

Center for Strategic Studies and Reforms

Moldova in transition

ECONOMIC SURVEY

No. 7, 2001

Chişinău, March 2001

CENTRUL
*de Investigații Strategice
și Reforme*



CENTER
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PREFACE

This Survey comprises studies carried out by the CISR experts in the second half of 2000. The previous issue (Economic Survey, #6, July 2000) covered panorama of the first half of the year, including political background that unfortunately has become even more complex.

Let us remind that the year 2000 began dramatically: after the cabinet crisis (Nov. – Dec. 1999) and refusal of Parliament to privatize wine-making and tobacco enterprises that was stipulated by the Memorandum of the previous Government with IMF/World Bank, Moldova faced real threat of default and social shocks.

After Messrs. V. Bobutac and V. Voronin failed to be approved by the Parliament, the third candidate to the Prime Minister post became D. Braghis, and since Dec. 21 his Government, with a program similar to the one of the predecessor (I. Sturza), has started work under the patronage of the President, and later of the Parliament, which, after the transition to parliamentary republic, after introduction of amendments to the Constitution (July 5, 2000) should have demonstrated efficiency of its work.

The year was difficult: Government had to face the both political challenges (absence of "own" majority in Parliament, May rallies on main city square - students and war veterans), and financial challenges (discontinuance of support from IMF and World Bank), and nature-linked (drought, showers, ice).

To the honor of the Government, it has held a situation under a control and come to the end of the year with dignity: with a GDP growth (1.9 %) and a growth in industry (2.3 %), with a reduction of debts on pensions and wages, servicing the obligations on external debt, maintenance of moderate inflation rate and exchange rate stability, as well as improvement of tax collection. The whole being said, it should be noted that 31% of the increase in budget revenues had an inflationary component.

For a perspective the Government approved a number of strategies – regarding socio economic development of Moldova till 2005, on fighting poverty and on economic growth, on problems and branches. However, the aged troubles remained: non compliance with the laws, unfavorable investment climate and weakness of export base, negative trade balance, growth of internal debt, self-destruction of systems of public health services and education, corruption and expansion of poverty. Plus a new phenomenon – a massive outflow of people for work abroad. And now "The Economist", which only five years ago named Moldova as "laboratory of right reforms", publishes pitiful articles "Can Moldova get worse?" (July 2000) and "The land that time forgot" (Sept. 2000).

Quality of governance is the key issue, which draws attention in the Republic of Moldova now (*see below the table "Number of governments and quality of governance"*).

Quality of governance in the Republic of Moldova

Number of Governments **and** Quality of Governance

	Prime-minister	Period of activity	Year for assessing results	GDP	Inflation, yearly average, %
1	M. Druc	May 1990- May 1991, <i>12 months</i>	1991	-17.5	201.4
2	V. Muravschi	May 1991- June 1992, <i>12 months</i>	1992	-29.1	1209
3	A. Sangheli	June 1992-April 1994, <i>21 months</i>	1993 1994	-1.2 -31.2	1284 587
4	A. Sangheli	April 1994-February 1997, <i>33 months</i>	1995 1996	-1.4 -7.8	30.2 23.5
5	I. Ciubuc	February 1997-May 1998, <i>14 months</i>	1997	+1.6	11.8
6	I. Ciubuc	May 1998-March 1999, <i>9 months</i>	1998	-6.5	7.7
7	I. Sturza	March 1999-Dec. 1999, <i>9 months</i>	1999	-3.1	39.3
8	D. Braghiș	Dec. 1999-March 2001, <i>15 months</i>	2000	+1.9	31.3

Table continued:

