

Moldova's economy is drifting, but apparently not for long

Drift, as it is known, is the motion of something propelled by the current. In the first quarter of 2001 Moldova's economy found itself in a similar situation, being already "set free" by the Government of D. Braghis who was very busy with his election activities, but not being accepted yet by the Government of V. Tarlev.

What are the peculiarities of this drifting? It turned out that the results of the Q1 2001, according to the official statistics are not so bad. Industry, as compared to Q1 2000, showed a growth (+3.1%); there were positive shifts (mainly, thanks to the private sector) in construction, traffic turnover (+20.0%), volume of sales (+8.6%), and paid services (+2.2%). Foreign trade turnover has also increased. Inflation was not a big problem, as well: it cumulatively amounted in Q1 to 1.8%, while National Bank of Moldova's target for the end of the year is 10%.

Thereby, the positive result of the first quarter in some way confirmed the traditional slogan of entrepreneurs towards the state: "Please, just don't disturb us!"

As if this slogan has been heard, beginning with the second quarter, according to the Government Program "Rebirth of Economy is the Rebirth of State", approved by the Parliament on April 19th, real sector was promised not to be disturbed, but to be supported by state with privileged credits, long-term investments, reduction of tax burden and corruption, export promotion, etc.

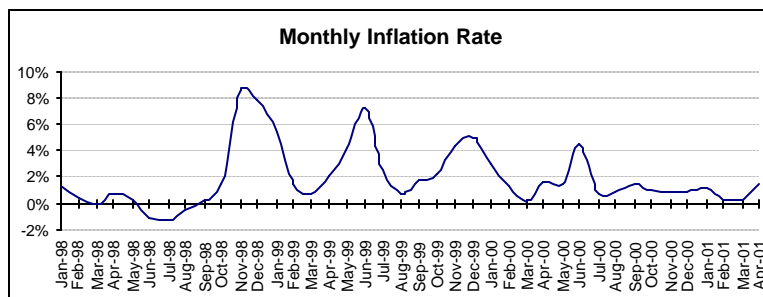
Meanwhile, in the *real sector of economy* the private sphere continued to expand in the first quarter of 2001 (it gives 2/3 of total industrial production), and the number of state enterprises continued to decrease (it reduced by 63 units as compared to the 1st quarter of 2000). Unexpectedly the number of limited companies (LTDs) started to grow – they are more than 32 thou now (it's a 10% annual growth). It seems to be partly connected with Investment Funds' "initiatives".

A new phenomenon for the Spring of 2001 is the 175.4 thou private farms – twice more than in last spring. They use 394 thou ha of land, on average 1.83 ha per farm. But this figure is deceptive. There is an active process of land tenure concentration based on land leasing. According to CISR estimations (there were questioned 464 lessees and 1476 proprietors of land quotas from 326 villages, March 2001), more than 80% of lessees possess 100 ha of land and more, and every 4th of them leases from 501 t? 1000 ha. In the nearest past the average kolkhoz possessed 1.5 thou ha of land. Now it is the state's turn to put into order this mostly spontaneously developing process.

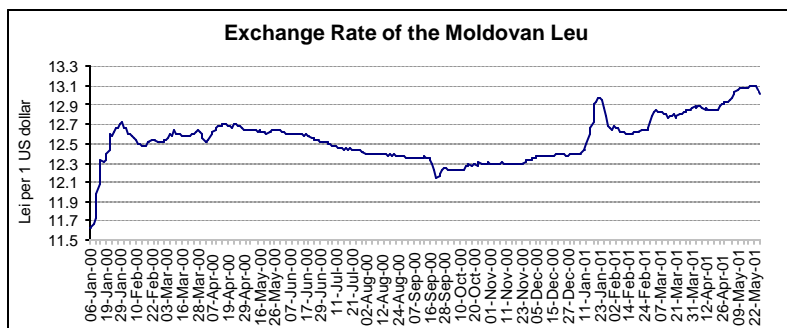
There are slightly more than 2 thou enterprises with foreign investments, however, only 7% of them have an equity of more than 500 thou USD. Besides Russia (42.8% of investments in statutory capital), Spain (11.7%), USA (11.0%), France (4.4%), and Germany (3.7%), Liechtenstein still stands out (3.1%), probably due to some “Moldovan participation”. The share of our neighbors – Romania and Ukraine together is less than 3%. Main branches of investments are industry, energy sector, transport and trade; while agriculture – so far only 1.4%. Enterprises with foreign participation have 30 thou employees, it's an annual increase by 6 thou of new working places, and average monthly wage there, is twice higher than the country average.

External environment for the producers means, first of all, legal base and financial sector. Legal base was continuously updated (Law “On Entrepreneurial Cooperatives”, etc), and *financial sector* was more or less loyal. Thus, commercial banks granted twice more credits than last year. The share of repaid credits in January-February, for instance, was 95%.

The average monthly inflation for January-April comprised 0.8% as compared to 1.5% in 2000 and 2.4% in 1999.



Less encouraging was the leu's behavior. Evolution of the nominal exchange rate of the Moldovan leu against the US dollar was in the first 5 months of 2001 on a depreciating path. While in 2000 the leu has depreciated against the US dollar by 6.8% (expressed in domestic currency terms), following the depreciation in 1999 by 39%, then in January-May 2001 the nominal depreciation has already constituted 5.8%, leu sliding from 12.38 lei/1US\$ at the beginning of the year, to 13.099 lei/1US\$ on May 22, and afterwards action from NBM was needed. Together with common seasonal factors, this was probably influenced by some populist promises of new Government.



However, it should be mentioned the fact that the evolution of real exchange rate of leu upon US dollar remained stable during the first 4 months of 2001, due the low level of inflation.

