.

At the end of 2007 in the group of large banks there were 4 banks*, in the group of medium-sized banks – 7 banks and in the group of small banks – 5 banks.

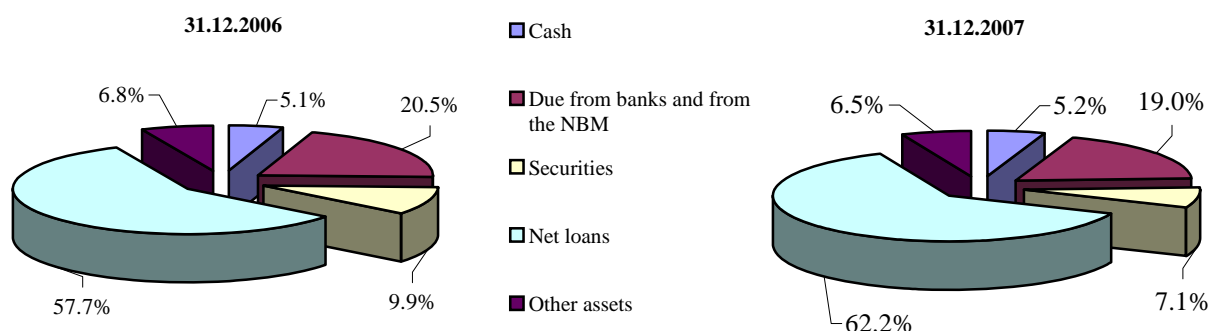
In 2007 growths were recorded within the assets' structure by all items: credit portfolio, net** advanced by 6762.5 million lei (51.6%), funds owed by banks and by the National Bank of Moldova, net – by 1406.9 million lei (30.1%), other assets, net – by 530.1 million lei (34.3%), cash – by 529.3 million lei (45.9%), securities, net – by 1.2 million lei (0.1%).

* Starting with the situation as of 31.12.2007 the criteria of banks' grouping were modified.

** According to credit accounts balances in the balance sheet worked out following the Instruction on Elaboration and Submission by commercial banks of Financial Statements, approved by the Decision of the Council of Administration of the National Bank of Moldova no. 36 of 08.08.1997 (Official Monitor of the Republic of Moldova no.64-65 of 02.10.1997)

Net credits held the highest weight in total assets – 62.2%, increasing versus the end of 2006 by 4.5 percentage points. Funds owed by banks and by NBM, net held the weight of 19.0%, securities, net – 7.1%, cash funds – 5.2% and other assets, net – 6.5% of total assets (chart no. 58).

Chart no. 58. Structure of assets of the banking sector of the Republic of Moldova in the period of 31.12.2006 - 31.12.2007 (%)

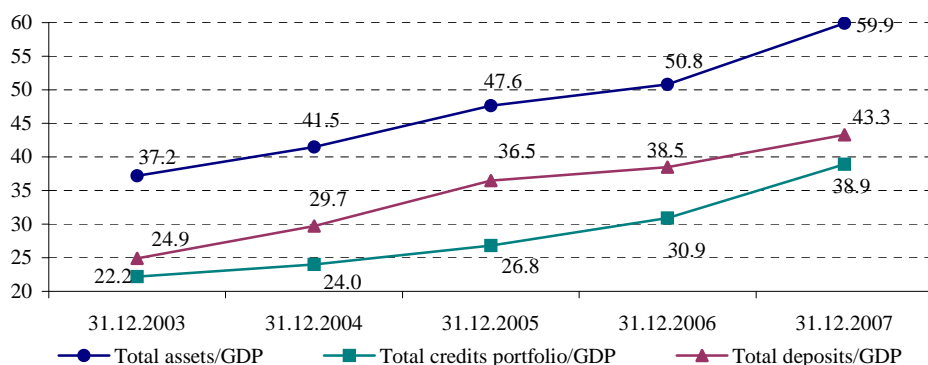


*Funds owed by banks and by NBM, securities and other assets are reflected as of 31.12.2007 at their net value

The weight of extended credits in GDP went up from 30.9% as of December 31, 2006 to 38.9% as of December 31, 2007 (chart no. 59). The growth of this weight at the end of 2007 demonstrates that the banking system continues to gradually increase its influence on the development of the real sector and of the country's economy.

Within the context of the distribution of risks and of the destination of investment operations, credits to industry and trade held the highest weight in the total credit portfolio – 48.6%, being followed by consumer credits – 14.1%, credits to agriculture and food industry – 13.8% and credits for real estate, construction and development – 12.8%.

Chart no. 59. Dynamics of assets, credits and deposits to GDP (%)



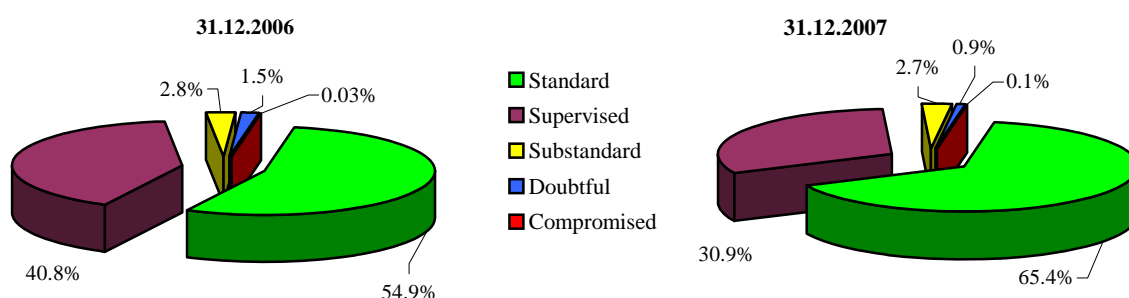
Credits to the Government held, on the contrary, the lowest weight in total credits – 0.4%, credits to banks – 0.5%, credits to power and fuel industry – 2.0% and credits for road construction and transportation – 2.2%.

In the course of 2007 credits extended to industry/trade displayed the highest growth – by 3320.4 million lei (49.1%), consumer credits – by 1645.4 million lei (129.4%) and credits for real estate, construction and development – by 1185.3 million lei (80.8%).

During the analyzed period the quality of the credit portfolio improved, judging by the decrease, versus December 31, 2006, of the weight of unfavourable credits (substandard, doubtful and compromised), (chart no. 60) in total credits by 0.7 percentage point, which

accounted for 3.7% as of December 31, 2007 and, by the decline of deductions for credit losses in total credits by 1.0 percentage point, which amounted as of December 31, 2007 to 4.2%.

Chart no. 60. Structure of credit portfolio and financial leasing of the banking sector of the Republic of Moldova according to the level of investment operations risk as of 31.12.2006 and 31.12.2007 (%)



The total value of compromised credits, which was cancelled in 2007 on the account of deductions for credit losses constituted 89.0 million lei, credit returns – 64.9 million lei. Thus, credit returns accounted in total cancelled credits for 72.9%.

The total amount of banks' exposures to affiliates accounted as of December 31, 2007 for 1189.1 million lei, and held an insignificant weight in total credits – 5.7% and 22.7% of Tier I Capital (*maximal limit – 100.0% of Tier I Capital*).

Credits extended to banks' employees represented 85.5 million lei, or 0.4% of total credit portfolio and 1.6% of the total regulatory capital of banks (*maximal limit shall not exceed 10.0% of the total regulatory capital*).

The total value of large exposures constituted 4961.2 million lei, which is 23.9% of total credit portfolio and 94.8% of the total regulatory capital of banks (*maximal limit shall not exceed 500.0% of the total regulatory capital*). The amount of the top ten net debts on credits accounted for 27.7% of net credits within the system (*maximal limit – 50.0% of the total value of net credits*).

Banks' investments in long-term tangible assets at the end of 2007 to total regulatory capital amounted to 23.6% (*maximal limit – 50.0%*). Investments in long-term tangible assets and equity interest in the capital of economic units to total regulatory capital constituted 25.6% (*maximal limit – 100.0%*).

The weight of net assets in foreign currency in total assets constituted 43.4%, the weight of net liabilities in foreign currency in total assets accounted for 42.4%. The insignificant difference as compared to the weight of assets in foreign currency, which accounted for 1.0 percentage point, revealed that the foreign exchange risk was minimal and did not affect considerably the financial stability of the banking system. Compared to as of December 31, 2006, the weight of assets and the weight of liabilities in foreign currency advanced by 1.8

and 1.1 percentage point, respectively. Within the structure of net assets in foreign currency, credits in foreign currency held the highest weight – 65.5%.

Off-balance sheet commitments (credit conditional accounts) equalled to 7450.0 million lei, or 23.3% of total assets. Compared to the end of 2006, off-balance sheet commitments increased by 588.8 million lei, or by 8.6%, while their weight in total assets dipped by 6.9 percentage points. Within the structure of off-balance sheet commitments, term operations held the highest weight – 2589.3 million lei (34.8%) and current operations posted 2218.9 million lei (29.8%).

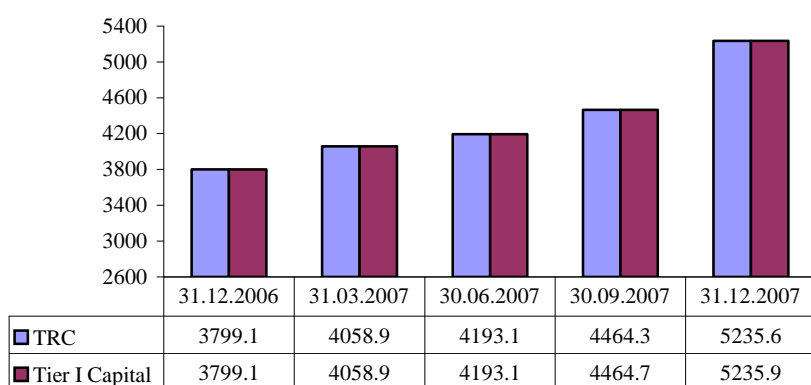
Capital of banks

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

Tier I Capital increased by 1436.8 million lei (37.8%), and recorded 5235.9 million lei as of December 31, 2007 and indicated the high capacity of banks to cover potential financial losses. It should be mentioned that at the end of 2007, in all banks the size of Tier I Capital complied with the category of license held by the bank.

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

Chart no. 61. Dynamics of banking capital in 2006 - 2007
(MDL, million)



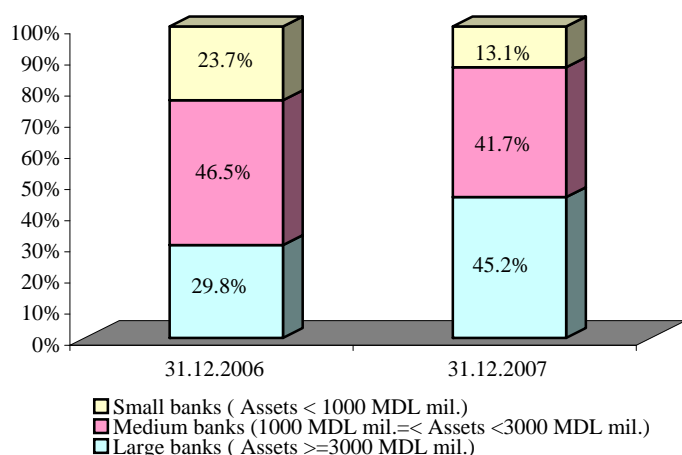
The total regulatory capital increased in 2007 by 1436.5 million lei, or by 37.8% (chart no. 61).

The main source of increasing Tier I Capital and TRC served the net income earned by banks in an amount of 1094.8 million lei and the closure of share issuance on the account of

additional contributions in an amount of 338.9 million lei, as well as on the account of the equity of the newly opened bank in an amount of 120.0 million lei.

The average risk weighted capital adequacy (ratio of total regulatory capital to risk-weighted assets) within the banking system reached as of December 31, 2007 a high level and accounted for 29.6% (the minimum level in the Republic of Moldova is 12.0%, while the level as set up for banking supervision by the Basel Committee indicates even a more reduced adequacy – 8.0%). This indicator reflects the banks' lending potential and, at the same time, demonstrates a high level of the system's stability.

Chart no. 62. Total regulatory capital distribution by groups of banks as of 31.12.2006 and 31.12.2007 (%)

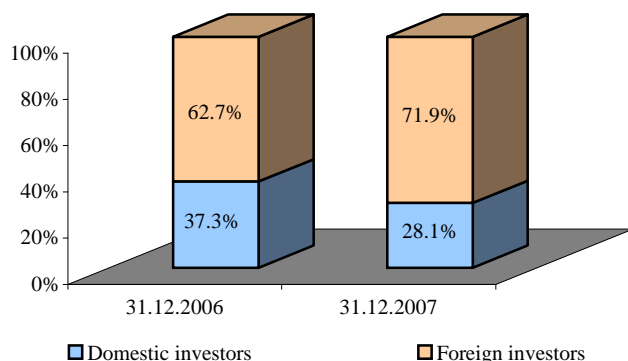


The share of total regulatory capital of large banks in total regulatory capital of the banking system totalled 45.2%, increasing as compared to December 31, 2005 by 15.4 percentage points, while the share of total regulatory capital of small and medium-sized banks dipped by 4.8 and 10.6 percentage points and amounted, respectively, to 41.7 and 13.1% (chart no. 62).

During the analyzed period foreign investors were attracted to the banking sector, which is confirmed by the significant share of foreign investments in the banks' capital. Its value accounted as

of December 31, 2007 for 71.9%, by 9.2 percentage points higher as compared to the end of 2006 (chart no. 63).