	Prime-minister	Budget deficit (incl. SF) as share of GDP, %	Exchange rate of national currency, lei/ 1 US dollar)	FDI per capita, US dollars	Internal debt as share of GDP, %	Public external debt, millions of US dollars
1	M. Druc	...	-	...	...	...
2	V. Muravschi	...	-	...	...	...
3	A. Sangheli	-9.0 -10.6	...	...	6.0 6.0	255.7 630.9
4	A. Sangheli	-6.8 -7.6	4.49 4.59	34 40	7.8 9.5	830.2 1010.5
5	I. Ciubuc	-7.8	4.63	60	11.7	1233.7
6	I. Ciubuc	-3.3	5.38	84	17.0	1303.5
7	I. Sturza	-3.1	10.52	93	15.7	1342.6
8	D. Braghiș	-1.6	12.40	129	12.2	1346.4

For the new Government financial possibilities are sharply narrowed, referring to the choice of socio economic policy and methods of its practical realization. Inheritance received from the predecessors depresses: a huge external debt, inefficient economy, massive poverty, professional weakness of state apparatus, also affected by the "virus of temporary status".

What can new authorities oppose to this? If we look into the draft program of the candidate for Prime Minister V. Voronin (Dec. 1999), then we see: "strengthening of statehood, increase of efficiency of public management, recovering of territorial integrity of the country", "maintenance of continuous state regulation of the market economy", "stoppage of falling of population's standard of living, fighting with poverty and unemployment, reduction of discrepancy between the incomes of different strata of population", "stimulation of the processes of integration in international and regional structures", "fight with corruption and organized crime".

At first, apparently, the floor will be given to actions not requiring financial expenses (civil consent, active capacity of state apparatus, Transnistria, tax collection, making order in customs and tax inspectorate, legitimacy of privatization, suppression of corruption). Afterwards long-term actions may follow - support of domestic manufacturers, revival of the system of state purchases etc.

But for this time is needed. In the meantime, right ahead – there is the "debt hole", dug by the predecessors. Till the end of 2001 it is needed to pay back not less than \$100m of external debt, and in following year - twice more. And in this situation, Moldova similarly to baron Munchausen will not be able to drag itself out of the bog by the hair. While continuation of cooperation with international financial organizations, surely, is possible only at a reasonable, in the opinion of both parties, solution of the problem with coordination of freedom of the market and regulatory role of state.

It is possible, that the coming years will be very dramatic for the country. If in 90s the fall of production and of social standards was compensated by "wasting" the previously stored national wealth, then a decade of degradation led to exhausting of all resources of the productive sector, stagnation of science and education, deterioration of cumulative health of population and destroying of social infrastructure a system.

The hope is that the leaders and population of the Republic Moldova, as a democratic state which made the choice in favor of political plurality, civil consent and socially oriented market economy, will finally agree upon what country Moldova shall be and what are its long-term interests. Due to the community of historical fates of its population and geopolitical advantages of the country on the junction of Central Europe, Balkans and CIS, the Republic Moldova is quite able to realize the model of "small open economy" in conditions of a state which is politically stable, neutral and attractive to cooperation.

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The Survey, as other CISR' main outputs, is accessible at <http://cizr.home-page.org>.

We invite you to collaboration.

Anatol Gudîm,

Executive director

1. YEAR 2000: MACROECONOMIC TRENDS

Introduction

A major event in 2000 was the relaunched IMF's and World Bank's financial assistance to Moldova. Memorandum of Economic and Financial Policies signed by the Government and the National Bank on 30 November 2000 indicated that "...Economic performance thus far in 2000 has been relatively good. Financial policies have been appropriately tight and there has been important progress in the area of structural reform, notably with the wineries, the energy sector, and land privatization." All Moldova's performance criteria were successfully met, thus leading to several disbursements from IFIs.

The new government has managed to exercise a more realistic approach towards privatization – it has started the process of privatization of electricity generating and distribution companies, as well as of tobacco and wine industries in 1999-2000, and also plans to sell controlling stakes in Moldtelecom in 2001.

In the energy sector, three electricity distribution companies were sold to a strategic investor ("Union Fenosa" of Spain), and the sale of two additional distribution companies and the power generation companies is underway.