Despite the depreciation of leu and higher demand for dollars in the foreign exchange market, NBM still managed to buy some hard currency from banks: while in 2000 NBM bought from commercial banks US\$60m, in the first 4 months of 2001 it has bought \$4.4m, which were very welcomed, notwithstanding the heavy burden of the foreign debt service. In Q1 the government had to make about \$16m in foreign debt service, and NBM - \$5.6m, while the projected figure for whole 2001 is as high as \$85m for the government, and \$24m for NBM. In the absence of foreign financing the government will obviously have serious difficulties in making those payments in

time. Total external debt of the state as of 1.05.2001 was \$771.8 million. Internal debt, on the other hand, has increased from the beginning of the year by \$71.4 m (3.5%) and comprised 2093 mil MDL, mainly due to the increase of state securities issue in order to finance budget deficit.

For more details see the Annex: “**Macroeconomic Trends, Jan.-May 2001**”.

It is well known, that the working environment of economic agents directly affects their fiscal discipline. Estimates show, that the average level of budget collections was 59.3% during 4 months of 2001 for whole Moldova, including: municipality of Chisinau – 55.9%, judetses Balti – 42.9%, Lapusna – 33.5%, and in Gagauzia – 31.9%. The group of 480 enterprises, included by the Ministry of Finance in the category of “large tax payers”, paid to the budget during January-April only 77.8% of needed payments. Among them – enterprises of energy sector and industry, including alcohol producing and tobacco fermenting plants.

Industry in the first quarter recorded a 3.1% growth and this is a good sign, because starting with the 2nd quarter a new season in food industry begins, and weather conditions so far inspire optimism. A growth of industrial production in Q1 is guaranteed, mainly on the account of light industry (ready-made cloth production +15%, footwear production +29%, textile products +39%), mechanical engineering and by the set of food industry branches. Notable is the decline in cigarette production by 22% and fermented tobacco production by 12%.

It is encouraging the activization in **constructions sector**, notwithstanding the fact that economic agents from Chisinau municipality executed 80% of all construction works. The housing construction has increased in Q1 by 2.1 times (!), mainly in Chisinau municipality and its suburbs. Construction business has finally become profitable, and this is one of signs of our adaptation to the market economy. It is important that besides large imports of construction materials from abroad, in Q1

there was an increase in production of local construction materials and timber production (+21%), as well as of paints and varnishes (4 times).

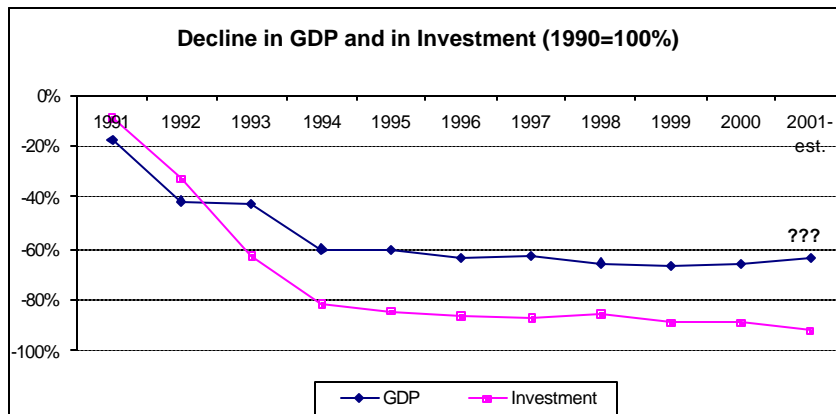
In *transport sector* there was an increase of passenger and cargo traffic, both by rail and by trucks, and in *communications* – increase in telephone services, mainly long-distance.

Agriculture, as a year ago, recorded a reduction of volume of production by 8% in Q1 (in comparable prices). However, this key branch for Moldovan economy also shows signs of adaptation. There are practically no wastelands in the country. Share of grain crops and technical crops has rapidly expanded, these crops being mainly export-oriented. Planting of vineyards and gardens has restarted. More than 90% of livestock is concentrated in individual households, and it is important that at the same time integrity of livestock is ensured – the loss of cattle was 1.7% in Q1 as compared to 2.5% in Q1 of the last year. There is also an increase of milk and eggs production.

After the completion of National Program “Pamânt”, agriculture entered the not less important post-privatization period, when in the foreground there is a need in formation of new structures – cooperatives of real land owners, farmer households associations, enterprises of technical, agro-chemical, transport, trade-supply and other services. It is clear that state’s trusteeship, including financial support will be decisive. Here if we take into account that the sum of credits granted to the agriculture in 1999 by commercial banks and other financial institutions was 84 million lei, and in 2000 – 130 m lei, then on one peasant household falls in average several hundreds of lei, while the minimal needed set of equipment, not the most expensive one, is estimated at 15-20 thou USD.

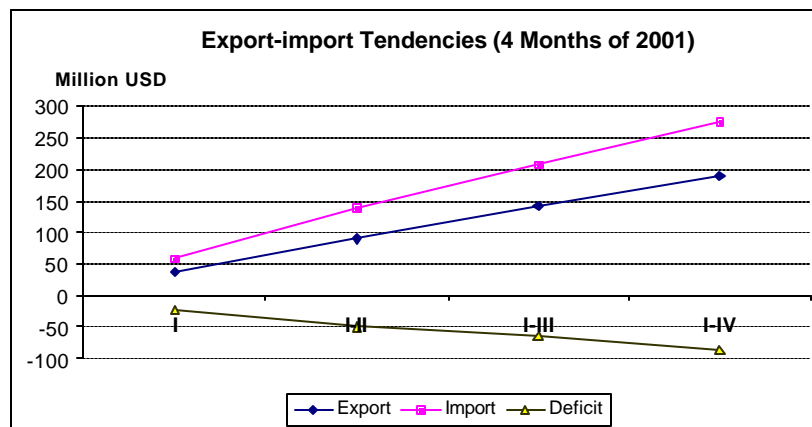
Investments in national economy still remain a weak point in its development. In the 1st quarter of 2001 it received only about \$10 million (112.3 million lei) of investment, which is less than in Q1 of the last year by 30% (!), including investment in objects of productive destination. Contribution of economic agents – was 56%,

state budget – 11%, and foreign investors – only 18%. In such circumstances of low investment activity it will be complicated to achieve the forecasted 5% growth in real GDP this year.