Chart no. 63. Structure of banking capital by investments source in the period of 31.12.2006 - 31.12.2007 (%)



Foreign investors' participation in capital formation in the banks of the Republic of Moldova included as follows: the European Bank for Reconstruction and Development, banks from Italy, France and Slovenia, as well as corporate investors from Austria, Germany, USA, Russian Federation, Greece, Slovenia, the Netherlands, the United Kingdom, Czech Republic, Cyprus and other countries.

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

local investments and 11 banks – a capital formed of foreign and local investments.

Liabilities of banks

As of December 31, 2007 the liabilities of banks accounted for 26454.4 million lei and soared as compared to the end of 2006 by 7635.2 million lei, or by 40.6%. The increase of liabilities occurred mainly on the account of deposits' growth* by 5843.3 million lei, or by 33.9%, which denoted the credibility in the banking system.

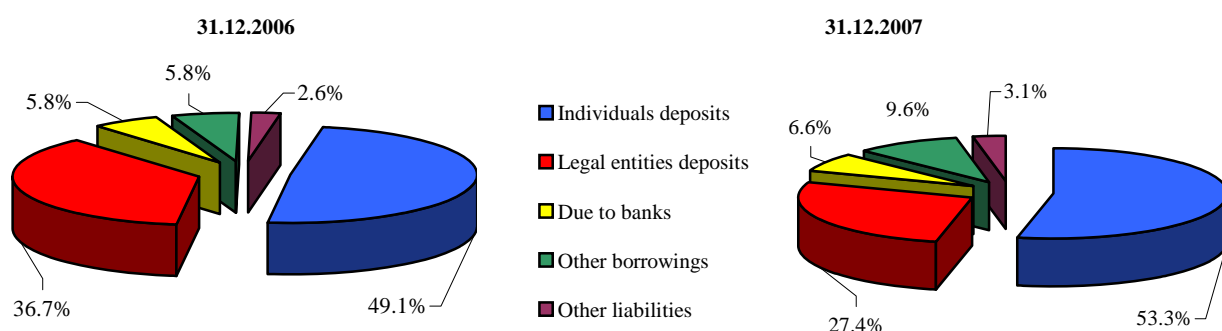
In 2007 all liability components recorded ascendant trends. Thus, deposits of individuals advanced by 4864.1 million lei (52.6%), other loans – by 1472.6 million lei (136.1%), funds

* According to deposit accounts balances in the balance sheet worked out following the Instruction on Elaboration and Submission by commercial banks of Financial Statements, approved by the Decision of the Council of Administration of the National Bank of Moldova no. 36 of 08.08.1997 (Official Monitor of the Republic of Moldova no.64-65 of 02.10.1997).

owed to banks – by 645.5 million lei (58.8%), deposits of businesses – by 333.7 million lei (4.8%) and other liabilities (including provisions for losses on conditional commitments in an amount of 45.4 million lei) – by 319.3 million lei (64.6%).

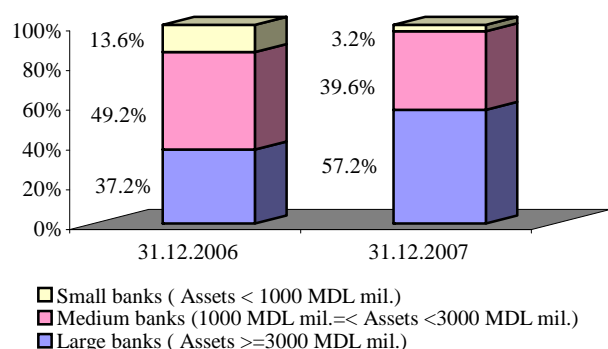
Within banks' liabilities, deposits held as of December 31, 2007 the highest weight – 87.3%, decreasing versus the end of 2006 by 4.3 percentage points. Their weight in GDP went up from 38.5% to 43.3% (chart no. 59). In total liabilities, deposits of individuals accounted for 53.3%, deposits of businesses – 27.4% and deposits of banks – 6.6%. Other loans and other liabilities constituted 9.6% and 3.1%, respectively (chart no. 64).

Chart no. 64. Structure of liabilities of the banking sector of the Republic of Moldova from 31.12.2006 to 31.12.2007 (%)



The weight of large banks' liabilities in total liabilities of the banking system amounted as of

Chart no. 65. Distribution of banking liabilities by groups of banks from 31.12.2006 to 31.12.2007 (%)



December 31, 2007 to 57.2%, increasing as compared to December 31, 2006 by 20.0 percentage points, while the weight of liabilities of medium-sized banks and of small banks reduced, by 9.6 and 10.4 percentage points, respectively, down to 39.6 and 3.2% in total liabilities within the banking system (chart no. 65).

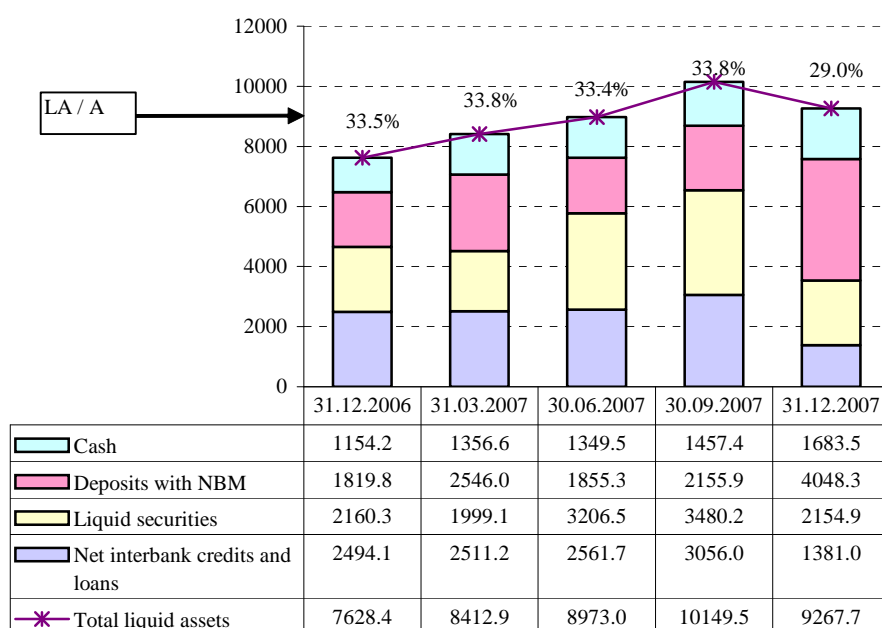
Liquidity of banks

The observance by banks of liquidity indicators revealed the existence of adequate financing sources for covering short-term and

long-term potential needs.

Thus, the long-term liquidity (*assets with the reimbursement term over 2 years /financial resources with the potential withdrawal term, over 2 years ≤ 1*) accounted as of December 31, 2007 for 0.7. The level of this indicator denoted the availability of resources that can be invested for a term of over two years.

Chart no. 66. Dynamics of liquid assets (MDL, million) and of the liquid assets' weight in total assets (%) in the period of 2006 - 2007



The current liquidity (*liquid assets expressed in cash, deposits with NBM, state securities, net interbank credits with the term of up to 1 month /total assets $\times 100\% \geq 20\%$*) equalled at the end of 2007 to 29.0%.

Liquid assets totalled 9267.7 million lei and increased during the reporting year by 1639.3 million lei, or by 21.5%. This increase was due to the growth of deposits with the National Bank of Moldova – by 2228.5 million lei (2.2 times) and of cash – by 529.3 million lei (45.9%).

Simultaneously, the net interbank credits and loans with the term of up to 1 month reduced by 1113.1 million lei (44.6%) and liquid securities – by 5.4 million lei (0.2%) (chart no. 66). The continuous advancement of liquid assets will contribute to the maintenance by banks of liquidity indicators.

Deposits with the National Bank of Moldova held as of December 31, 2007 the highest weight in liquid assets – 43.7%, followed by liquid securities – 23.2%, cash and precious metals – 18.2% and net interbank credits and loans with the reimbursement term due in less than 1 month – 14.9%.

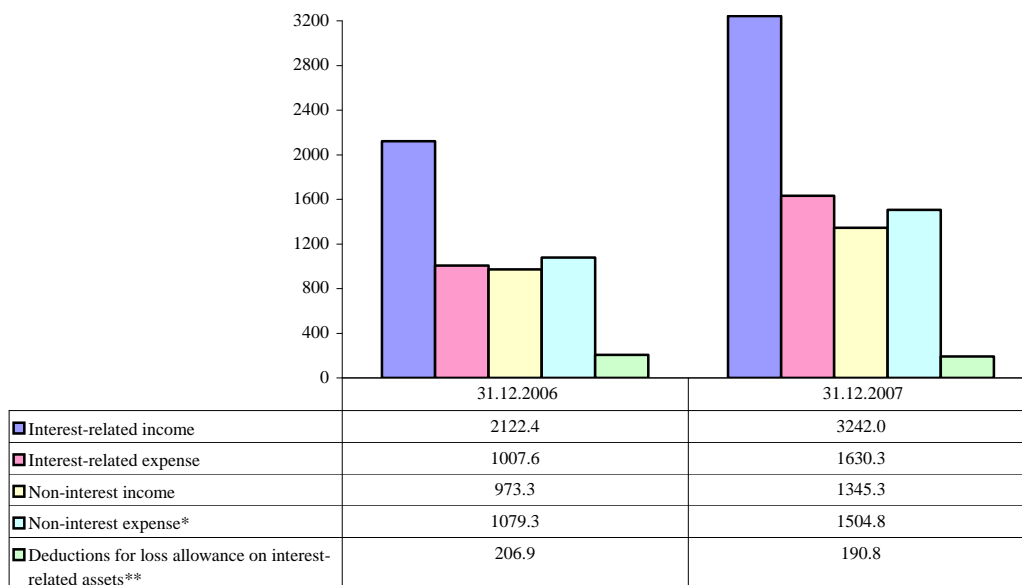
Income and expense of banks

Net income of banks of the Republic of Moldova in 2007 accounted for 1094.8 million lei, increasing as compared to the previous year by 410.0 million lei, or by 59.9%.

The year of 2007 recorded an increase in interest-related income as compared to 2006 by 1119.6 million lei, or by 52.8% and in non-interest income by 372.0 million lei, or by 38.2%. Interest-related expense and non-interest expense enlarged by 622.7 million lei (61.8%) and by 425.5 million lei (39.4%), respectively. Deductions for loss allowance on interest-related assets declined by 16.1 million lei, or by 7.8% (chart no. 67).

Banks' income during 2007 was steady and originated mainly from the banks' basic activity (investments in interest-bearing assets). Interest-related income constituted 3242.0 million lei, or 70.7% of total income derived by banks. Within the structure of interest-related income, interest-related income and loan commissions held the highest share – 2717.4 million lei (59.2% of total income).

Chart no. 67. Dynamics of banking income and expense in 2006-2007 (MDL, million)



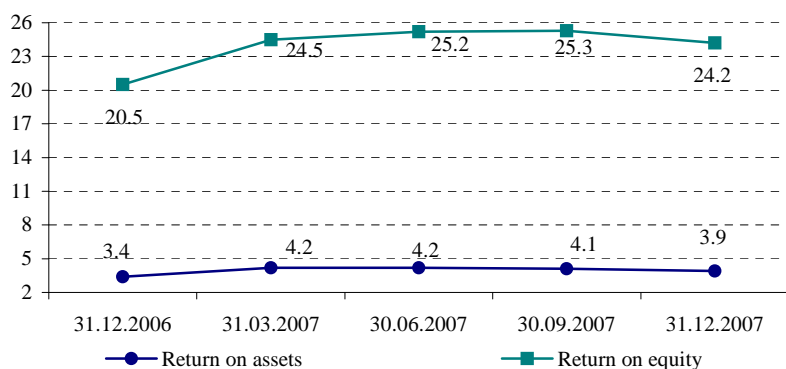
* As of 31.12.2007 non-interest expense include deductions for loss allowance on non-interest assets and deductions for loss provisions on conditional commitments.

** As of 31.12.2006 deductions for loss allowance on interest-related assets included only deductions on loan losses.

which 1630.3 million lei, or 49.0% represented interest-related expense, 1504.8 million lei, or 45.3% – non-interest expense and 190.8 million lei, or 5.7% – deductions for loss allowance on interest-related assets.

Profitability indicators continued to display high rates. *Return on assets* of the banking system (ratio of net income to average assets) in 2007 constituted 3.9%. *Return on equity*

Chart no.68. Dynamics of return on assets and equity in 2006-2007 (%)



within the banking system (ratio of net income to average equity capital) totalled 24.2%.

Compared to 2006 their value went up by 0.5 and 3.7 percentage points, respectively, especially on the account of the increase of the indicator of interest-related income on securities /average securities from 6.6% to 12.5%, or by 5.9 percentage points.

The growth of the basis of income deriving was revealed by the increase of interest-bearing assets in 2007 by 7856.6 million lei, or by 41.3%, and reached the value of 26861.7 million lei. The continuous growth of interest-bearing assets, as well as their significant weight in total assets of the banking system, which accounted for 84.0%, proves the banks' ability to generate income in the future.

Payments System

The main components of the payments system of the Republic of Moldova are the non-cash payment instruments and the automated interbank payment system.

On the territory of the Republic of Moldova the following non-cash payment instruments are used: credit transfer, bank cards, direct debit and incontestable collection.