GDP and Output

According to the preliminary data released by the Department of Statistics, Moldova's GDP reached 15,980 million lei last year, showing a 1.9% real growth comparing to 1999. Nominal GDP reached 15980 million lei, or about \$1.3bn (about \$360 per capita). Cumulative figures show that in 2000 GDP reached 34% of the 1990 level.

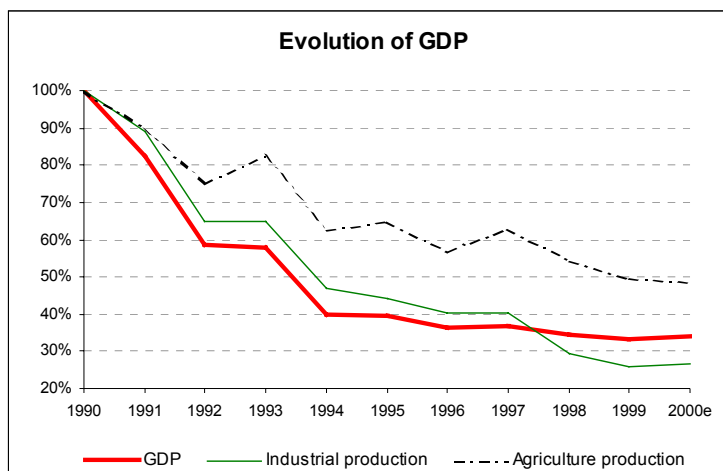
Gross value added in industry increased by 2.8% and in agriculture it fell by 2.1%.

Industrial enterprises of all types of ownership made 8,750.4 million lei worth of products (2.3% more than in the previous year), although almost one third of production capacities are either closed, or work short hours, because of financial problems or other reasons. The highest growth rates were recorded in the wine-making industry, bakery, package-making industry, soft drinks and dairy, construction materials and light industries.

Agriculture output amounted to 8,070 million lei, i.e. 97.4% of the previous year level. By sectors: animal husbandry – a 8.9% decrease, crops – a 0.6% growth.

Capital investments amounted to 1,511.1 million lei, showing a 1% growth comparing to 1999. Out of them 37% were investments in construction.

As it can be seen, the impact of early frosts and the subsequent severe drought was not devastating as it was forecasted. In early 2000, the National Bank of Moldova and the Finance Ministry forecasted a two-percent rise in the GDP, but by mid-year it was common awareness that this forecast had been too optimistic, thus new estimates of



damages in the agricultural sector were drawn, and it was expected that the GDP would decline by 5% and even more.

Luckily for Moldova, those pessimistic forecasts did not come true, and preliminary GDP data show, as already mentioned, 1.9% real growth. It seems that along with the destructive impact, the drought surprisingly had a good effect on wine-making industry – the quality of wine produced was very good, thus in 2000 winemakers of Moldova exported wines alone worth more than \$110 million - which is a very impressive performance.

In April 2000 Moody's Investors Service downgraded Moldova's foreign currency country ceiling for bonds to B3 from B2. Also downgraded to B3 is the rating of the \$75 million Eurobond issued by Moldova, due to mature in 2002. Over the last three years, the rating dropped by four stages from Ba2, in 1997, to B3 in 2000.

According to Moody's analysts, Moldova's rating is decreasing because of the difficult political and economic crisis, deepened by the periodic shortages or outright stoppages in energy imports. A long-running conflict between President and parliament has now been supplemented by a sharp deterioration of relations with the International Monetary Fund, based upon the country's lukewarm attitude towards structural reform in general and privatization of wine and tobacco enterprises in particular, said Moody's Investors Service.