The increase of Moldova's attractiveness to foreign partners is a burning issue for the new Government as well. From early 90s the Republic of Moldova, without Transnistria, has accumulated \$451 m of foreign investments (\$123 per capita), including in 1998 – \$86m, in 1999 – \$34m, and in 2000 – \$115m, out of which one third from Union Fenosa. The slow and not streamlined process of privatization, observed from the beginning of the year, certainly does not strengthen at all the optimism of our foreign partners.

External trade turnover during January-April 2001 has increased by 14.4%, including export – by 20.3%, and import – by 10.7%. Growth in volume of exports to the EU countries was 23.4% and to CIS countries by 23.2%; at the same time the export to countries of the Balkan-Carpathian region increased, including Romania – by 54.9%. Share of light industry in total export is gradually increasing: during January-April from 14.9% to 17.5%, and share of mechanical engineering – from 3.6% to 7.5%. Share of energy products in import has significantly decreased from 40.4% to 31.7%, while share of machinery decreased from 13.6% to 13.2%. At the same time, trade balance deficit for the first 4 months of 2001 was \$85.8m that is \$5.3m more than in the same period of last year.



Orienting towards the announced state's export promotion intentions, it should be taken into consideration, that in Q1 2001 the share of private sector in export comprised 55.5%, and in import – 63.1%. Joining of WTO by Moldova has finally marked the month of May 2001, and this process took us more than 7 years. Consequences of this step are to be seen in future.

Social aspects of national economy's development from the beginning of the year have not gone through crucial changes. The employment of work able population remained on the level of last year, unemployment being estimated at 8.5% (about 140 thou people). There are about 70% of employees working in the private sector. State's pension debt was finally cleared, and starting with March, pensions are paid for the current month. Wage arrears, on the other hand, have decreased by 108.6 million lei in Q1, but they still comprised 384.9 m lei as of the 1st of April. However, there is an interesting fact, that the volume of population's deposits with commercial banks has increased by 10.5%, half of them being deposited in foreign currency, which is mainly due to the remittances from Moldovan citizens working abroad. As before, an evident sign of social troubles remains depopulation (in the 1st quarter population continued to decrease), enlargement of the area of social diseases (tuberculosis, etc) and crimes against personality and property of citizens. The unemployed commit every third crime; every fifth arrested by the police is minor.

Concluding remarks: results of the 1st quarter of 2001 were already reported by official statistics, and from mid-April the countdown for new Government has started.

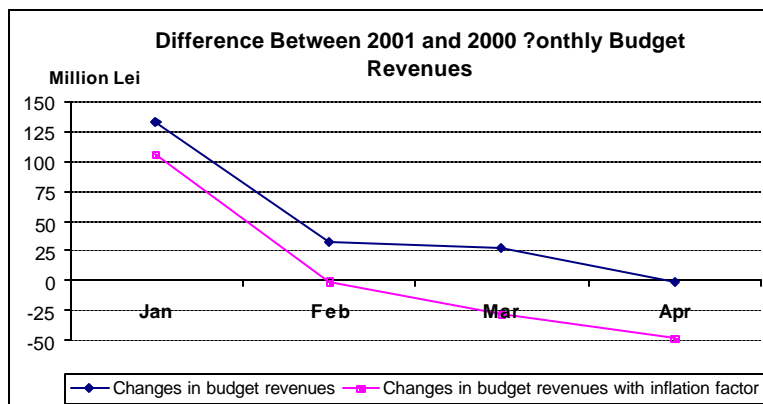
Government has the following advantages: it does not bear the responsibility for the last decade, and for the first time in many years it is backed by a guaranteed support from the Parliament majority, it can adopt most radical measures to take the Moldovan economy out of depression. The impediments are also known. Low standard of living of the majority of population and deep differentiation of income and welfare between the “new rich” and the “new poor” are barriers for the so needed reform in social sphere, which will be hard implement without affecting at least one social group. The room for maneuvering in the field of macroeconomic policy is also limited: any increase in money supply entails inflation and leu's devaluation; any decrease – would generate an increase in non-payments, naturalization of economy, decrease of tax collection. Moreover, state's debt service commitments require additional financial resources.

Meanwhile, in April-May 2001, in spite of efforts of both Ministry of Finance and National Bank, there is even less room for maneuvers, taking into account the complicated situation in the country. The following briefly elaborates:

- Government's foreign exchange deposit at NBM has reduced considerably (from slightly over \$20m at the beginning of 2001, to less than \$5m at end-May) because of the need to service the external debt. This obviously means more risks to the country, provided that in mid-2001 significant amounts should be paid for debt service;

- In January-April 2001 net volume of Treasury notes (sale minus redemption) was 71 million lei, these funds fuelling the state budget. This is an impressive amount, taking into account that it is not mid-year yet, and at such pace the annual volume may exceed the figure set by the 2001 Budget Law (136 million lei);

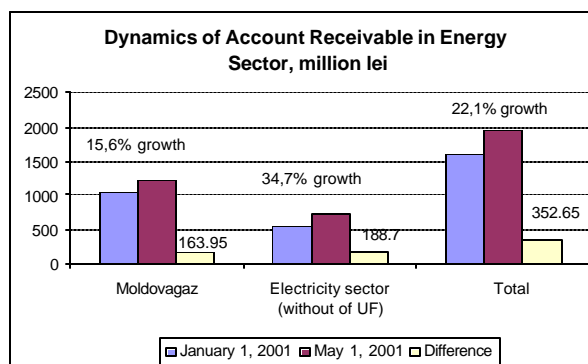
- Revenues of consolidated state budget are falling:



- There are big inflationary expectations, which may adversely affect the stability of the national currency. In the first 4 months of 2001 broad money increased by 5.4% and for the whole year NBM assumed a broad money increase by 22.6%. Such a growth in absence of real GDP growth may certainly fuel the inflation;

- Government's reserve fund is practically exhausted;

- In energy sector there is a growth in state enterprises' accounts receivable (in total 352 million lei), and this in the end leads to a growth of country's energy debts.