The automated interbank payment system (AIPS) is made up of the real-time gross settlement system (RTGS) and of the designated-time net settlement system (DNS). The RTGS system is designed for processing of urgent and large-value payments, and the DNS system is designed for processing of low-value payments.

The participants to AIPS are the National Bank of Moldova, the authorised banks, the Settlement Centre of Tiraspol, and starting with March 1, 2007, there is a new participant, the Central Treasury by the Ministry of Finance.

In 2007 the quantitative and value parameters related to payments processed in AIPS recorded a positive evolution as compared to 2006, and totalled 10.4 million payments in an amount of 283221.7 million lei, which constituted an increase by 6.6% of the quantity and by 75.3% of the value of payments. The weight of the payments processed within RTGS and DNS systems, from the numerical point of view, constituted 5.2% and 94.8%, respectively, from the value point of view, 88.8% and 11.2%.

During 2007 the normative framework in the field of the payments system was improved. The AIPS regulations were harmonized with the Recommendations of the Bank for International Settlements in the field of the supervision of payments systems of systemic importance. New premises were created for the increase of the transparency degree within the banks' activity related to the credit transfer performance.

In 2007 the indicators of the activity in the bank card market continued the ascendant trend of the previous years. Thus, at the end of 2007, 772.2 thousand bank cards issued by authorized banks were in circulation, by 33.4% more as compared to the end of 2006.

The holders of bank cards issued by authorized banks carried out in the territory of the Republic of Moldova 10.9 million transactions in 2007 (currency withdrawals and non-cash payments) in an amount of 8190.8 million lei, which represents an increase by 30.4% of the quantity and by 46.7% of the value of transactions versus 2006. Currency withdrawals prevailed from the point of view of both the quantity and the value of the respective operations (97.0% and 98.3%, respectively).

During the year of 2007, the holders of bank cards issued abroad carried out in the territory of the Republic of Moldova 855.5 thousand transactions, by 32.5% more versus the previous year. It should be mentioned that the non-cash payments prevailed quantitatively in total operations (54.8%), while cash withdrawals prevailed by value (68.9%).

Commemorative Coins

With a view to filling in the collection of jubilee and commemorative coins, the National Bank of Moldova issued in 2007 four commemorative coins, as follows:

- 480 years from the accession to throne of the King Petru Rareș;
- 350 years from passing to eternity of Metropolitan Varlaam;
- Popular tradition – pottery;
- Common ground squirrel.

The jubilee and commemorative coins set the image of Moldova at the international level.

NBM personnel and professional training

The staff of the National Bank of Moldova was made up as of December 31, 2007 at the level of 98.9% (445 employees out of 450 according to the staff). Seven doctors of economy and technical sciences are currently working within the National Bank of Moldova.

In 2007, 55 bank's employees were promoted, 39 of which (over 70.0%) were aged below 30. The bank's staff is mainly made up of the persons aged below 40: 233 employees or 52.4%.

During the reporting year, 91 employees of the National Bank of Moldova participated in training courses, which contributed to the improvement and the modernisation of the activity of the National Bank of Moldova.

Internal audit

In 2007 the internal audit activities within the National Bank of Moldova were carried out pursuant to the *Law on the National Bank of Moldova* (Art. 33), the *Regulation on the Internal Audit Department* and according to the *Audit Manual* – a document, which includes necessary provisions for the efficient performance of an internal audit mission within the National Bank of Moldova. At the same time, the adequate international practices and standards were taken into consideration, such as: the International Internal Audit Standards, worked out by the Internal Auditors Institute, and the standards of the Association of Audit and Control within information systems).

The activity plan of the Internal Audit Department for 2007 was worked out based on the results of a complex process of risk assessment, which enabled the channelling of the audit activity to the fields with an enhanced risk level in order to fulfil the objectives of the National Bank of Moldova.

In the course of 2007 the Internal Audit Department carried out 17 audit missions, as well as activities of monitoring the implementation of the previous audit recommendations, performed special investigations, evaluated and endorsed the financial situations of the National Bank of Moldova, provided consultancy and reported to the Council of administration of the National Bank of Moldova on the sufficiency and the efficiency of the

implemented internal control systems, on the procedure of associated risks' management, by providing, upon necessity, adequate recommendations.

For a continuous development of the internal audit function, during the analyzed period, a series of specific activities was carried out, of which: the development of the methodology framework of the internal audit activity; the elaboration and the implementation of a soft application of managing the findings and the recommendations of the internal audit; the application and the development of the risk procedure targeted towards the strategic planning (2008-2010) and annual planning (2008) of the audit activity; professional training of the respective staff, etc.

Activity of the Council of administration

During the reporting year, 78 meetings of the Council of administration of the National Bank of Moldova were convened, where various issues were put into discussion with regard to the activity of the financial and banking system, and policies were approved and modified in the fields, as follows:

- monetary and foreign exchange activity;
- banking regulation and supervision;
- accounting procedures;
- balance of payments;
- issuance of banknotes, coins, etc.

In the course of 2007, 48 general decisions of the Council of administration of the National Bank of Moldova were submitted for publication in the Official Monitor of the Republic of Moldova.

INDEPENDENT AUDITORS' REPORT

To the National Bank of Moldova

1. We have audited the accompanying financial statements of the National Bank of Moldova ("the Bank"), which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, the financial statements present fairly, in all material respects, the financial position of the National Bank of Moldova as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

19 March 2008



Ernst & Young
Chisinau, Moldova

NATIONAL BANK OF MOLDOVA
BALANCE SHEET
as at 31 December 2007

	Notes	2007 MDL '000	2006 MDL '000
ASSETS			
Cash and short term placements with banks	5	11,038,139	5,983,251
Due from International Financial Institutions	6	2,202,960	2,394,300
Due from the Moldovan Government	7	1,972,560	2,113,822
Securities issued by the Moldovan Government	8	408,537	402,574
Loans granted to banks and individuals	9	38,839	46,032
Investment securities	10	4,056,392	4,019,326
Tangible assets	11	26,574	31,045
Intangible assets	11	12,963	16,730
Other assets	12	7,325	3,730
TOTAL ASSETS		19,764,289	15,010,810
LIABILITIES, CAPITAL AND RESERVES			
Liabilities			
National currency issued into circulation	13	7,603,347	5,817,191
Due to the Moldovan Government	14	2,506,809	871,627
Due to banks	15	4,054,556	1,824,397
Certificates issued by the National Bank of Moldova	16	812,928	943,347
Due to International Financial Institutions	6	4,014,172	4,218,728
Other liabilities	17	144,044	335,543
Total liabilities		19,135,856	14,010,833
Capital and reserves			
Authorized capital	18	288,923	288,923
General Reserve fund	18	320,277	577,845
Total statutory capital		609,200	866,768
Reserve of unrealized foreign exchange gains from foreign currency stocks revaluation	18	-	133,099
Reserve of unrealized gains on revaluation of investment securities	18	17,643	-
Other reserves	18	1,590	110
Total capital and reserves		628,433	999,977
TOTAL LIABILITIES, CAPITAL AND RESERVES		19,764,289	15,010,810

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

The financial statements were authorized for issue on 19 March 2008:

Mr. Leonid Talmaci
Governor

Mrs. Natalia Zabolotnîi
Head of the Budget, Finance and Accounting Department,
Chief Accountant

NATIONAL BANK OF MOLDOVA
INCOME STATEMENT
for the year ended 31 December 2007

	Notes	2007	2006
		MDL '000	MDL '000
Interest income from deposits and availabilities	20	372,827	213,025
Interest income from securities	20	228,032	159,339
Interest income from loans	20	244,835	126,523
		<u>845,694</u>	<u>498,887</u>
Interest expenses arising from loans received	21	(24,805)	(32,559)
Interest expenses arising from availabilities	21	(98,918)	(46,380)
Interest expenses arising from transactions with securities and Repo agreements	21	(198,410)	(40,235)
		<u>(322,133)</u>	<u>(119,174)</u>
Net Interest Income		<u>523,561</u>	<u>379,713</u>
Gains/(losses) from foreign exchange transactions and foreign exchange rates differences	22	(880,913)	266,429
Gains/(losses) from the revaluation of securities	23	24,504	(2,380)
Release from loan loss provision		46	10
Other income	24	24,234	10,076
Operating expenses	25	(65,103)	(108,042)
Operating Gains/(Losses)		<u>(897,232)</u>	<u>166,093</u>
Net profit for the year	19	<u>(373,671)</u>	<u>545,806</u>
Allocation of unrealized gains on exchange rate differences from foreign currency stocks revaluation		-	(133,099)
Allocation of unrealized gains on revaluation of investment securities		(17,643)	-
Release of unrealized losses on exchange rate differences from foreign currency stocks revaluation		133,099	-
Release of realized gains from fixed assets revaluation		647	647
Net profit for the year available for distribution	19	<u>(257,568)</u>	<u>413,354</u>

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

The financial statements were authorized for issue on 19 March 2008:

Mr. Leonid Talmaci
Governor

Mrs. Natalia Zabolotnî
Head of the Budget, Finance and Accounting Department,
Chief Accountant

NATIONAL BANK OF MOLDOVA
CASH FLOW STATEMENT
for the year ended 31 December 2007

	Notes	2007 MDL '000	2006 MDL '000
Cash flow from operating activities			
Interest receipts		835,936	481,875
Interest payments		(328,692)	(116,387)
Gains from foreign exchange transactions		24,504	4,544
Other receipts		24,229	10,066
Staff and suppliers costs paid		(55,063)	(93,110)
Cash flow before changes in assets and liabilities		500,914	286,988
<i>(Increase) / Decrease in operating assets</i>			
Decrease / (increase) in net amounts due to/from International Financial Institutions		209	(1,962)
Increase in securities		(394,851)	(1,189,636)
Decrease in amounts due from Government		160,000	118,800
Decrease in loans granted to banks and individuals		7,193	10,327
		(227,449)	(1,062,471)
<i>Increase / (Decrease) in operating liabilities</i>			
Increase in the national currency issued into circulation		1,786,156	668,304
Increase in due to Government		1,635,613	526,414
Increase / (decrease) in due to banks		2,300,955	(1,163,766)
(Decrease) / increase in certificates issued by the National Bank of Moldova		(130,160)	799,086
Increase in due to International Financial Institutions		133,137	533,076
Increase in other liabilities		121,785	2,188
		5,847,486	1,365,302
Net cash from operating activities		6,120,951	589,819
Tangible and intangible fixed assets additions		(4,431)	(8,777)
Net cash flow from investing activities		(4,431)	(8,777)
Government contribution to statutory capital		-	250,000
Profit payments to the State		(313,498)	(162,775)
Net cash flow from financing activities		(313,498)	87,225
Revaluation Differences		(742,171)	259,198
Increase in cash and cash equivalents		5,060,851	927,465
Cash and Cash equivalents at 1 January		6,385,825	5,458,360
Cash and Cash equivalents at 31 December		11,446,676	6,385,825
		2007	2006
Analysis of Cash and Cash equivalents			
Cash on hand in foreign currency	5	1,362	1,354
Nostro accounts in foreign currency	5	678,630	63,824
Term deposits in foreign currency	5	10,358,147	5,918,073
Securities issued by the Moldovan Government	8	408,537	402,574
Cash and Cash equivalents, gross		11,446,676	6,385,825

NATIONAL BANK OF MOLDOVA
STATEMENT OF CHANGES IN CAPITAL AND RESERVES
for the year ended 31 December 2007

	Authorized capital	General reserve fund	Reserve of unrealized foreign exchange gains from foreign currency stocks revaluation	Reserve of unrealized gains on revaluation of investment securities	Other reserves	Retained earnings	Total Capital and Reserves
	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000	MDL '000
Balance as at 1 January 2006	200,000	319,175	-	-	2,938	-	522,113
Net profit for the year 2006	-	-	-	-	-	545,806	545,806
Transfer from indexation reserve of fixed assets	-	-	-	-	(647)	647	-
Allocation of unrealized gains on exchange rate differences from foreign currency stocks revaluation	-	-	133,099	-	-	(133,099)	-
Increase in authorized capital	88,923	-	-	-	-	(32,531)	56,392
Transfer to general reserve fund	-	258,670	-	-	-	(65,062)	193,608
Difference from revaluation of securities issued by the Moldovan Government	-	-	-	-	(2,181)	-	(2,181)
Profit distributed to State Budget	-	-	-	-	-	(315,761)	(315,761)
Balance as at 31 December 2006	288,923	577,845	133,099	-	110	-	999,977
Balance as at 1 January 2007	288,923	577,845	133,099	-	110	-	999,977
Net loss for the year 2007	-	-	-	-	-	(373,671)	(373,671)
Transfer from indexation reserve of fixed assets	-	-	-	-	(647)	647	-
Release of unrealized gains on exchange rate differences from foreign currency stocks revaluation	-	-	(133,099)	-	-	133,099	-
Allocation of unrealized gains on revaluation of investment securities	-	-	-	17,643	-	(17,643)	-
Release of general reserve fund	-	(257,568)	-	-	-	257,568	-
Difference from revaluation of securities issued by the Moldovan Government	-	-	-	-	2,127	-	2,127
Balance as at 31 December 2007	288,923	320,277	-	17,643	1,590	-	628,433

1. General information

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

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

As at 31 December 2007 the number of positions available at the Bank, including vacancies, was 450 (31 December 2006: 451), out of which the number of employees was 432 persons (441 persons as of 31 December 2006).