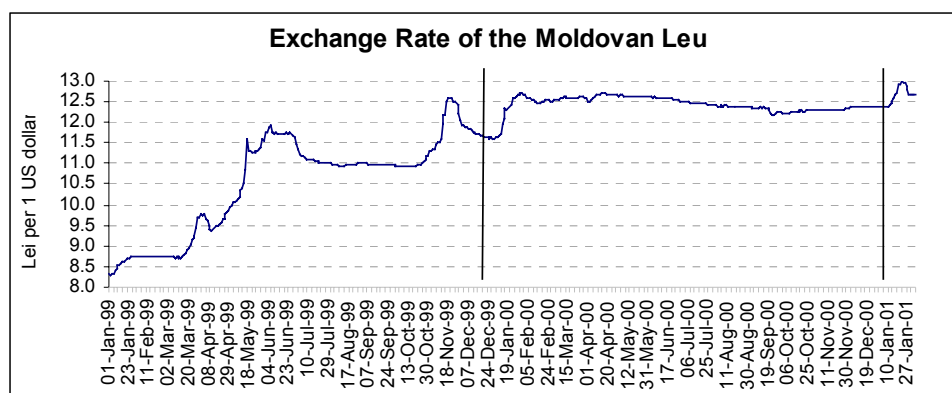
Speaking about the prospects for 2001 it should be mentioned that the government's forecast for 2001 provides for 5% growth in real GDP. Other indicators: 15% rise in exports, and 26.1% increase in the public revenue. The industrial output is expected to increase by 6% and the agricultural production – by 7%.

In December 2000 the National Bank of Moldova approved its Monetary Policy for 2001. It says that the monetary and foreign exchange policy worked out by the National Bank for 2000 has as target the reduction of inflation, stabilization of the foreign exchange market, consolidation of the banking system in the context of a relative macroeconomic stability. The document is based on the Forecast of Social and Economic Development of the Republic of Moldova for 2001-2003 approved by the Government, according to which the end-year inflation in 2001 will slide to 10%, GDP will rise by 5% per year, budget deficit will drop to 1.5% of GDP, current account deficit will be limited to 6% of GDP, state's foreign exchange reserves will be consolidated at the level of three months of imports, credits to economy will increase by 26%, monetization of the economy will grow to 22.6% and dollarization of deposits is expected to slide to 43%.

Nominal Exchange Rate, Forex Reserves

Evolution of the nominal exchange rate of the Moldovan leu against the US dollar has shown a remarkable stability throughout the whole year 2000. While in 1999 the leu has depreciated against the US dollar by 39% (expressed in domestic currency terms), following the sharp depreciation in 1998 (by 79%), then in 2000 the nominal depreciation has constituted only 7%, leu sliding from 11.59 lei/1US\$ to 12.38 lei/1US\$ end-year.

A noticeable depreciation in 2000 was only in January (usual seasonality factor – same happened, as it can be seen on the chart below, in 1998 and in 2001), the pick being reached on 1 February (12.72 lei/1US\$), and after that a period of stability followed till the end of the year, accompanied by slight appreciation of leu in Q2 and Q3.

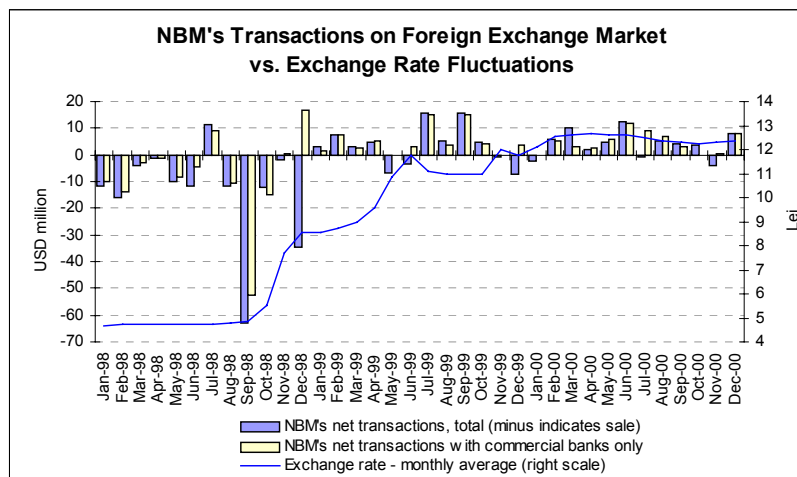


This appreciation of the national currency against the US dollar was caused by the significant surplus of foreign exchange in the local market. And this happened in spite of the foreign currency purchased by the NBM in the market (in 2000 NBM bought from commercial banks US\$60m). The presence of such a high volume of foreign exchange on the market was caused by:

- Increase by the NBM of the minimal capital requirement for commercial banks (from 1 January 2001 - 32 million lei for a basic banking license). In order to maintain their licenses, banks, among other measures (e.g. additional issuance of shares, foreign investors participation, banks' mergers), had to convert into lei a part of their hard currency holdings aiming at accumulating the needed lei capital;
- Greater foreign investments into Moldova's economy: in energy sector - arrival of Union Fenosa (\$25m transferred into the account of the Moldovan Government), in banking sector - Banca Turco-Română (which brought to Moldova about \$4m for the required capital), etc.;
- Incomes of residents of Moldova working abroad – estimated annually at 100-150 million dollars. Only a part of these incomes is transferred to Moldova through the banking system, the rest is just brought in cash;
- Usual seasonal tendencies.

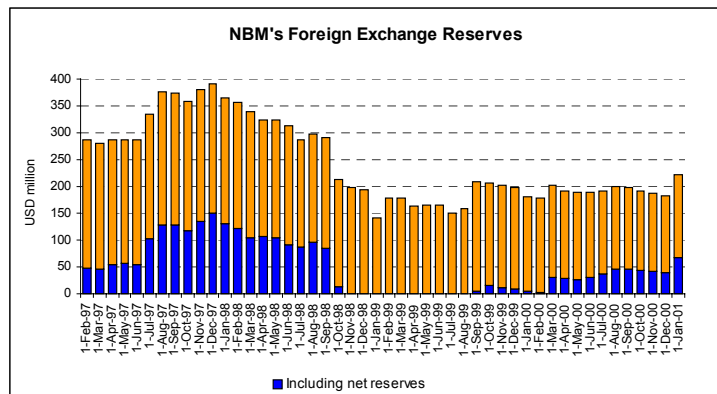
Owing to the successful strategy implemented on the foreign exchange market in 2000, as well as in 1999, the National Bank has continued to build-up its foreign exchange reserves exhausted in 1998. Thus, as a result of continuous purchases of foreign exchange in the local market (largest amounts bought in mid-year) and good reserves' management, the NBM's gross foreign exchange reserves (including Govt's fx deposit) grew in 2000 from \$180m to about \$220m, presently covering 2.7 months of imports of goods and services. This enabled the Government and the National Bank to timely service the foreign debt.

During 1999-2000 BNM kept its engagement not to intervene on foreign exchange market selling hard currency, and this is clearly seen on the chart below. NBM's Monetary Policy for 2001 aims to achieve a consolidation of reserves at the level of three months of imports. National Bank is reserving the right to perform foreign exchange interventions but in cases of stringent necessity to smooth excessive fluctuations of the real exchange rate and to influence the exchange rate with the view to creating favorable conditions for economic growth.



At the same time, NBM serviced its debt to IMF paying about \$33m in 2000, while receiving at end-December the first tranche from PRGF of \$12m.

Starting with February 1999 NBM's net foreign exchange reserves increased gradually. While they've reduced from \$150m in November 1997 to minus \$35m in December 1998, in August 1999 net reserves already became positive, and at end-December 2000 they have overpassed the \$60m mark (all figures include Govt.'s foreign exchange deposit with the NBM).