The paradox of current situation is that the new Government, which is supposed to do what “monetarists” did not manage to do, has now to take the country out of the crisis through realization of no less tough monetary policy, than the one carried out by their predecessors – opponents, and active continuation of structural reforms. Without this, as everybody understands, a cooperation with international financial structures cannot be expected. Meanwhile, the tiredness of the majority of the population and unpopularity of reforms will keep the Government from doing sharp moves. There will be no reversal of reforms, but their continuation could be put on hold, and that is very undesirable for everybody, including the new Government. The country extremely needs strong incentives for development.

ANNEX: MOLDOVA: MACROECONOMIC TRENDS - 2001

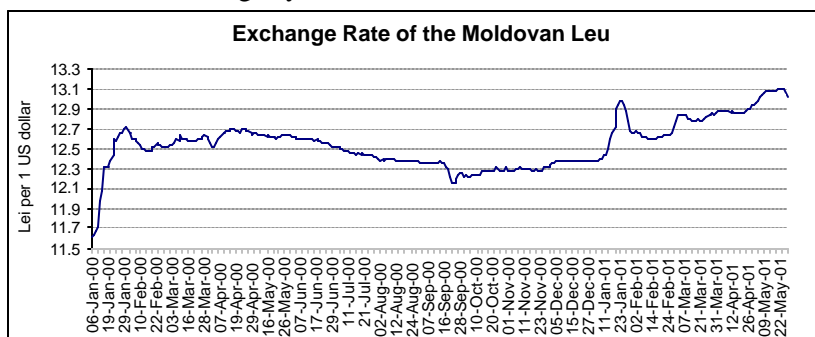
Introduction

A major event in 2001 is the Parliamentary elections held on February 25, which brought the communists at power. On March 20, the new Parliament started its work, and by mid-April both the new President and the new Government commenced their activity. Up to this date, former Prime Minister D. Braghis and his team were performing their activities. Thus, the Q1 economic results entirely belong to them. April-May can be better described as a transition period, i.e. a period of fragile stability when the new governing structures are adapting to the new situation. Therefore, the general conclusion arising from the analysis below is the following: not much changed and the economy is still on hold – waiting what concrete moves and in what direction the new country's leadership will effectively undertake, letting aside multiple bold declarations and scary threats, as well as numerous shortcomings of the new authorless Government's program.

During April 25-May 2, 2001 an IMF mission visited Moldova aimed at assessing the progress under the PRGF and holding discussions on the future economic and financial policies with the new President, Parliament, and Government. Richard Haas, mission chief, stated that Moldova has not fulfilled a number of clauses stipulated in the December 2000 memorandum, after the change in government. The next mission of the Fund is scheduled for the end of July, but it could come even sooner, provided that Chisinau fulfills its commitments. The same wait and see policy has been adopted by other IFIs. World Bank's Regional Director Mr Roger Grawe visited Moldova in the second week of May, and has made a clear statement that WB's crediting for budget support will only be resumed after Chisinau meets IMF's memorandum. A similar message was sent by the EU officials.

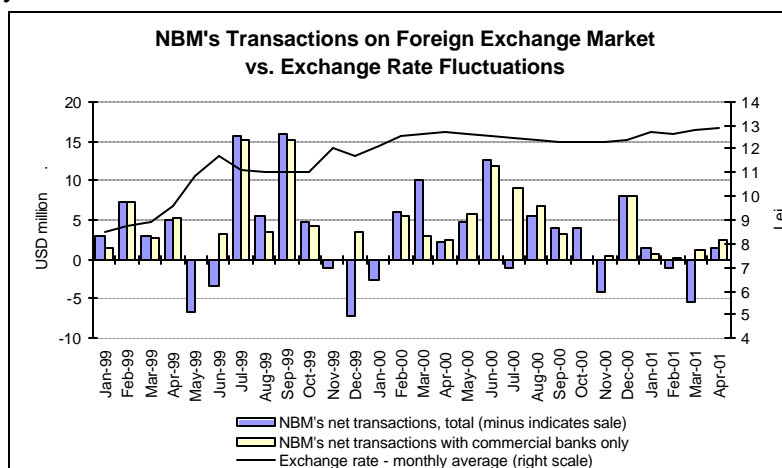
Nominal Exchange Rate, Forex Reserves

Evolution of the nominal exchange rate of the Moldovan leu against the US dollar was in the first 5 months of 2001 on a depreciating path. While in 2000 the leu has depreciated against the US dollar by 6.8% (expressed in domestic currency terms), following the depreciation in 1999 by 39%, then in January-May 2001 the nominal depreciation has already constituted 5.8%, leu sliding from 12.38 lei/1US\$ to slightly over 13 lei/1US\$ by end-May. Along with usual seasonality factors, the political interference was also observed. Communists made numerous comforting statements, thus offsetting any turbulence in market' behavior.

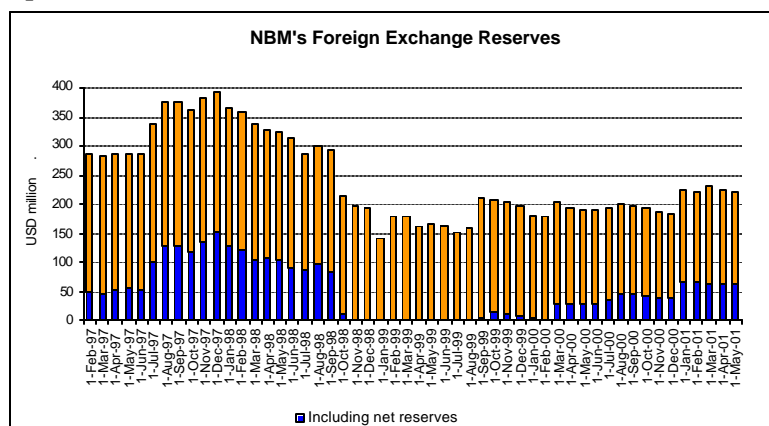


In spite of the depreciation of leu and higher demand for dollars in the foreign exchange market, NBM still managed to buy some hard currency from banks: while in 2000 NBM bought from commercial banks US\$60m, in the first 4 months of 2001 it has bought \$4.4m, which where

very welcomed, notwithstanding the heavy burden of the foreign debt service. In Q1 the government had to make about \$16m in foreign debt service, and NBM - \$5.6m, while the projected figure for whole 2001 is as high as \$85m for the government, and \$24m for NBM. In the absence of foreign financing the government will obviously have serious difficulties in making those payments in time.