The inflation rate for the year 2007 was 13.10% (2006: 14.10%).

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

2. Basis of preparation

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

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

3. Significant accounting policies

a. Revaluation of foreign exchange stocks and transactions

Foreign currency transactions are recorded at the exchange rate on the date of the transaction and are revalued daily using official foreign exchange rate. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are reported using the closing exchange rate. The exchange rates of the reference currencies for the year 2007 were as follows:

	2007		2006	
	Average for the period	Year end	Average for the period	Year end
USD/MDL	12.1362	11.3192	13.1319	12.9050
EUR/MDL	16.5986	16.6437	16.4918	16.9740
GBP/MDL	24.2728	22.6361	24.1934	25.3034
XDR/MDL	18.5624	17.8671	19.3235	19.3982

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

b. Comparative figures

In cases when the financial statements presentation has changed for some items, the comparatives have been amended to reflect the changes in presentation.

Accordingly, at the presentation of certain items from the Statement of Cash Flows, unrealized gains and losses from foreign currency exchange rate differences have been presented per each balance sheet account in foreign currency as at the reporting date.

c. Significant accounting judgments and estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions in determining the amounts and balances reported in the financial statements and accompanying notes. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from those estimates. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input of these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The judgments include considerations of liquidity and model inputs accepted by the Management of NBM.

Impairment losses on loans and receivables

The Bank reviews its loans and advances at each reporting date or when it is considered necessary in order to assess whether an allowance for impairment should be recorded in the income statement.

3. Significant accounting policies (continued)

d. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand in foreign currency, current accounts and short-term placements at other banks, treasury bills and other short – term highly liquid investments, with less than 3 months maturity from the date of acquisition.

In the Balance Sheet cash and short term placements with banks are presented on net basis (cash on hand in local currency is offset with the National currency issued into circulation).

e. Due from International Financial Institutions

The amounts recorded in the balance sheet as “Due from International Financial Institutions” represents mainly the quota of the Republic of Moldova in the International Monetary Fund (“IMF”). This amount is established in Special Drawing Rights (“XDR”) but it is presented in MDL.

f. Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit and loss account, loans originated by the Bank; held-to-maturity investments; and available-for-sale financial assets.

Financial assets at fair value through profit and loss account

Financial assets at fair value through profit and loss account represent securities, which were either acquired for generating a profit from short term fluctuations in price, or are securities included in a portfolio in which a pattern of short term profit taking exists. After initial recognition at fair value, these securities are remeasured at fair value based on quoted bid prices. Interest income on securities is included in interest income.

This category of financial assets includes securities issued by non-residents with coupon or discount and purchased from the foreign markets which are presented in the balance sheet under category “Investment securities”.

Loans and receivables

Loans and receivables represent financial instruments where money is provided directly to the borrower and are recognized when the cash is advanced to borrowers. They are initially recorded at cost, which is the fair value of the cash disbursed, and are subsequently measured at amortized cost.

Loans granted to banks and individuals are stated at amortized cost, less impaired amounts and any provisions for impairment.

The Bank includes in this category loans reconcluded with Government, loans granted to banks and employees.

Held to maturity investments (HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and have fixed maturities that the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment.

The Bank does not currently classify any items in this category.

3. Significant accounting policies (continued)

f. Financial assets (continued)

Available for sale financial assets

All the financial assets, which are not classified at fair value through profit and loss account or as held to maturity, are included in available for sale securities.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention are recognized at settlement date. Available for sale assets are recognized initially at fair value (including transaction costs). Subsequent to initial recognition, they are remeasured at their fair value which is based on quoted bid prices or amounts derived from cash flow models and ratios which reflect the specific circumstances of the issuer.

Unrealized gains and losses related to this category of financial assets are recognized directly in equity in “Other reserves”. When the securities available for sale are disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement.

Interest calculated using the effective interest method is recognized in profit or loss.

The Bank includes in this category Securities issued by the Moldovan Government that are included in the line “Securities issued by the Moldovan Government” in the balance sheet..

g. Fair value of financial instruments

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

The loans and receivables of the Bank are reported at amortized cost less an estimate for impairment.

The carrying amounts of financial assets and liabilities measured at amortized cost approximate to their fair value.

The securities of non-residents are classified as “financial assets at fair value through profit or loss account” the gain or loss from their revaluation to market value is reported in the income statement.

The estimated fair values of financial instruments available for sale have been determined by the Bank using available market information and appropriate valuation methodologies, such as discounted cash flows techniques.

The State Treasury bills are classified as “available for sale” and are reported at fair value.

Where discounted cash flows techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate at the balance sheet date with similar terms and conditions. However, professional judgment is required to interpret market data to determine the estimated fair value.

The fair value of the state securities held in the portfolio (for maturity which were not performed on the secondary market recently) is estimated by obtaining the new interest rates (on current market) at the reporting date per maturity of state securities retained in the NBM portfolio from the curve of the current interest rates. The curve is constructed for the appropriate day based on the recent results of the auctions for treasury bills on the primary market as well as on the secondary market for the last 5 working days.

3. Significant accounting policies (continued)

h. Provisions for impairment of the loans and other assets

The loan loss provision is created in case if there are objective evidences (financial situation of the bank, reimbursement of principal, current debt service, renegotiation or prolongation of the payment terms of principal and interest) that the Bank will not be able to collect all amounts due (principal and interest).

The amount of the impairment loss is the difference between the carrying value and estimated recoverable value, calculated as updated value of cash flows estimated for recovery including the amounts recoverable from collaterals, updated based on initial interest of the instrument. The loan loss provision is decreased or increased in case if the provision calculated at the reporting date is respectively less or greater than previously established provision.

Provision for impairment of the loans is used to cover the non-performing loans, in cases of bankruptcy of the commercial bank and/or the insufficiency of own funds to settle the debt to the NBM. These loans are written off against provisions established previously.

Recoveries of loans written off in earlier periods are included in income.

In order to cover the potential risks and losses, both objective and subjective, a provision for doubtful debts is created. The provision represents expenses, which occur at the moment of its creation or increase, and, respectively, is reflected as an income at the moment of its cancellation or decrease. The provisions for bad debts are not used to cover the losses resulted from the bad debts written off as unrecoverable debts. The doubtful receivable is considered unrecoverable in cases when there is confirmation from the appropriate authorities that the receivable lost its value and can not be recovered. The write off of bad debts is recorded as expense, and the created provision is release to income.

i. Sale and repurchase agreements

Securities sold with a simultaneous commitment to repurchase at a specified future date (Repos) continue to be recognized in the balance sheet as securities and are measured in accordance with respective accounting policies. The liability for amounts received under these agreements is included in due to Moldovan Government. The difference between sale and repurchase price is treated as interest expense using the effective yield method.

The Bank has not entered in such transactions during the current reporting period.

j. Tangible assets

Tangible assets are stated at cost less accumulated depreciation.

In 1996 the Bank performed indexation of the items of property and equipment that were acquired prior to 1 January 1996 by applying the set of indices elaborated by the Moldovan Government. The indices provided by the Ministry of Finance of the Republic of Moldova were applied to the net book value of assets in order to reflect changes in prices. The indices varied according to asset type and acquisition date.

Expenses for repairs and maintenance are charged to operating expenses as incurred. Subsequent expenditure on tangible assets is only recognized as an asset when the expenditures improve the condition of the asset beyond the originally assessed standard of performance.

3. Significant accounting policies (continued)

j. Tangible assets (continued)

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

	<u>rate per annum</u>
Buildings	5%
Motor vehicles – heavy vehicles	10%
Wooden buildings	20%
Motor vehicles – cars, buses	20%
Special Equipment	20%
General and administration equipment	20%
Other fixed assets	30%

k. Intangible assets

Intangibles represent costs incurred for acquisition of computer software, amortized using the straight-line method over their estimated useful lives, by applying an annual amortization rate determined based on the estimated useful life of each asset. The useful life of the asset is determined when it is put into use, on the basis of the period that the asset is estimated to be used or the duration of the license. As at 31 December 2007 the estimated useful life of intangible assets varied between 1 and 5 years.

Where the carrying amount of an intangible asset is greater than the estimated recoverable amount, it is written down to its recoverable amount. The costs related to the development or maintenance of the software elements are recognized through the income statement at the moment they occur.

l. National currency issued into circulation

The national currency issued into circulation is carried at nominal value. For presentation purposes the cash on hand in national currency available in the circulation cash desk of the Bank is offset against national currency issued into circulation. The cost of production of banknotes and coins is recorded in the income statement when the expense is incurred.

m. Due to banks

Due to banks include LORO accounts and current accounts of the banks residents/non-residents, term deposits placed by banks and the interests on deposits.

Due to banks include among other the obligatory reserves required to be maintained on the accounts opened in the NBM, in compliance with its prudential requirement.

The mandatory reserves are determined by applying the set percentages to the average daily balances of deposit accounts and other similar liabilities of the commercial banks, specified for that reason by the Regulation on Obligatory Reserves Regime.

In the Balance Sheet availabilities of banks are presented at nominal value, and in cases of term deposits they are subsequently remeasured at amortized cost.

3. Significant accounting policies (continued)

n. Due to Moldovan Government

Due to Moldovan Government include accounts of the State Budget held in the Unique Treasury Account, term deposits of the Ministry of Finance and amounts of the Directorate of Credit Line of the Ministry of Finance and are presented in the Balance Sheet at nominal value. The deposits of the Ministry of Finance are subsequently measured at amortized cost.

o. Certificates issued by the NBM

Certificates issued by the NBM represent discount securities and are reflected in the Balance Sheet at the settlement date at sale price. After initial recognition the certificates are remeasured at amortized cost based on the effective interest rate, with the calculation and recognition of the amortized discount in the last day of each month and at the maturity date of the NBM certificates.

p. Due to International Financial Institutions

Due to International Financial Institutions are initially recognized at fair value, being equal to their issue proceeds. Subsequently Due to International Financial Institutions are recognized at amortized cost. Any difference between net proceeds and the redemption value is recognized in the income statement over the period to maturity.

q. Capital and reserves

The Bank maintains the statutory capital on the level required to accomplish the objective established by the *Law nr.548 – XIII of 21 July 1995 on the National Bank of Moldova*.

The capital structure of the NBM includes the following:

- statutory capital:
 - authorized capital
 - general reserve fund
- reserve of unrealized gains;
- other reserves.

The statutory capital is dynamic and it is created from the annual profit available for distribution and/or from the Government contributions until the capital reaches the value of 10% of the total monetary liabilities of the NBM (except liabilities due to Government and International Monetary Fund) recorded in the accounting books of the NBM as at 31 December 2007.

The authorized capital shall be subscribed and shall be held exclusively by the state; the capital shall not be transferable or subject to encumbrance. A reduction of the level of monetary liabilities, both during the year, and at year end, does not result in a decrease of authorized capital previously accumulated.

The general reserve fund is used exclusively to cover the net losses registered by the Bank at the financial year end. In case when at year the general reserve fund has a debit balance, the Government, through the Ministry of Finance, during a period of 60 days from the date when the external audit opinion on the financial statements of NBM is presented, transfers to NBM a capital contribution in state treasury bills at the market interest rate, in the amount necessary to cover the debit balance.

3. Significant accounting policies (continued)

q. Capital and reserves (continued)

As the allocation of unrealized profits may affect the achievement of the objectives of the NBM, the Bank retains unrealized profits, resulted from the foreign exchange rates fluctuation and from revaluation of the securities in foreign currency at their fair value in the reserves of the unrealized income, which, consequently, are used to cover the unrealized losses generated by respective sources.

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

r. Income tax

In compliance with the art. 24 par. (15) p. f) of the *Law nr 1164-XIII dated 24 April 1997 on applying the titles I and II of the Tax Code* and the subsequent amendments, the National Bank of Moldova is not subject to income tax on its activities.

s. Interest income and expenses

Interest income and expense are recoded in the income statement for financial instruments valued at amortized cost based on the linear method and those valued at amortized cost using the effective interest rate method.

t. Revaluation of foreign currency assets and liabilities

Unrealized foreign exchange gains and/or losses are created as a result of the daily revaluations of the foreign currency stocks representing the difference between the official exchange rates of the national currency towards the foreign currencies which create the relevant foreign exchange stocks, the revaluation of the IMF related accounts during the financial year, as well as monthly revaluation of foreign securities at fair value which are held in the NBM portfolio.

By virtue of its activities as a central bank and for currency market intervention purposes, NBM maintains open currency positions at the reporting dates.

In accordance with the art.20 of the *Law on the National Bank of Moldova* at the end of the financial year, the net unrealized foreign exchange gains from revaluation of the foreign currency stocks and of securities in foreign currency available in the NBM portfolio are transferred to the correspondent reserve accounts of unrealized gains.

The amount of net unrealized losses, after recognition in the income statement is covered using the sources of corresponding reserve accounts of unrealized gains, until their balance equals to zero.

u. Fiduciary activities

The National Bank of Moldova acts in some cases as fiscal agent of the State. Assets and income arising from these activities are not included in these financial statements where the Bank acts in the fiduciary capacity such as nominee or agent.

v. Contingencies

Contingent liabilities are not recognized in the financial statements but they are disclosed in the notes, unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. Significant accounting policies (continued)

w. Provisions

The Bank recognizes provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events and a reasonable estimate of the obligation can be made.

x. Pension costs and employees’ benefits

During its normal activity, the Bank makes contributions to the social state insurance budget and to the mandatory medical insurance fund of the Republic of Moldova, including the contributions made on the name of its employees, according to the acting legislation. Social insurance contributions and medical insurance contributions of the NBM are recognized to expenses at the moment when salaries are accrued. The Bank does not operate any other retirement schemes and has no obligation to provide further benefits to current or former employees.

y. Standards and interpretations issued but not yet effective

Certain new standards and interpretations have been issued and will be in effect beginning on or after 1 January 2008 or later periods:

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Bank does not have different operating segments and therefore the Standard will not be applied to the Bank’s financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. Due to the specifics of the Bank, it is not expected that circumstances for the application of this Standard will appear.