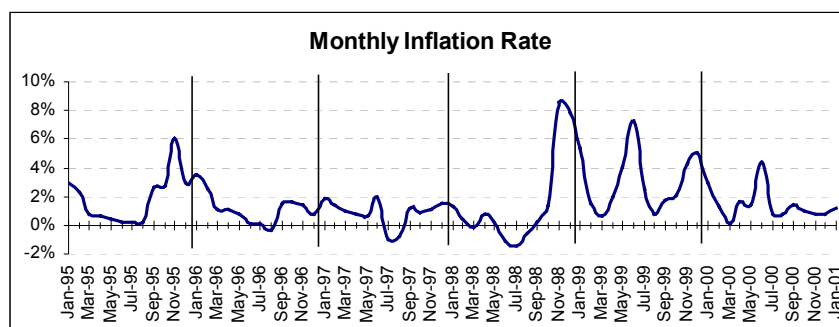
Commercial banks' foreign assets grew during 2000 from \$53m to \$67m, liabilities hovering throughout the year at \$43-45m.

Thus, net foreign assets of commercial banks increased during the year from \$11m to \$22m.

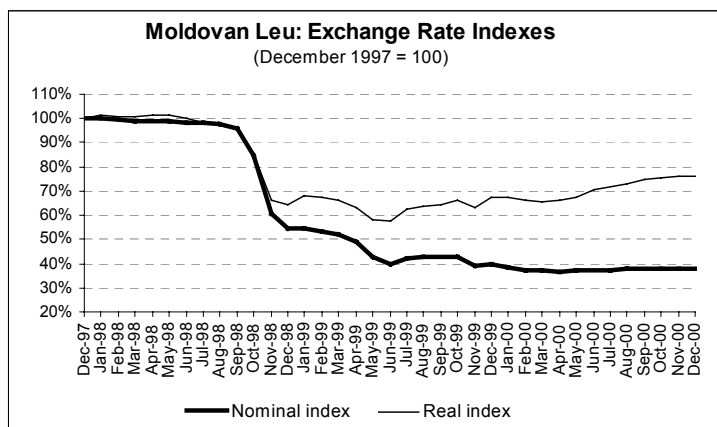
Inflation, Real Exchange Rate

Inflation rate remained stable in 2000. Highest inflation was observed in June (4.4%) caused by considerable price increases for bread, fuel and utilities services. As in previous years inflation has a mainly non-monetary origin, being generated especially by the increases in prices for goods and services.

Cumulative rate of inflation in 2000 fell down to 18.4% (in 1999 it was 43.8%). NBM's forecast for end-2000 was 15-18% (Monetary Policy for 2000), IMF target being 18%. Average yearly inflation rate for 2000 was 31.3%. NBM's Monetary Policy for 2001 forecasts a 10% end-year inflation rate, same figure is forecasted by IMF.



Analyzing the evolution of the exchange rate of the Moldovan leu against the US dollar in real terms, it can be noticed that the nominal appreciation of leu in Q2-Q4 of 2000, was also accompanied by an appreciation in real terms of leu upon dollar. Since April leu started to slowly appreciate in real terms, a fact influenced by nominal appreciation versus the US dollar combined with low inflation rate.



Exchange rate indexes

	Nominal	Real
Dec-99	100.0%	100.0%
Jan-00	96.6%	99.4%
Feb-00	93.5%	97.4%
Mar-00	93.2%	97.2%
Apr-00	92.7%	98.3%
May-00	92.8%	99.8%
Jun-00	93.2%	104.6%
Jul-00	94.1%	106.4%
Aug-00	94.7%	107.9%
Sep-00	95.4%	110.1%
Oct-00	95.6%	111.6%
Nov-00	95.4%	112.1%
Dec-00	94.8%	112.4%

Monetary Aggregates

Evolution of monetary aggregates has shown a good performance in 2000.