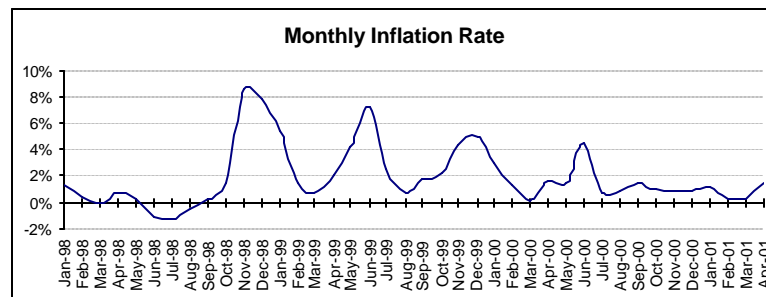


As a result of successful negotiations with Moldovan officials, which culminated with the new Memorandum with IMF signed in November last year, on February 23, 2001 IMF has disbursed another tranche of \$12m within the PRGF. Hence, in spite of the debt service payments, the National Bank managed to keep its foreign exchange in place – they are hovering at about \$220, covering 2.7 months of imports of goods and services. Net reserves diminished from \$65m to \$60m in January-April 2001.

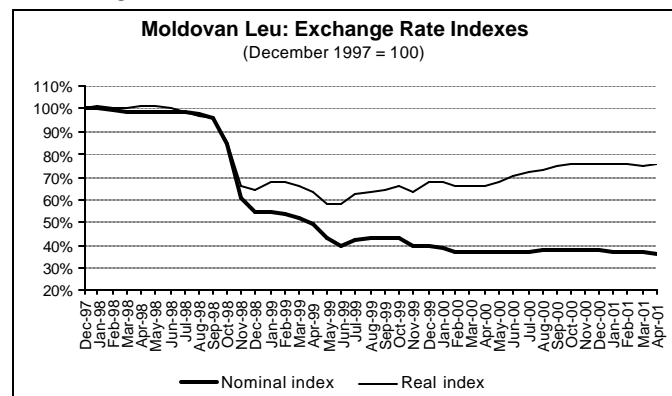


Inflation, Real Exchange Rate

In 2001 inflation rate remained stable and at the same time low. Highest inflation so far was observed in April (1.5%), while cumulative inflation for the period covering first 4 months was 3.3%. NBM's Monetary Policy for 2001 forecasts a 10% end-year inflation rate, same figure is forecasted by IMF. If nothing wrong happens, like additional printing of money to cover for significant budget expenditures (both for debt service, and for social sphere as envisaged by communists), this objective may be attainable, although pressures for price increases are strong.



Analyzing the evolution of the exchange rate of the Moldovan leu against the US dollar in real terms, it can be noticed that due to the low level of inflation, the said nominal depreciation of leu was not accompanied by similar depreciation in real terms. In the first 4 months of 2001 leu's real exchange rate index against the US dollar remained stable.



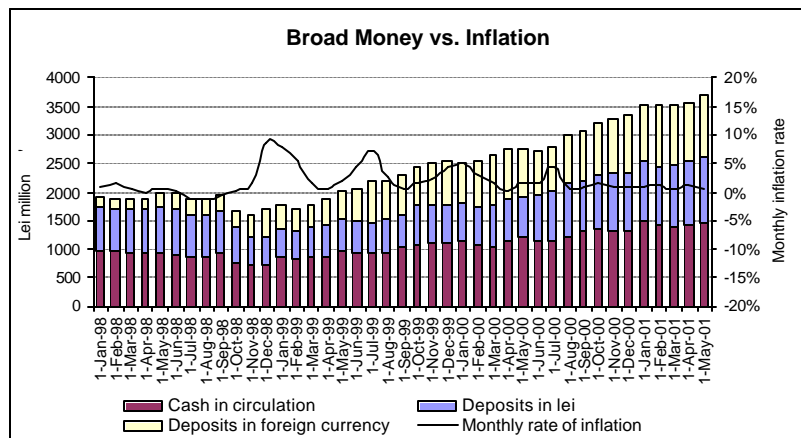
Monetary Aggregates

Evolution of monetary aggregates has shown a good performance in 2000 and so far in 2001 as well.

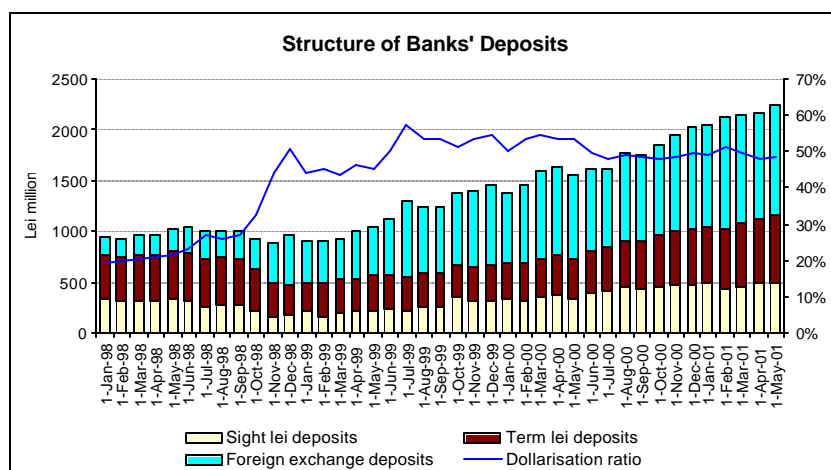
Monetary aggregates

	Inflation	M0 growth	RM growth	M3 growth
Dec-00	0.8%	12.0%	8.9%	5.2%
Jan-01	1.2%	-4.8%	-1.6%	0.2%
Feb-01	0.3%	-1.5%	-1.6%	0.2%
Mar-01	0.3%	2.0%	0.0%	1.3%
Apr-01	1.5%	2.7%	2.5%	3.5%

In the first 4 months of 2001 volume of lei in circulation M_0 has shrunk by 1.7%, reaching at 1 May 1.444bn lei (reserve money has also diminished by 0.8%). At the same time, broad money M_3 increased by 5.4%, reaching at 1 May 3.700bn lei (NBM's Monetary Policy for 2001 assumed a broad money increase by 22.6%, denoting a larger money demand conditioned by the real growth in GDP and reduction of inflation expectations). Money multiplier for M_3 grew from 1.80 to 1.92. Reserves of commercial banks with the NBM did not vary much, and reached at 1 May 487 million lei, out of which one-third are excess reserves.