3. Significant accounting policies (continued)

y. Interpretations issued but not yet effective (continued)

IFRIC Interpretations not yet effective:

IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);

IFRIC 13, Customer Loyalty Programs (effective for annual periods beginning on or after 1 July 2008);

IFRIC 14, IAS 19 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

All the Interpretations mentioned above, due to the specifics of the Bank, are not expected to be applied by the Bank.

In this context, all the Standards and Interpretations described above are not expected to affect the Bank's financial statements.

4. Financial risk management

Through its normal operations, the National Bank of Moldova is exposed to a number of risks of an operational and financial nature

Operational risk

The operational risk involves the risk of both financial and non-financial losses resulted from human errors, breakdown or inadequate functioning of the internal control system. The Bank operational risk management is an integral part of daily operations and management. The operational risk management includes corporative policies, which provide for behavior standards applicable to involved persons and specific internal control systems, specific for each subdivision elaborated, taking into account the characteristics of their basic activity. Hence, for the monitoring and adequate management of the related risks the sub-divisions of the NBM elaborate their own internal control procedures.

The National Bank of Moldova manages this risk through its Internal Audit Department, which tests and expresses the opinion on the effective functioning of the internal controls system of the Bank. Segregation of duties among different departments of the National Bank of Moldova (front-office, middle-office and back-office) is also considered as one of the mechanisms of managing operating risk.

Financial risk

The main categories of financial risk to which the Bank is exposed are: credit risk, liquidity risk, market risk, which includes interest rate risk and currency risk. The structure of the assets and liabilities is primarily determined by the nature of the National Bank of Moldova's statutory functions, rather than commercial considerations. At the same time NBM continually manages its exposure to risk, through a variety of risk management techniques. Risk management of the National Bank of Moldova is regulated by its internal instructions, and procedures, and is monitored by the management of the Bank, that analyzes issues related to the monetary, investment and foreign exchange policy of the National Bank of Moldova, and sets limits for volumes of transactions.

4. Financial risk management (continued)

4.1 Credit risk

Credit risk is the risk that the Bank will incur a loss because its counterparties failed to discharge their contractual obligations.

The National Bank of Moldova is subject to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. The Bank’s maximum exposure to credit risk, excluding the value of collateral, is generally reflected in the carrying value of financial assets.

The credit risk relating to operational credit in national currency is monitored and controlled.

In order to control credit risk exposure, the Bank implemented the following risk monitoring elements:

- settling the transaction insurance percentage (haircut) – when securities are acquired at a higher interest rate than established on the market at that specific moment, the National Bank protects against the eventual non repayment by the counterpart bank;
- requesting an additional pledge for maintaining the initial transaction insurance percentage, settled by the Bank.

In order to decrease the credit risk exposure related to loans granted to commercial banks for loans to housing construction cooperatives, the Bank monitors on a permanent basis the quality of credit portfolio and debtors financial situation, and, periodically, evaluates the impairment provisions, and adjusts them to reflect best current estimates. The credit risk related to such loans diminishes as the balances of the loans granted are decreasing.

The credit risk related to intraday/overnight/credits as well as to pawnshop facility is daily monitored using the limits of monetary policy set for each bank and are secured by the highly liquid collateral such as state securities and certificates issued by NBM.

In order to decrease the credit risk exposure related to loans granted to the Bank’s personnel, the Bank accepts as a collateral either the properties acquired with the loans or the salaries in case the loan was granted for personal needs.

The credit risk related to transactions, with the purpose of managing the foreign currency reserves is monitored via selecting the investment instruments with high liquidity and low level of risk, setting investment limits and their daily control.

Furthermore, an essential element of credit risk management is the investment of the NBM with the purpose of foreign currency reserves management with reliable counterparties having high long-term credit rating, established by the international rating agencies (Standard & Poor’s, Moody’s and Fitch IBCA), and authorized by the NBM with whom to execute foreign currency transactions.

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei “MDL ‘000”)

4. Financial risk management (continued)

4.1 Credit risk (continued)

The table below represents the Bank’s financial assets based on long-term rating:

Financial Assets	Long-term rating	31 December 2007	31 December 2006
Cash and short-term placements with banks (in foreign currency)	AAA	3,593,441	2,237,097
	AA+	-	430,710
	AA	5,608,128	2,107,366
	AA-	1,836,238	1,207,942
	A+	-	83
	A	319	5
	A-	-	48
	BBB-	13	-
Due from International Financial Organizations	AAA	2,202,960	2,394,300
Due from the Government	N/A	1,972,560	2,113,822
Securities issued by the Moldovan Government	N/A	408,537	402,574
Loans granted to banks and individuals	N/A	38,839	46,032
Investment securities	AAA	4,056,392	4,019,326
Other assets		5,232	1,541
Total Financial Assets		19,722,659	14,960,846

To quantify the credit risk related to investments in foreign currency, the value of credit risk associated to the investment portfolio is calculated based on default coefficients set by the Standard & Poor’s agency per each rating category, the investments being classified in three categories (less or equal to one year, from one year to two, more than two years). As at 31 December 2007, the credit risk of the investment portfolio in foreign currency is valued at MDL’000 574 (equivalent to USD’000 51).

In order to evaluate the diversification of assets portfolio as well as to properly assess the credit risk subject to different geographical areas the classification of Bank’s financial assets per investment country, except for cash on hand, which is classified by country of origin of issuer, is as follows:

Country	31 December 2007	31 December 2006
USA	4,752,215	2,947,115
International Financial Organizations	2,653,637	2,520,282
Germany	2,556,550	1,750,606
France	1,600,271	952,994
Belgium	1,394,328	1,314,056
Sweden	562,942	431,779
Switzerland	2,446,482	430,715
The Netherlands	1,321,354	721,407
Great Britain	9,484	1,327,253
Other Countries	228	670
Moldova	2,425,168	2,563,969
Total Financial Assets	19,722,659	14,960,846

The biggest share of the assets held with “International Financial Organizations” represents the quota of the Republic of Moldova held with the IMF. Simultaneously, the major share of the investments and availabilities, by a foreign country, belongs to the USA (24.10% of the total assets), followed by Germany (12.96%), and Switzerland (12.40%).

4. Financial risk management (continued)

4.2 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under circumstances different from normal ones. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the National Bank of Moldova.

The liquidity risk is constantly monitored by the NBM, limiting the maximum maturity term of the investment portfolio, which restricts the investment into long-term maturity instruments, consequently the remaining maturity of the NBM portfolio being diversified.

Liquidity is one of the basic criteria in defining the composition of assets in foreign currency. This reflects the potential need to liquefy the currency reserves for intervention purposes in case such needs arise.

Securities in foreign currency held in NBM portfolio are high liquidity instruments meaning that they could be sold at any moment before the maturity date.

Securities issued by Government of the Republic of Moldova and held by the National Bank of Moldova have a contractual maturity not longer than 91 days. However, at maturity, those securities are rolled over, being repurchased by the Government at current market rates and new securities are issued by the Government and purchased by the National Bank of Moldova.

Loans granted by the National Bank of Moldova to the Moldovan Government have a maturity of 91 days. At maturity, interest accrued is paid to the National Bank of Moldova and the agreements are reconcluded.

Based on the Plan of Conversion of the loans previously granted by the NBM into state treasury securities dated 12 September 2007, the National Bank of Moldova and the Ministry of Finance during the I quarter of 2008 will convert the loans previously granted by the NBM into state treasury securities.

Analysis of assets and liabilities as at 31 December 2007 according to their contractual maturity date is as follows:

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei "MDL '000")

4. Financial risk management (continued)

4.2 Liquidity risk (continued)

	<u>0-3 months</u>	<u>3-6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>More than 2 years</u>	<u>Undefined maturity</u>	<u>Total</u>
31 December 2007							
Active							
Cash and short-term placements with banks	7,536,751	3,501,388	-	-	-	-	11,038,139
Due from International Financial Institutions	1,730	-	-	-	-	2,201,230	2,202,960
Due from the Moldovan Government	1,972,560	-	-	-	-	-	1,972,560
Securities issued by the Moldovan Government	408,537	-	-	-	-	-	408,537
Loans granted to banks and individuals	1,707	1,708	3,415	6,758	25,251	-	38,839
Investment securities	923,059	681,121	1,182,405	1,038,322	231,485	-	4,056,392
Tangible assets	-	-	-	-	-	26,574	26,574
Intangible assets	-	-	-	-	-	12,963	12,963
Other assets	7,325	-	-	-	-	-	7,325
Total assets	<u>10,851,669</u>	<u>4,184,217</u>	<u>1,185,820</u>	<u>1,045,080</u>	<u>256,736</u>	<u>2,240,767</u>	<u>19,764,289</u>
Liabilities							
National currency issued into circulation	7,603,347	-	-	-	-	-	7,603,347
Due to the Moldovan Government	2,239,809	122,000	145,000	-	-	-	2,506,809
Due to banks	4,054,556	-	-	-	-	-	4,054,556
Certificates issued by the NBM	812,928	-	-	-	-	-	812,928
Due to International Financial Institutions	109,656	16,509	107,465	210,725	1,361,616	2,208,201	4,014,172
Other liabilities	144,044	-	-	-	-	-	144,044
Total liabilities	<u>14,964,340</u>	<u>138,509</u>	<u>252,465</u>	<u>210,725</u>	<u>1,361,616</u>	<u>2,208,201</u>	<u>19,135,856</u>
Net liquidity gap	<u>(4,112,671)</u>	<u>4,045,708</u>	<u>933,355</u>	<u>834,355</u>	<u>(1,104,880)</u>	<u>32,566</u>	<u>628,433</u>
31 December 2006							
Total assets	<u>8,761,825</u>	<u>1,048,303</u>	<u>1,233,114</u>	<u>1,495,529</u>	<u>32,421</u>	<u>2,439,618</u>	<u>15,010,810</u>
Total liabilities	<u>9,919,684</u>	<u>-</u>	<u>141,009</u>	<u>269,330</u>	<u>1,286,046</u>	<u>2,394,764</u>	<u>14,010,833</u>
Net liquidity gap	<u>(1,157,859)</u>	<u>1,048,303</u>	<u>1,092,105</u>	<u>1,226,199</u>	<u>(1,253,625)</u>	<u>44,854</u>	<u>999,977</u>

4. Financial risk management (continued)

4.3 Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables, even though such changes are caused at times by specific factors related to individual securities or issuers of securities, or factors that affect all the securities traded on the market.

The State securities are valued quarterly at their fair value determined based on recent auction interest rate on the primary market.

The market risk for the portfolio of securities in foreign currency is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic losses based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. For VaR calculation the Bank uses the historical volatility method.

The exposure to the market risk of the securities portfolio held in foreign currency is quantified by calculation of value-at-risk, which represents the maximum possible losses related to securities in foreign currency for a 12 months future period with a probability, usually, of 5%, considering the historical volatilities for a similar period. As of 31 December 2007, the value of exposure to risk of securities portfolio in foreign currency is estimated at approximately USD'000 16,387 or approximately MDL'000 185,488 (2006: USD'000 19,220 or approximately MDL'000 247,980).

4.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of a financial instrument.

The Bank does not apply the value-at-risk method to analyze the sensitivity of its portfolio of securities in foreign currency. In the same time, based on personal professional judgment, it is possible to presume that +/- 1p.p. fluctuations of interest rate compared to initial portfolio interest rate for securities held in portfolio implies an impact of approximately MDL'000 +/-350 on the Bank capital.

As a result of its activity related to monetary policy, the Bank is exposed to the internal market interest rate risk resulted from granting and extending the loans to the Government and the commercial banks at a fixed rate, holding the State Securities in its own portfolio in amounts and for terms different from those of the deposits placed with NBM, NBM Certificates issued and other borrowed funds.

Due to the fact that the interest bearing assets and liabilities mature or modify their interest rate in different periods or for different amounts – the correlation between current market interest rates is permanently monitored.

Consequently, due to the fact that the level of the abovementioned assets and liabilities is provided for by the objectives of the monetary policy, it is not always possible to obtain a positive margin.

In case of the long term borrowings received from the IMF the Bank is exposed to interest rate risk as a result of the interest rate fluctuation.

The fluctuation of interest rates on external market may affect the value of the investment portfolio in foreign currency as well as future cash flows. On external markets, the most vulnerable instruments to interest rate fluctuations are securities in foreign currency as the fluctuation of interest rates indirectly affects these assets price.

4. Financial risk management (continued)

4.3.1 Interest rate risk (continued)

Consequently, due to fluctuations of interest rates on external markets negative divergences may occur between the interest rates of the investment portfolio in foreign currency and interest rates of the Bank’s liabilities in foreign currency.

To determine the value of interest rate risk for short and long-term deposits in foreign currency, the possible losses are calculated considering a decrease of 0.5 p.p. of the interest rate for these instruments for the next 12 months. According to the average balance of the short and long term deposits for the year 2007, the value of potential losses resulted from the decrease of interest rate with 0.5 p.p. is valued at approximately USD’000 3,086 or approximately MDL’000 34,927 (2006: USD’000 1,850 or approximately MDL’000 23,860).