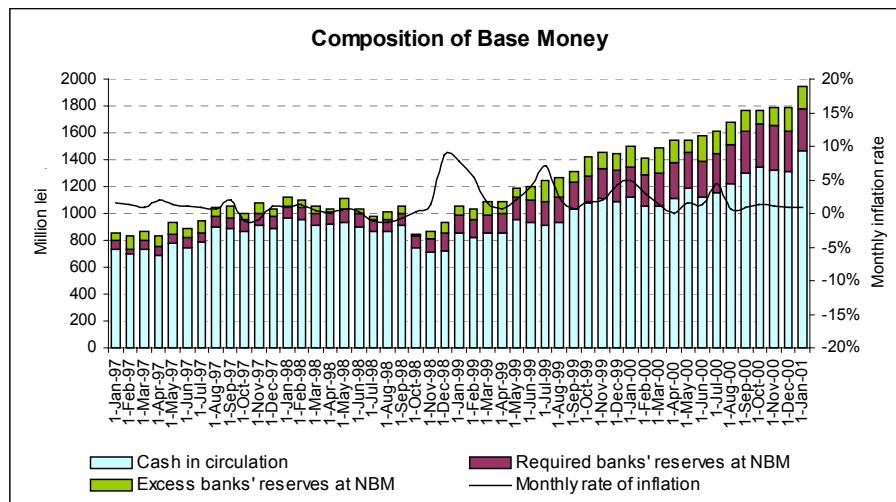
Evolution of monetary aggregates

End-year:	Inflation	M ₀ growth	M ₃ growth	RM growth	Monetization
1994	104.6%	189.4%	115.6%	128.2%	15.9%
1995	23.8%	84.9%	65.2%	42.3%	19.2%
1996	15.1%	14.4%	15.3%	9.7%	18.7%
1997	11.1%	33.0%	34.1%	31.5%	21.6%
1998	18.2%	-12.0%	-8.7%	-5.6%	19.2%
1999	43.8%	31.2%	42.6%	41.4%	20.3%
2000	18.4%	31.0%	40.2%	29.8%	22.0%

Volume of lei in circulation M₀ grew by 31% reaching at end-2000 1.47bn lei (reserve money also increased about 30%). Broad money M₃ increased by 40%, reaching 3.51bn lei. These growth rates being somewhat similar to the ones in 1999. Money multiplier for M₃ grew from 1.67 to 1.80. Due to the increase in money supply, the level of monetization of the economy increased to 22%.

NBM's Monetary Policy for 2001 includes the following monetary assumptions: broad money increase by 22.6%, velocity level - 4.43, money multiplier - 1.95, credits to economy increase by 26%, level of monetization of the economy - 22.6% (denoting a larger money demand conditioned by the real growth in GDP and reduction of inflation expectations).

The reason of noteworthy increase in cash in circulation was the considerable supply of foreign exchange on the domestic market (obviously, for every dollar bought in the market NBM had to issue equivalent amount of lei into circulation), generated by energy sector privatization, repatriation of export proceeds, increase of minimum capital requirements of commercial banks leading to essential inflows of capital from foreign investors, and last but not least, as already mentioned - significant workers' remittances from abroad.