It is good to see that broad money has grown, even if M_0 has shrunk – this implies a large increase in deposits in the banking system (i.e. by 10.5%, reaching at 1 May 2.256bn lei), which shows the confidence of population and economic agents both in leu and in banks. Share of foreign exchange deposits basically remained unchanged, thus dollarization ratio of deposits with banks is still a bit higher than 48% (NBM's Monetary Policy for 2001 foresees a reduction in dollarization level to 43%).



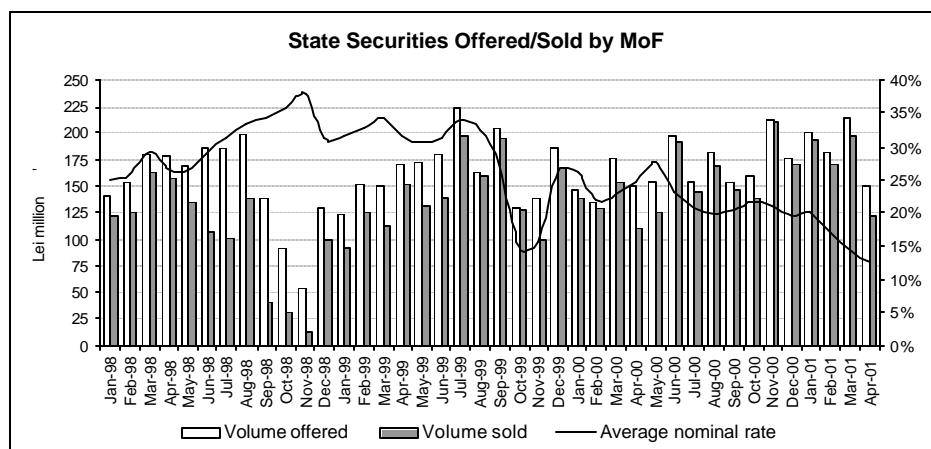
NBM's Credit

Government's debt to NBM, expressed in the stock of NBM's Treasury papers, has remained unchanged – at 1 May it was 1.675 m lei (according to NBM's Monetary Policy for 2001, the National Bank shall not provide credits to the Government in 2001 to finance the state budget deficit). The stock of NBM's credit to commercial banks (excl. REPOs) hovered slightly above 100 m lei. For 2001 NBM aims at conducting an interest rate policy, targeted at maintaining the real interest rates at a low positive level, thus stimulating real sector's demand for credits and, respectively, contributing to the economic growth. However, as in previous years, it appears that banks have sufficient credit resources and they are not so interested in getting new loans from NBM. As mentioned above, there is an excess of liquidity in commercial banking system. One of the main causes of insufficient crediting of production sector remains lack of efficient investment projects and small number of solvent economic entities, that could efficiently use the credits and reimburse them in due time. Plus, of course, the negative influence of political turbulences.

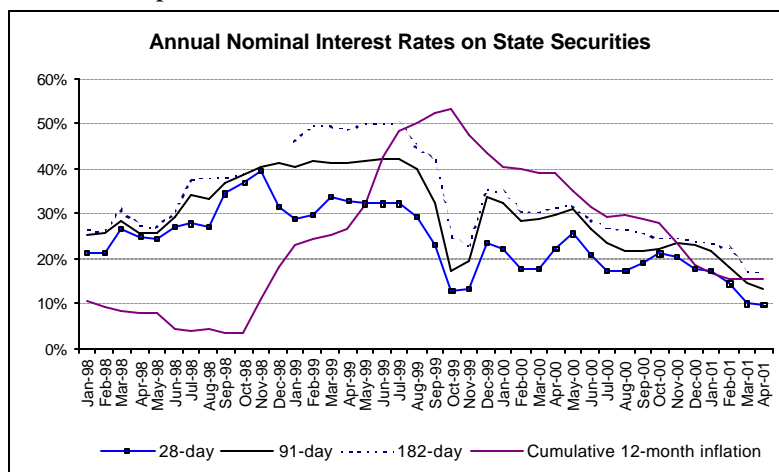
MoF: State Securities Market

Situation in the state securities market remained stable. Ministry of Finance did not have difficulties in placing the new treasury securities (sometimes in even higher amounts) and redeeming those in circulation. In January-April 2001 at the primary auctions at NBM there were offered treasury securities in a total volume of about 750 m lei, the volume sold being slightly above 680 m lei, i.e. on average TBs worth 170 million lei sold per month (in 2000 average volumes sold per month was about 140 m lei). However, it is not clear whether this trend will continue, because in April the amount of TBs sold has considerably reduced (by one-third), and preliminary data for May do not show big amounts either.

In January-April 2001 Ministry of Finance had to redeem securities totaling about 610 m lei. Thus net volume being 71 million lei (these funds fuelling the state budget), which is an impressive amount, taking into account that it is not mid-year yet, and at such pace the annual volume may exceed the figure set by the 2001 Budget Law.