While managing the interest rates risk influenced by changes on the external markets, special attention is paid to the principal of diversification of investment portfolio by maturity and currency.

Average rates applicable to the major components of the balance sheet have been disclosed within the notes relating to these components. Analysis of assets and liabilities as at 31 December 2007 according to their contractual re-pricing or maturity date is as follows:

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei “MDL ‘000”)

4. Financial risk management (continued)

4.3.1 Interest rate risk (continued)

	0-3 months	3-6 months	6-12 months	1-2 years	More than 2 years	Non- interest bearing	Total
31 December 2007							
Assets							
Cash and short-term placements with banks	7,453,278	3,501,388	-	-	-	83,473	11,038,139
Due from International Financial Institutions	1,701	-	-	-	-	2,201,259	2,202,960
Due from the Moldovan Government	1,932,242	-	-	-	-	40,318	1,972,560
Securities issued by the Moldovan Government	408,537	-	-	-	-	-	408,537
Loans granted to banks and individuals	1,707	1,708	3,415	6,758	25,251	-	38,839
Investment securities	901,083	668,473	1,172,647	1,038,298	231,485	44,406	4,056,392
Tangible assets	-	-	-	-	-	26,574	26,574
Intangible assets	-	-	-	-	-	12,963	12,963
Other assets	-	-	-	-	-	7,325	7,325
Total assets	10,698,548	4,171,569	1,176,062	1,045,056	256,736	2,416,318	19,764,289
Liabilities							
National currency issued into circulation	-	-	-	-	-	7,603,347	7,603,347
Due to the Moldovan Government	1,981,208	122,000	145,000	-	-	258,601	2,506,809
Due to banks	2,926,302	-	-	-	-	1,128,254	4,054,556
Certificates issued by the NBM	810,201	-	-	-	-	2,727	812,928
Due to International Financial Institutions	293,580	16,509	33,019	99,055	1,361,616	2,210,393	4,014,172
Other liabilities	-	-	-	-	-	144,044	144,044
Total liabilities	6,011,291	138,509	178,019	99,055	1,361,616	11,347,366	19,135,856
Interest rate gap	4,687,257	4,033,060	998,043	946,001	(1,104,880)	(8,931,048)	628,433
31 December 2006							
Total assets	8,693,954	1,033,682	1,219,078	1,495,528	32,421	2,536,147	15,010,810
Total liabilities	2,646,879	-	35,848	107,544	1,164,707	10,055,855	14,010,833
Interest rate gap	6,047,075	1,033,682	1,183,230	1,387,984	(1,132,286)	(7,519,708)	999,977

The interest bearing assets and liabilities of the Bank, mainly comprise cash and cash equivalents, loans granted, securities, attracted deposits and certificates issued by the Bank, as well as loans granted by the International Financial Institutions. They bear fixed interest rates, except for the current account with the IMF and loan granted by the IMF (EFF), which bear floating interest rates set on a weekly basis by the IMF. The same is for the loans granted to the banks for crediting the construction cooperatives for which the interest rate is floating depending on the modifications of the long-term basic interest rate set by the Bank.

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei “MDL ‘000”)

4. Financial risk management (continued)

4.3.2 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. As at 31 December 2007, NBM held the following foreign exchange positions:

	<u>MDL</u>	<u>USD</u>	<u>EUR</u>	<u>GBP</u>	<u>SDR</u>	<u>Other</u>	<u>Total</u>
31 December 2007							
Assets							
Cash and short-term placements with banks	-	5,848,165	2,725,038	2,464,688	-	248	11,038,139
Due from International Financial Institutions	2,201,230	-	-	-	1,730	-	2,202,960
Due from the Moldovan Government	1,972,560	-	-	-	-	-	1,972,560
Securities issued by the Moldovan Government	408,537	-	-	-	-	-	408,537
Loans granted to banks and individuals	38,839	-	-	-	-	-	38,839
Investment securities	-	2,161,252	1,350,872	544,268	-	-	4,056,392
Tangible assets	26,574	-	-	-	-	-	26,574
Intangible assets	12,963	-	-	-	-	-	12,963
Other assets	3,170	2,248	1,907	-	-	-	7,325
Total assets	<u>4,663,873</u>	<u>8,011,665</u>	<u>4,077,817</u>	<u>3,008,956</u>	<u>1,730</u>	<u>248</u>	<u>19,764,289</u>
Liabilities							
National currency issued into circulation	7,603,347	-	-	-	-	-	7,603,347
Due to the Moldovan Government	2,277,520	6,692	222,597	-	-	-	2,506,809
Due to banks	2,133,021	767,877	1,153,658	-	-	-	4,054,556
Certificates issued by the NBM	812,928	-	-	-	-	-	812,928
Due to International Financial Institutions	2,208,201	-	-	-	1,805,971	-	4,014,172
Other liabilities	143,934	89	21	-	-	-	144,044
Total liabilities	<u>15,178,951</u>	<u>774,658</u>	<u>1,376,276</u>	<u>-</u>	<u>1,805,971</u>	<u>-</u>	<u>19,135,856</u>
Net position	<u>(10,515,078)</u>	<u>7,237,007</u>	<u>2,701,541</u>	<u>3,008,956</u>	<u>(1,804,241)</u>	<u>248</u>	<u>628,433</u>
31 December 2006							
Total assets	<u>5,005,737</u>	<u>5,413,971</u>	<u>2,641,963</u>	<u>1,946,517</u>	<u>2,457</u>	<u>165</u>	<u>15,010,810</u>
Total liabilities	<u>11,177,892</u>	<u>527,499</u>	<u>481,887</u>	<u>-</u>	<u>1,823,555</u>	<u>-</u>	<u>14,010,833</u>
Net position	<u>(6,172,155)</u>	<u>4,886,472</u>	<u>2,160,076</u>	<u>1,946,517</u>	<u>(1,821,098)</u>	<u>165</u>	<u>999,977</u>

Japanese yen, Romanian leu and Russian ruble represent other currencies, mainly.

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei “MDL ‘000”)

5. Cash and short-term placements with banks

	31 December 2007	31 December 2006
Cash on hand in foreign currency	1,362	1,354
Nostro accounts	678,630	63,824
Term deposits in foreign currency	10,358,147	5,918,073
	11,038,139	5,983,251

Cash and short-term placements with banks are presented at their net value due to the fact that the cash on hand in local currency in the NBM circulation cash desk is offset with the national currency issued into circulation. The net value presentation is adequate since the NBM is the sole issuer of the national currency.

As at 31 December 2007 the term deposits in foreign currency hold the significant portion within this line (circa 93.84%). As at period end the term deposits in foreign currency were placed at counterparties with high rating including counterparties with ratings „AAA” – 28.35%, „AA” – 53.90%, „AA-” – 17.75% of total deposits (as at 31 December 2006: „AAA” – 36.76%, „AA+” – 7.30%, „AA” – 35.60%, „AA-” – 20.34%).

The average interest rate of the term deposits in foreign currency placed during the year 2007 is 5.14% (2006: 4.36%) and it is above the compound benchmark related to the investment portfolio calculated for the same period, which represents 4.64% (2006: 4.18%).

6. Due from/to International Financial Institutions

	31 December 2007	31 December 2006
Assets		
Quota of the Republic of Moldova with the International Monetary Fund (IMF)	2,201,230	2,391,843
Current account with IMF	1,730	2,457
	2,202,960	2,394,300
Liabilities		
Account No.1	2,201,141	2,391,746
Account No.2	90	98
Total Availabilities of the IMF	2,201,231	2,391,844
Other international organizations	6,970	2,920
Loans granted by IMF	1,805,971	1,823,964
	4,014,172	4,218,728

The Republic of Moldova joined the IMF on August 12, 1992. The National Bank of Moldova acts as the agent for the conduct of the financial transactions with the IMF and as a depository for maintaining of the IMF’s accounts. Membership in the IMF is quota based. A member’s quota is determined upon its admission to the membership and is increased periodically under General Quota Reviews. The quota forms the basis for the member’s financial and organizational relationship with the IMF and determines, inter alia, a member’s relative voting power, the maximum access to the IMF financing and the share of the member in any allocation of XDR.

6. Due from International Financial Institutions (continued)

The IMF Quota Account reflects initial and subsequent quota payments and is an asset of the member. Up to 25% is payable by each member to the IMF in reserve assets specified by the IMF and the remainder is due in the member's own currency.

The local currency portion of the quota payment is deposited in the IMF No.1 Account, the IMF No. 2 Account and becomes the property of the IMF. The IMF No 1 account is used for the IMF's operational transactions (purchases, repurchases), whereas the IMF No 2 account is used for the payment of expenses incurred by the Fund in the member's currency.

The amounts included in the NBM balance sheet as Due to International Financial Institutions also include the loans received by the NBM from the IMF. The loans are denominated in Special Drawing Rights (“XDR”), but disclosed in the balance sheet at the Moldovan Lei equivalent at the end of the reporting period.

As at 31 December 2007 the Bank's outstanding balance of loans due to the IMF is as follows:

- Poverty Reduction and Growth Facility – XDR'000 86,372 (as at 31 December 2006: XDR'000 68,358)
- Extended Fund Facility – XDR'000 14,583 (as at 31 December 2006: XDR'000 25,417)

Poverty Reduction and Growth Facility (PRGF) represents loans granted to poor countries with the GDP less than USD 895 per person. The IMF has granted loans within PRGF for a period of 10 years with a grace period of 5.5 years. The loan bears an interest rate of 0.5% per annum

During the year 2007 NBM has received a loan installment of XDR'000 21,710 within PRGF loan (2006: two loan installments with a total of XDR'000 43,410).

Extended Fund Facility (EFF) represents the loan granted for economic growth support and is granted to economies suffering balance of payments deficits. The IMF has granted the loan of XDR'000 87,500 for a period of 10 years with a grace period of 4.5 years and a floating interest rate set on a weekly basis by the IMF.

The loans received by NBM from the IMF from the General Resources Account are secured by a bill of exchange issued by the National Bank of Moldova.

Other international organizations represent the availabilities of the International Bank for Reconstruction and Development and the Multilateral Investment Guarantee Agency

7. Due from the Moldovan Government

	31 December 2007	31 December 2006
Loans granted/reconcluded with the Moldovan Government	1,932,242	2,092,242
Interest accrued on loan granted/ reconcluded with the Moldovan Government	40,318	21,580
	<u>1,972,560</u>	<u>2,113,822</u>

7. Due from the Moldovan Government (continued)

The balance of the State debt to the NBM (loans granted and accrued interest) has decreased as at 31 December 2007 as compared to 31 December 2006 by MDL'000 141,262 or 6.68%. The decrease in this account with the above mentioned amount is due to a decrease in the loan balances as a result of repayment of MDL'000 160,000 (stipulated in the Law on State Budget for 2007) and an increase in the balance of accrued interest as at 31 December 2007 with MDL'000 18,738.

The interest rate of the loans as at 31 December 2007 varied from 13.60% to 15.76% per annum, comparing to 6.98% – 13.69% per annum as at 31 December 2006.

The loans to the Government are guaranteed by state securities at the market price issued by the Moldovan Government with a maturity similar to loan due date that can be traded on the market. As at 31 December 2007 the value of state treasury securities placed as collateral constituted MDL'000 2,006,508 (31 December 2006: MDL'000 2,140,514).

The matured loans are reconcluded for a maximum period of 91 days, bearing the interest rate currently available on the primary market for the securities with the same due date.

8. Securities issued by the Moldovan Government

	31 December 2007	31 December 2006
Securities issued by the Moldovan Government	415,502	409,030
Discount on securities issued by the Moldovan Government	(7,352)	(4,716)
Revaluation of securities issued by the Moldovan Government	387	(1,740)
	408,537	402,574

As at 31 December 2007, the balance of state securities held in the Bank portfolio comprises state securities issued by the Moldovan Government and remitted to the Bank as a result of prior conversion into state securities of internal state debts purchased from the Bank during the previous years. These securities are classified as available for sale and are recorded at their fair value.

As at 31 December 2007 this account increased by MDL'000 5,963 as compared to 31 December 2006, due to the fact that the securities obtained during the IV quarter of 2007 bear higher interest rates as compared to the same period of 2006.

The average weighted interest rate for the state securities from the Bank's portfolio re-issued during 2007 is 12.78% per annum (in 2006: 6.17%); maximum interest rate – 15.76% per annum (in 2006: 13.69%) being registered in October 2007 (December 2006); minimum interest rate – 10.45% per annum (in 2006: 1.01%) registered in September 2007 (February 2006).

As at 31 December 2007 the average market rate for the state securities registered was 14.19% per annum (as at 31 December 2006: 13.30%).

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei "MDL '000")

9. Loans granted to banks and individuals

	31 December 2007	31 December 2006
Loans granted to banks	33,461	40,670
Loan granted to other individuals	5,378	5,362
Subtotal	38,839	46,032
Less: Impairment Provision	-	-
	38,839	46,032

Loans granted to banks and individuals include loans granted to commercial banks during the years 1993-2000 for loans to housing construction cooperatives and loans granted to the Bank' employees adjusted with loan loss provision.

The decrease in the balance of loans granted to banks and individuals by MDL'000 7,193 or by 15.63% resulted mainly due to reimbursements by banks of the loans granted.

Hence, the balance of loans granted to banks decreased by MDL'000 7,209, from MDL'000 40,670 to MDL'000 33,461, and the balance of loans granted to employees of NBM increased by MDL'000 16, from MDL'000 5,362 to MDL'000 5,378.

The loans granted by the National Bank of Moldova to commercial banks are guaranteed by the balances of the Loro accounts in MDL of commercial banks. As at 31 December 2007 the value of collateral placed by banks to guarantee the reimbursement of loans granted and related accrued interest constituted MDL'000 199,010 (as at 31 December 2006: MDL'000 199,010).

As at 31 December 2007 the value of the collateral placed by employees to guarantee the reimbursement of loans granted and related accrued interest constituted MDL'000 8,930 (as at 31 December 2006: MDL'000 8,634).

The movement in the provision for loan losses during the year is as follows:

	2007	2006
As at 1 January	-	10
Release of provisions during the year	(5)	(10)
Additions during the year	5	-
As at 31 December	-	-

As at 31 December 2007, NBM did not have any past due receivables.

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei “MDL ‘000”)

10. Investment securities

	31 December 2007	31 December 2006
Investment securities in foreign currency with coupon	4,002,772	3,981,882
Premium / discount on investment securities in foreign currency with coupon	(9,049)	(8,938)
Interest purchased on investment securities in foreign currency with coupon	6,221	10,973
Interest accrued on investment securities in foreign currency with coupon	44,406	48,024
Revaluation of investment securities with coupon	12,042	(12,615)
	4,056,392	4,019,326

The securities issued by non-residents held by the National Bank of Moldova represent mainly securities issued by entities from the United States of America and European Union. As at 31 December 2007 all securities issued by non-residents held in the Bank's portfolio have the highest rating - „AAA” (as at 31 December 2006: “AAA”-100%).

Those securities are low risk assets and are classified as held for trading financial assets at fair value through profit or loss account.

During 2007, the securities issued by non-residents increased in MDL equivalent by 0.92% (in 2006: 53.96%).

During the reported period, the total amount of securities sold or matured denominated in foreign currency represented the total nominal value of USD'000 130,000, EUR'000 63,000 and GBP'000 16,500 (in 2006: USD'000 110,000, EUR'000 40,000 and GBP'000 7,500). Consequently, there were purchased securities denominated in foreign currency in the total nominal value of USD'000 164,000, EUR'000 65,000 and GBP'000 14,000 (in 2006: USD'000 164,000, EUR'000 60,000 and GBP'000 15,000).

11. Tangible and intangible assets

	Buildings	Equipment	Tangible assets under execution	Intangible assets	Intangible assets under execution	Total
Cost						
At as 1 January 2007	36,627	76,111	15	26,269	-	139,022
Additions	-	3,675	-	636	120	4,431
Disposals	(207)	(1,915)	-	(1,201)	-	(3,323)
As at 31 December 2007	36,420	77,871	15	25,704	120	140,130
Accumulated depreciation						
At as 1 January 2007	18,478	63,230	-	9,539	-	91,247
Charge for the year	992	7,037	-	4,523	-	12,552
Charge for disposals	(90)	(1,915)	-	(1,201)	-	(3,206)
As at 31 December 2007	19,380	68,352	-	12,861	-	100,593
Carrying value						
As at 1 January 2007	18,149	12,881	15	16,730	-	47,775
As at 31 December 2007	17,040	9,519	15	12,843	120	39,537

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei “MDL ‘000”)

11. Tangible and intangible assets (continued)

	Buildings	Equipment	Tangible assets under execution	Intangible assets	Intangible assets under execution	Total
Cost						
At as 1 January 2006	36,653	76,175	15	9,872	9,202	131,977
Additions	14	1,568	-	2,180	5,015	8,777
Reclassification	-	-	-	14,217	(14,217)	-
Disposals	(40)	(1,632)	-	-	-	(1,672)
As at 31 December 2006	36,627	76,111	15	26,269	-	139,022
Accumulated depreciation						
As at 1 January 2006	17,525	56,730	-	6,346	-	80,241
Charge for the year	993	8,476	-	3,193	-	12,662
Charge for disposals	(40)	(1,616)	-	-	-	(1,656)
As at 31 December 2006	18,478	63,230	-	9,539	-	91,247
Carrying value						
As at 1 January 2006	19,128	19,805	15	3,526	9,202	51,676
As at 31 December 2006	18,149	12,881	15	16,730	-	47,775

12. Other assets

	31 December 2007	31 December 2006
Prepayments	41	533
Other receivables	5,191	1,053
Inventories	1,423	1,634
Goods and materials administered	839	722
Subtotal	7,494	3,942
Less: Provisions for slow moving inventory and doubtful debts	(169)	(212)
	7,325	3,730

The movement in the provisions for slow moving inventory and doubtful debts during the year is as follows:

	2007	2006
As at 1 January	212	219
Charge for the year	7	4
Release for the year	(50)	(11)
As at 31 December	169	212

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei "MDL '000")

13. National currency issued into circulation

	31 December 2007	31 December 2006
National currency issued into circulation	7,603,355	5,874,968
Less: Cash on hand in national currency in circulation cash desk	(8)	(57,777)
	<u>7,603,347</u>	<u>5,817,191</u>

14. Due to the Moldovan Government

	31 December 2007	31 December 2006
Term deposits of the Ministry of Finance	371,415	-
Current deposits of the Ministry of Finance	1,882,761	-
Other availabilities of the Government of RM	252,633	871,627
	<u>2,506,809</u>	<u>871,627</u>

As at 31 December 2007 the availabilities of the Government represent 13.10% of the total liabilities of NBM (as at 31 December 2006: 6.22%).

BNM pays an interest rate on the term deposits of the Ministry of Finance, based on the average interest rate from the banking system available for the last three months, for deposits with a similar maturity in MDL. The average interest rate on term deposits of the Ministry of Finance for the period constituted 11.83%.

BNM pays an interest rate on the current deposits of the Ministry of Finance, based on the average interest rate from the banking system available for the last three months, for current deposits in MDL. The average interest rate on current deposits of the Ministry of Finance for the period constituted 3.09%.

15. Due to banks

	31 December 2007	31 December 2006
Current accounts of commercial banks, including obligatory reserves	3,741,505	1,491,606
Deposits from local banks in national currency	313,051	332,791
	<u>4,054,556</u>	<u>1,824,397</u>

As at 31 December 2007 the availabilities of the banks represent 21.19% of the total liabilities of NBM (as at 31 December 2006: 13.02%).

The balance in due to banks increased as compared to 2006 by MDL'000 2,230,159. This increase was mainly due to an increase in the balances on Loro accounts and the increase in the obligatory reserves of commercial banks by MDL'000 2,249,899, while the balance of deposits from commercial banks decreased by MDL'000 19,740.

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei "MDL '000")

16. Certificates issued by the National Bank of Moldova

	31 December 2007	31 December 2006
Certificates issued by NBM	810,201	940,361
Discount on certificated issued by NBM	2,727	2,986
	812,928	943,347

NBM certificates represent securities sold to commercial banks through auctions in order to absorb the excess of liquidity on the monetary market. They are issued at a discount and repurchased upon maturity at nominal value. The prevailed maturity of NBM certificates (NBC) issued during 2007 was 7, 14 and 28 days.

The average rate on NBC in circulation as at 31 December 2007 constituted 15.86% (2006: 14.04%).

Even though during 2007 the balance of NBM certificates in circulation registered values above MDL'000 2,000,000, at the end of December their value decreased to MDL'000 810,201 (sale price).

As a result of the decrease in volume of NBC in circulation at the end of 2007, their balance decreased by MDL'000 130,419 as compared to 31 December 2006.

17. Other liabilities

	31 December 2007	31 December 2006
Due to the State Budget	-	313,498
Due to other entities	137,293	15,782
Due to personnel	5,061	4,922
Other liabilities	1,690	1,341
	144,044	335,543

Due to other entities includes mainly temporary availabilities accumulated during the process of issuance of shares for the statutory capital of ProCredit Bank S.A. in the amount of MDL'000 120,000.

18. Capital and reserves

	31 December 2007	31 December 2006
Authorized capital	288,923	288,923
General reserve fund	320,277	577,845
Total statutory capital:	609,200	866,768
Reserve of unrealized gains on exchange rate differences from foreign currency stocks revaluation	-	133,099
Reserve of unrealized gains from revaluation of securities	17,643	
Gains/(losses) from revaluation of treasury bills	387	(1,739)
Gains from indexation of fixed assets	1,203	1,849
	628,433	999,977

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei “MDL ‘000”)

18. Capital and reserves (continued)

The statutory capital of the Bank as at 31 December 2007 decreased by MDL'000 257,568 as compared to 31 December 2006. This was as a result of the release of the general reserve fund to cover the losses registered at the end of 2007 after the allocation of the unrealized gains on revaluation of investment securities in the respective reserve account in the amount of MDL'000 17,643 and the release to cover unrealized gains on exchange rate differences from foreign currency stocks revaluation from the respective reserve account in the amount of MDL'000 133,099.

As at 31 December 2007 the revaluation of treasury bills registered a positive result of MDL'000 387, which resulted in an increase of the capital of NBM with the respective amount.

Hence, as at 31 December 2007, the statutory capital of the Bank constituted MDL'000 609,200. The ratio of capital in total monetary liabilities of the Bank decreased as compared to prior year from 10% to 4.83%.

19. Distribution of net profit

	31 December 2007	31 December 2006
Net profit for the year	(373,671)	545,806
Allocation of unrealized gains on exchange rate differences from foreign currency stocks revaluation	-	(133,099)
Allocation of unrealized gains from revaluation of investment securities	(17,643)	-
Release of unrealized gains on exchange rate differences from foreign currency stocks revaluation	133,099	
Transfer from indexation reserve of fixed assets	647	647
Net profit for the year available for distribution	(257,568)	413,354
Release / (allocation) to:		
Authorized capital	-	(32,531)
General reserve fund	257,568	(65,062)
State Budget	-	315,761

As at 31 December 2007 the National Bank registered a loss in the amount of MDL'000 257,568, this being mainly as a result of the recognition of unrealized losses from revaluation of foreign currency stocks in the amount of MDL'000 885,438.

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei “MDL ‘000”)

20. Interest income

	31 December 2007	31 December 2006
Interest income from deposits and availabilities:		
Interest from term deposits in foreign banks	281,671	179,508
Interest from deposits overnight	89,373	31,709
Interest income from availabilities	1,783	1,808
	372,827	213,025
Interest income from securities:		
Interest from securities with coupon and discount	179,724	137,328
Interest from amortized discount on treasury bills	48,308	22,011
	228,032	159,339
Interest income from loans:		
Interest from loans to the Moldovan Government	240,556	121,650
Interest from loans to banks and employees	4,279	4,873
	244,835	126,523
	845,694	498,887

21. Interest expense

	31 December 2007	31 December 2006
Interest expenses arising from loans received:		
Interest from loans received from the IMF	24,805	32,559
	24,805	32,559
Interest expenses arising from availabilities:		
Interest on obligatory reserves	16,444	15,418
Interest on deposits placed by the Banks	29,299	30,962
Interest on deposits placed by the Ministry of Finance	53,175	-
	98,918	46,380
Interest expenses arising from transactions with securities and Repo agreements:		
Interest on certificates of the Bank	198,406	40,235
Interest on investment securities	4	-
	198,410	40,235
	322,133	119,174

NATIONAL BANK OF MOLDOVA
NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2007
(all amounts are expressed in thousand Moldovan Lei "MDL '000")

22. Gains/ (losses) from foreign exchange transactions and foreign exchange rate differences

	31 December 2007	31 December 2006
Realized gains from foreign exchange transactions	4,525	133,330
Unrealized gains/(losses) from foreign exchange rate difference	(885,438)	133,099
	(880,913)	266,429

23. Gains/ (losses) from revaluation of securities

	31 December 2007	31 December 2006
Net realized gains from investment securities	6,861	4,544
Net unrealized gains from investment securities	17,643	-
Net unrealized losses from revaluation of securities	-	(6,924)
	24,504	(2,380)

24. Other income

	31 December 2007	31 December 2006
Income related to settlements in SAPI	9,213	7,394
Income related to cash transactions	11,374	-
Other income	3,647	2,682
	24,234	10,076

25. Operating expenses

	31 December 2007	31 December 2006
Expenses related to the production of the national currency	4,053	50,624
Staff costs	35,636	33,624
Depreciation of tangible assets and amortization of intangible assets	12,551	12,662
Communication expenses	5,728	5,028
Repair of property and equipment	273	718
Maintenance of the equipment	445	517
Other operating expenses	6,417	4,869
	65,103	108,042

Staff costs include mandatory state social contribution in the amount of MDL'000 6,681 and mandatory medical insurance in the amount of MDL'000 699 (2006: MDL'000 6,508 and MDL'000 529 respectively).

26. Related parties

During the year ended at 31 December 2007, the remuneration paid to the Bank management, including middle level management, was MDL’000 3,877 (2006: MDL’000 3,335).

The Bank has granted loans to its employees. The following disclosure represents the movement for loans granted and remaining balances of the loans granted to the management of the Bank, including the middle level management:

	Remaining balance as at 1st of January	Loans granted	Reimbursements	Remaining balance as at 31st of December
2006	676	-	43	633
2007	633	-	78	555

The loans were granted to the management of the Bank according to the NBM internal regulation and the interest rates charged are the same for all NBM employees. Outstanding balances at the year-end are secured by collateral placed by each individual, which as at 31 December 2007 amounted to MDL’000 984 (as at 31 December 2006: MDL’000 984). For the year ended 31 December 2007 these loans were classified as performing loans and therefore the Bank has not made any provisions relating to amounts owed by related parties.