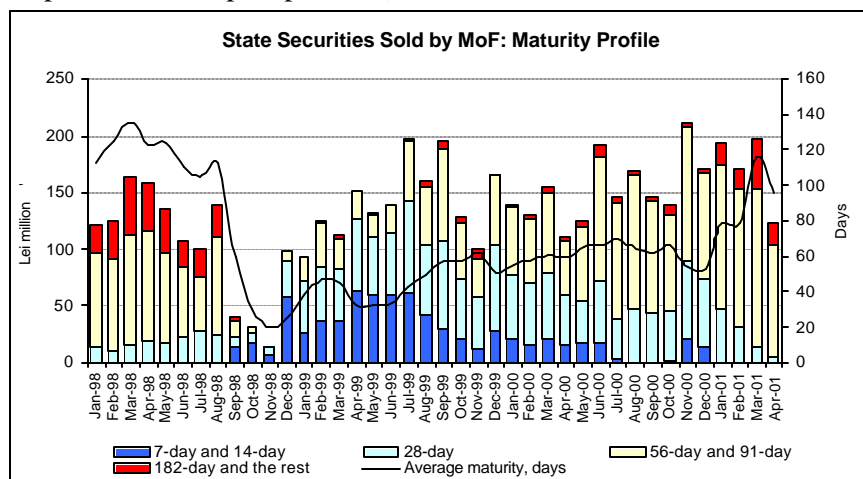


A very good tendency is the continuing reduction in interest rates for TBs. While in 2000 average interest rate for TBs (all maturities) constituted 22.3% (in 1999 it was 28.9%), and monthly average in Dec-2000 and Jan-2001 was about 20% - already in April 2001 it has dropped to 12.5%. This significant reduction in interest rates on state securities obviously shows a confidence vote to the state power structures.



Analyzing the maturity profile of sold state securities, another positive tendency is observed – noticeable growth in average maturity. While during 2000 average maturity in the system hovered at 55-65 days, in Jan-Feb 2001 it was close to 80 days, increasing even more in the two following months.

Another interesting aspect: if throughout the year 2000 volumes of sold TBs with 182-day and 364-day maturities were on average 5 m lei per month, so far in 2001 they were much higher: in Jan, Feb and April - about 20m lei, and in March - 45m lei. At the same time, in the first 4 months of 2001 no very short term (7-day, and 14-day) securities were sold (while in 2000 on average 12m lei per month were put up for sale).

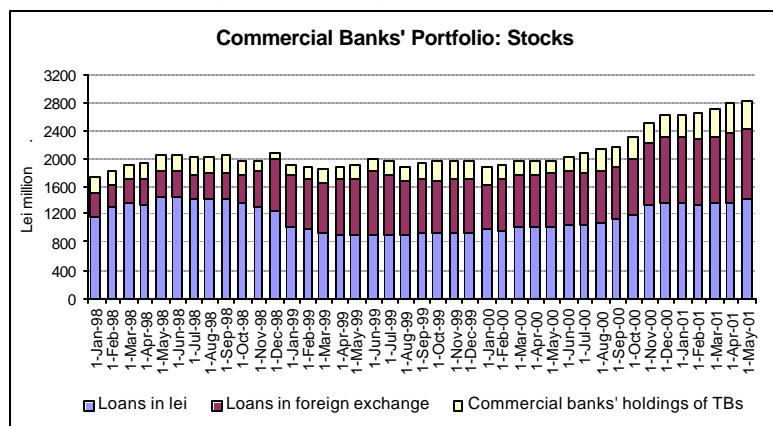


Commercial Banks

From 1 January 2001 minimal capital requirement for commercial banks is: for a basic license (A type) 32 million lei, for a B type license (allowing operations with foreign exchange) 64m lei, and for a C type license (allowing more operations with securities) – 96m lei.

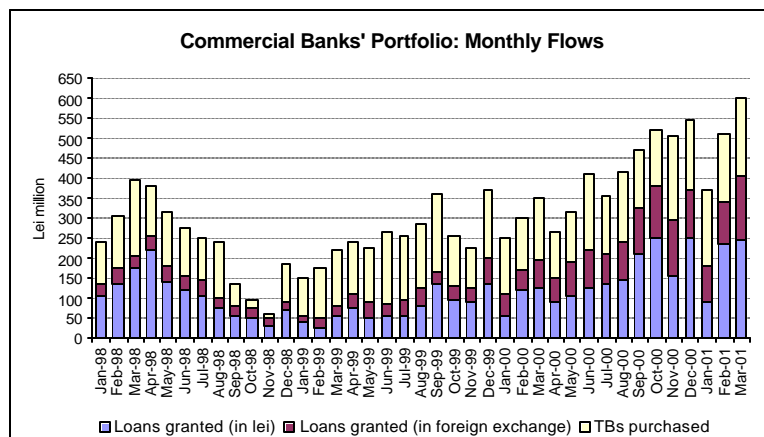
Some banks started to have difficulties in meeting the increasing capital requirements in 1999 and especially in 2000. This has spurred the consolidation of the banking sector. All in all, the new capital requirements were met by commercial banks with no problems. Most of the banks increased their capital through share issues.

Moldovan banking system's aggregate assets reached 4.808 bn lei at 1 April 2001, reflecting an increase by some 3% compared with the beginning of the year. Banks' aggregate normative capital equaled to 1.534 billion lei (7% increase), liquid assets - 1.748 billion (6% increase), and the volume of credits - 2.364 bn lei (3.7% increase).