27. Commitments and contingencies

Litigations

As at 31 December 2007 the Bank was involved in two litigations against the Bank and a litigation against a former authorized bank related to the insolvency procedure. As at 31 December 2007 the Bank did not book any provisions for litigations, due to the fact that at that moment it did not have a legal or constructive obligation as a result of a past event, and there was no probability of future outflow of resources embodying economic benefits to settle the obligations.

Credit related commitments

As at 31 December 2007, there were no outstanding credit related commitments.

4. Annexes

Table no. 1. DYNAMICS OF MACROECONOMIC INDICATORS

	2005	2006	2007
Nominal Gross Domestic Product (million lei)	37651.9	44754.4	53353.7
– % change over the previous year in real terms	107.5	104.8	103.0
GDP deflator, %	109.3	113.4	115.8
Industrial Production (million lei)	20770.2	22370.7	26186.8
– % change over the previous year in real terms	107.0	95.2	97.3
Industrial Production Price Index (average)	105.3	112.2	126.5
Agricultural Production (million lei)	12688.0	13734.0	12550.0
– % change over the previous year in real terms	100.8	98.9	76.9
Investments in Fixed Capital (million lei)	7796.5	10906.8	14935.9
– % change over the previous year in real terms	121.4	123.0	119.9
Deficit (-), surplus (+) of the public budget (million lei)	578.4	-146.7	-133.7
- as % of GDP	1.5	-0.3	-0.3
Consumer Price Index (average)	111.9	112.7	112.3
Consumer Price Index (at period-end)	110.0	114.1	113.1
Average number of employed persons per period (thousand persons)	662.8	648.7	621.6
Number of officially registered unemployed persons at period-end (thousand persons)	21.7	20.4	18.9 ¹
Unemployment rate according (ILO definitions)	7.3	7.4	5.1
Average wage (lei)	1318.7	1697.1	2065.0
– % change over the previous year in real terms	106.8	114.2	108.3
Wage arrears at period-end (million lei)	96.0	114.7	72.5
External Public and Publicly Guaranteed Debt (million USD) ²	773.7	876.4	938.6
Total External Debt (million USD)	2079.3	2523.8	3300.3
Domestic Debt (million lei)	3787.1	3790.2	3748.7
– loans extended by NBM under SS collateral	2211.0	2092.2	1932.2
– State securities in circulation,	1576.0	1697.9	1816.4
Including SS in the NBM portfolio	400.0	400.0	400.0

¹ Preliminary data

² Balance at period-end

Source: National Statistics Bureau, Ministry of Finance and the National Bank of Moldova

Table no. 2. INFLATION DYNAMICS

Period	% change over the previous month			% change over December of the previous year			% change over the similar month of the previous year		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
January	1.1	1.9	0.8	1.1	1.9	0.8	12.1	10.9	12.9
February	2.1	1.4	0.6	3.2	3.3	1.4	13.4	10.1	12.0
March	0.8	1.5	0.6	4.0	4.8	2.0	13.6	10.8	11.1
April	1.4	1.0	1.0	5.5	5.9	3.0	14.2	10.4	11.0
May	0.1	1.2	0.9	5.6	7.2	3.9	13.8	11.7	10.6
June	-0.8	0.2	0.0	4.7	7.4	3.9	12.7	12.8	10.4
July	-1.1	-0.4	1.1	3.5	7.0	5.0	11.1	13.7	12.0
August	0.2	0.8	2.2	3.7	7.9	7.3	10.8	14.5	13.5
September	1.2	1.1	1.6	4.9	9.1	9.0	10.9	14.4	14.0
October	1.5	1.6	1.6	6.5	10.8	10.7	10.2	14.4	14.0
November	1.9	1.7	1.3	8.5	12.7	12.1	10.3	14.3	13.5
December	1.4	1.2	0.9	10.0	14.1	13.1	10.0	14.1	13.1

Source: National Bureau of Statistics

Table no. 3. GROSS DOMESTIC PRODUCT

	Million lei, current prices		Real growth, %		Weight, %	
	2006	2007	2006	2007	2006	2007
Breakdown by resource category						
Gross Domestic Product	44754.4	53353.7	4.8	3.0	100%	100%
Gross Added Value, total	37338.7	44305.6	3.6	1.5	83.4	83.0
Goods	13069.6	13196.1	-2.6	-18.7	29.2	24.7
Agriculture	6488.8	5303.7	-2.8	-34.6	14.5	9.9
Industry	6580.8	7892.4	-2.3	-3.0	14.7	14.8
Services	25385.6	32612.6	7.8	12.7	56.7	61.1
Constructions	1776.5	2575.3	18.4	22.2	4.0	4.8
Wholesale trade	5144.8	6389.4	7.0	10.8	11.5	12.0
Transportation and communications	5288.7	6456.0	14.9	17.4	11.8	12.1
Other Services	13175.7	17191.9	3.6	10.3	29.4	32.2
Financial Intermediation Services Indirectly Measured	-1116.5	-1503.0	16.7	20.4	-2.5	-2.8
Net taxes on goods and imports	7415.6	9048.1	11.0	10.6	16.6	17.0
Breakdown by use category						
Final consumption	50972.5	60103.8	8.0	3.8	113.9	112.6
Households	41360.3	48826.2	7.8	3.4	92.4	91.5
Public and private administration	9612.2	11277.6	9.1	5.6	21.5	21.1
Gross capital formation	14656.1	20368.0	12.2	20.3	32.7	38.2
Gross fixed capital formation	12691.5	17763.9	21.3	22.7	28.3	33.3
Change in inventories	1964.6	2604.1	-23.7	4.8	4.4	4.9
Net exports	-20874.2	-27118.1	19.1	17.1	-46.6	-50.8
Exports	20254.0	24176.0	1.1	9.5	45.3	45.3
Imports	41128.2	51294.1	9.1	13.4	91.9	96.1

Source: National Statistics Bureau, National Bank of Moldova

Table no. 4. **MONETARY INDICATORS** (million lei, year-end)

	2005	2006	2007
Monetary Aggregates			
Reserve Money	7002.9	6512.3	9537.2
M0 (currency in circulation)	4571.2	5145.8	6664.9
Sight deposits	2761.9	3122.4	4258.6
M1	7333.1	8268.2	10923.5
Term deposits	3792.4	4202.0	7455.9
Money market instruments	0.1	15.0	17.3
M2	11125.6	12485.2	18396.7
Deposits in foreign currency	4701.2	7072.8	8947.4
M3	15826.8	19558.0	27344.2
Velocity (M2)	3.38	3.58	2.90
Multiplier (M2)	1.59	1.92	1.93
Deposits (total)	11255.5	14397.2	20661.9
Deposits by legal entities	4255.6	5033.3	6447.9
Including in foreign currency	1296.6	1915.6	1992.1
Deposits by individuals	6999.9	9363.9	14214.0
Including in foreign currency	3404.7	5157.2	6955.3
Credits			
NBM claims to banks	51.7	40.7	33.5
Claims to non-governmental sector, total	9990.5	13767.8	20883.8
In national currency:	6255.1	8509.0	11768.9
– state enterprises	401.0	339.7	334.6
– private sector	4219.5	5380.9	6395.6
– households	1100.9	2072.2	4662.0
– other financial institutions	533.7	716.2	376.7
In foreign currency	3735.4	5258.8	9114.9

Source: National Bank of Moldova

Table no. 5. AVERAGE WEIGHTED INTEREST RATE ON TERM DEPOSITS

Period	Deposits				
	total	in MDL		in foreign currency	
		value, million lei	interest rate %	value, million lei	interest rate, %
January 2006	1212.6	669.0	10.83	543.6	5.00
February	881.6	478.1	11.74	403.5	5.00
March	1040.2	516.7	11.50	523.5	4.85
April	936.0	416.0	11.33	520.0	5.76
May	1134.0	471.4	10.74	662.6	5.23
June	1135.8	415.8	11.15	720.0	4.60
July	1044.5	443.1	10.90	601.4	5.12
August	1182.3	401.7	11.99	780.6	5.22
September	1097.0	381.8	12.62	715.2	5.26
October	1164.4	466.6	13.28	697.8	5.10
November	1285.9	569.5	13.08	716.4	5.18
December	1560.6	713.2	13.40	847.4	5.62
Total 2006	13674.9	5942.9	11.93	7732.0	5.17
January 2007	1442.3	657.2	14.03	785.1	5.86
February	1309.0	538.9	13.94	770.1	5.58
March	1557.7	664.1	13.90	893.6	5.45
April	1405.8	689.4	15.45	716.4	5.85
May	1729.8	886.6	15.40	843.2	5.91
June	1865.5	1010.8	15.49	854.7	5.96
July	1811.4	972.5	15.50	838.9	6.05
August	1850.0	787.1	14.99	1062.9	6.16
September	1721.9	799.0	14.87	922.9	6.10
October	1867.4	866.6	15.47	1000.8	6.12
November	2101.3	1059.1	15.37	1042.2	6.22
December	2391.5	1223.3	15.71	1168.2	6.49
Total 2007	21053.6	10154.6	15.13	10899.0	6.01

Source: National Bank of Moldova

Table no. 6. AVERAGE WEIGHTED INTEREST RATE ON CREDITS

Period	Credits				
	total	in MDL		in foreign currency	
		value, million lei	interest rate, %	value, million lei	interest rate, %
January 2006	865.7	600.7	17.93	265.0	11.00
February	1049.1	733.5	18.30	315.6	11.07
March	1469.3	1000.2	18.18	469.1	10.91
April	1147.2	727.4	17.83	419.8	10.83
May	1155.5	790.5	17.60	365.0	11.04
June	1234.6	727.3	17.58	507.3	11.27
July	1124.4	658.6	17.61	465.8	11.11
August	1457.1	782.3	18.29	674.8	10.95
September	1525.8	836.4	18.61	689.4	11.05
October	1612.9	961.5	18.68	651.4	11.25
November	1726.6	1112.2	18.34	614.4	11.26
December	2222.1	1305.0	18.59	917.1	10.97
Total 2006	16590.3	10235.6	18.18	6354.7	11.06
January 2007	1245.3	770.3	18.70	475.0	11.12
February	1656.8	1023.0	18.32	633.8	11.02
March	2122.0	1276.0	18.69	846.0	11.06
April	1799.8	1084.4	18.62	715.4	10.91
May	2122.6	1110.6	18.81	1012.0	11.01
June	2059.7	1111.2	18.98	948.5	11.01
July	2389.2	1186.5	18.82	1202.7	10.81
August	2338.7	1130.7	19.06	1208.0	10.80
September	2459.4	1283.7	18.87	1175.7	10.90
October	2294.5	1320.6	18.87	973.9	10.81
November	2681.6	1436.2	19.16	1245.4	10.80
December	3317.2	1782.0	19.00	1535.2	10.66
Total 2007	26486.8	14515.2	18.85	11971.8	10.88

Source: National Bank of Moldova

Table no. 7. YIELDS ON SS ISSUED IN THE PRIMARY MARKET (%)

Period	Average weighted monthly yield by types of SS			Average weighted nominal yield
	91 days	182 days	364 days	
January 2006	2.43	3.44	5.23	3.20
February	1.21	1.94	3.36	1.83
March	3.52	4.24	5.26	4.05
April	5.33	6.11	7.48	5.95
May	6.53	7.44	9.12	7.32
June	7.72	8.23	11.03	8.53
July	7.54	8.21	10.78	8.37
August	7.19	8.06	10.95	8.23
September	7.02	8.66	11.16	8.29
October	7.71	9.05	12.96	9.11
November	8.34	9.57	13.76	9.77
December	11.99	12.97	15.06	12.89
Annual nominal average weighted yield – 2006	6.46	7.56	9.90	7.34
January 2007	14.83	15.47	16.35	15.33
February	13.32	13.49	13.92	13.52
March	11.24	11.60	12.01	11.48
April	11.31	11.99	12.25	11.70
May	11.36	11.95	12.22	11.71
June	11.18	11.83	12.10	11.55
July	11.08	11.80	12.06	11.49
August	10.84	11.56	11.94	11.29
September	10.55	11.31	11.78	11.03
October	15.15	16.37	16.15	15.68
November	15.63	16.54	16.92	16.16
December	15.54	16.41	16.86	16.06
Annual nominal average weighted yield – 2007	12.66	13.32	13.65	13.02

Source: National Bank of Moldova

Table no. 8. **OFFICIAL EXCHANGE RATE** (lei)

Type of currency	2005		2006		2007	
	period-end	annual average	period-end	annual average	period-end	annual average
USD (1\$)	12.8320	12.6003	12.9050	13.1319	11.3192	12.1362
EUR (1€)	15.1950	15.6978	16.9740	16.4918	16.6437	16.5986
RUB (1)	0.4459	0.4455	0.4894	0.4834	0.4619	0.4742
ROL (1000)	0.4113	0.4333				
RON (1)*	4.1129	4.3327	4.9869	4.6800	4.6187	4.9807

* as of July 1, 2005, the national currency of Romania, the Romanian leu, was denominated, so as 1 new leu (RON) is equivalent to 10 000 old lei (ROL). The old lei (ROL) were legal tender until December 31, 2006.

Source: National Bank of Moldova