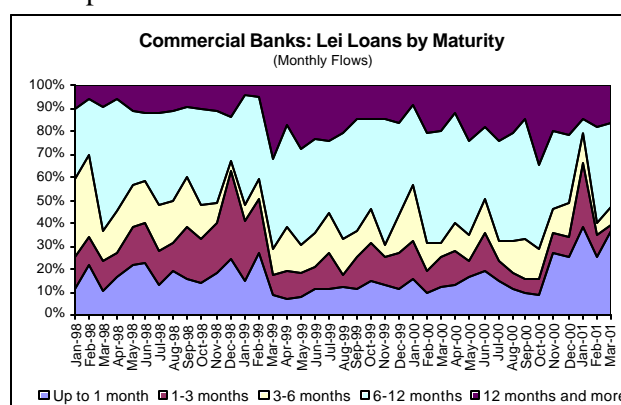
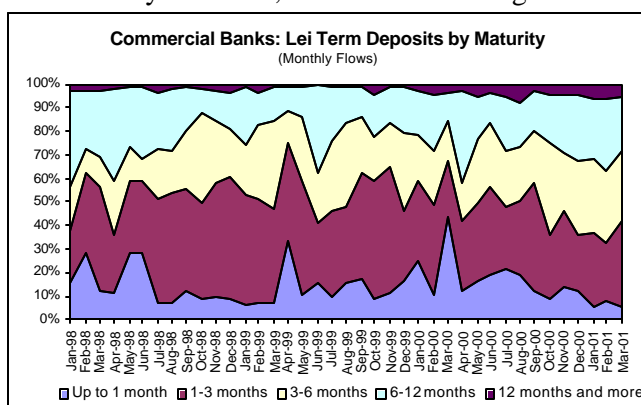
Commercial banks' lending activity was good: while in 2000 stock of banks' credits into the economy grew from 1.64 bn lei to 2.3 bn, i.e. by 40%, in the first quarter of 2001 banks' credits further grew to 2.4 bn lei, i.e. by 5.3%. Credit dollarization ratio did not change much, it stays at about 42% . As regards the stock of Treasury securities in banks' portfolios, it continues to increase, exceeding already 400m lei (it was 321 million at the beginning of the year).

A more dynamic picture is offered by the monthly flows data for commercial banks' credits. During the month of January banks' loans in lei granted to economic agents noticeably reduced to 93m lei, but then picked up later, by the end of first quarter the volume was 245 m lei, i.e. almost the same as end-2000 figure. Similarly, loans granted in foreign exchange jumped from 88 million lei in January to 160 million in December, exceeding last year's figure by 27%.



Looking on the charts below at the maturity structure of deposits with banks and banks' loan portfolios, one could see that like in previous years, in Q1, 2001 the deposits in lei are mostly short term (95% are up to 1 year), which consequently determines the reduced maturity of the loans granted by banks (84% are up to 1 year, comparing to 79% at end-2000). Obviously banks cannot make long-term lending having a short-term deposit base of their clients.

The only slight improvement is that in q1, 2001, volume of up to 1-month deposits has noticeably decreased, but this did not change much the overall picture.

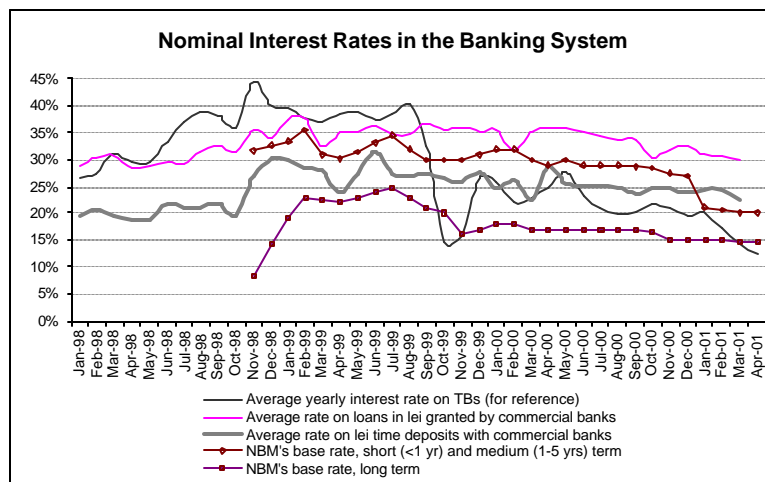


Interest Rates

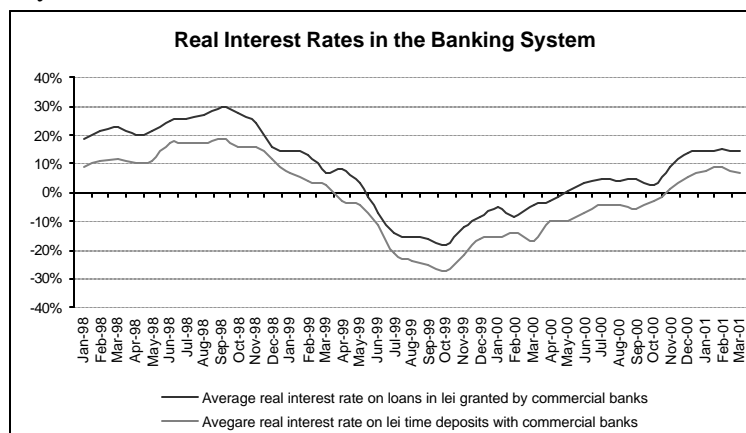
During the first quarter of 2001, similarly with 2000, interest rates on deposits with commercial banks and on banks' loans are very slowly decreasing. Average nominal interest rate on loans in lei dropped in March slightly below 30%, while the rate for time deposits in lei firmly dropped below 23%. Average nominal interest rate on loans in foreign exchange had also a downward trend – it fell below 15%, while the rate for term deposits in foreign exchange stood at around

5%. At the same time, NBM's base rate for short and medium term was noticeably reduced in January 2001 to 21% from 27% and in the following months stood at about 20%, while NBM's rate for long term remained unchanged at around 15%.

Another good thing is that the average interest rate on government securities remains significantly lower than the average rate on term deposits, imposing the banks to find more profitable activities than just investing in virtually risk free Treasury securities.



The real interest rate for loans granted in lei continues to increase, and in Q1, 2001 it overpassed 14% (the highest value in the last 2 years being registered in February 2001 – 15.3%), and real interest rate on time deposits in lei was also increasing – the highest value being also registered in February 8.9%. It is worthwhile mentioning that during most of 1999-2000 the above deposit rate was negative in real terms, and only in November-December 2000 it became positive, advancing more this year.



The picked up high deposit real interest rate is a good sign, showing a stability in the banking system, banks willing to commit themselves to paying higher than inflation interest rate on clients' deposits. However, it is not so bright as it looks: it is clearly seen on the chart below that the margin between banks' lending rate and deposit rate basically has not changed, meaning that commercial banks are either too cautious, not trusting much to the bright perspective promised by communists, or there is a lack of serious competition in the sector, ultimately resulting in still high lending rates.