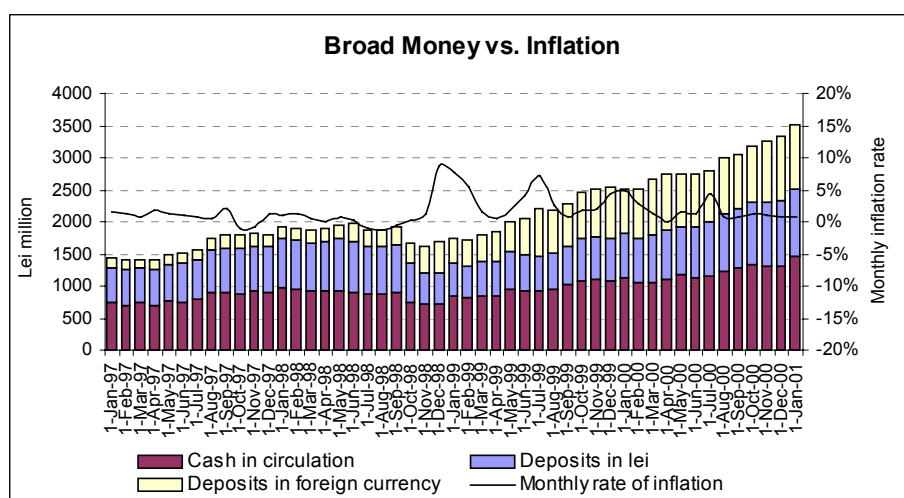


Looking into the structure of reserve money, it can be seen that reserves of commercial banks with the NBM reached at end-2000 476 million lei (26% more than at end-1999), out of which two-thirds are compulsory reserves and one-third are excess reserves. This means that banks have an excess of liquidity, which could have been used for more profitable activities.

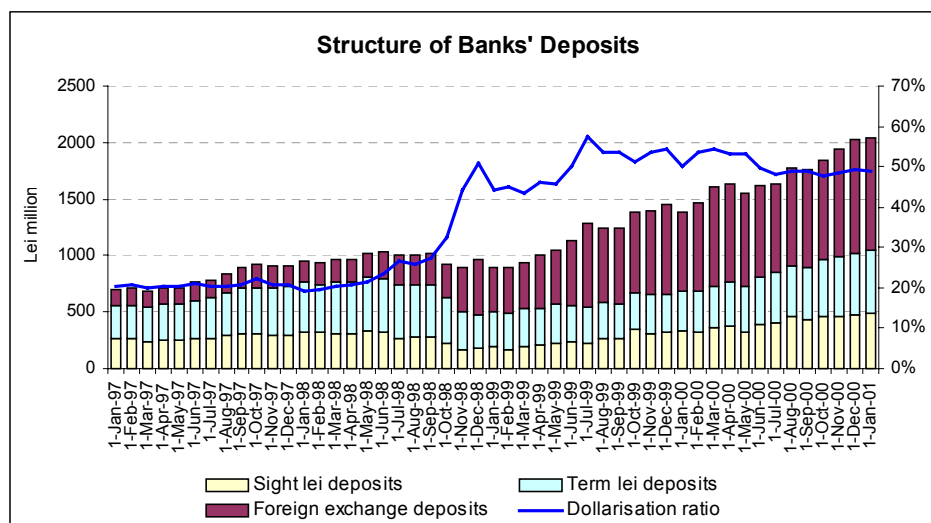
Moreover, in September 2000 the National Bank liberalized the compulsory reserves maintenance procedure. Commercial banks got the right to keep the compulsory reserves on their correspondent accounts with the NBM and to freely use them. Therefore more room for crediting the real sector was created. Before, compulsory reserves were locked in special accounts at the central bank.

Currently, compulsory reserves requirement is 13 percent, from which 2% are kept in cash lei by banks and 11% are kept on their correspondent account with NBM. Earlier in 2000 NBM reduced the reserve requirement from 15% to 13%. Also, NBM cancelled its requirement imposing the banks to hold at least 5% of assets in the form of TBs.

In the Monetary Policy for 2001 NBM plans to gradually reduce the reserve requirement down to 8% of the attracted funds. This will reduce banks' expenses for reserve maintenance, and will direct more credit into the real sector of the economy.



It is good to see that broad money grew in a larger pace than M_0 – this implies a large increase in deposits in the banking system (i.e. by almost 50%, reaching at end-2000 2.04bn lei), which shows the confidence of population and economic agents in leu and in banks. Also, it should be noticed that while increase in foreign exchange deposits during the year was by 44%, lei deposits grew by 52% (term lei deposits increased by 59%), consequently the dollarization ratio of deposits with banks somewhat decreased - from 50.2% to 48.8%. NBM's Monetary Policy for 2001 foresees a further reduction in dollarization level down to 43%, reflecting relative stability of leu's exchange rate and increasing public confidence in the national currency.

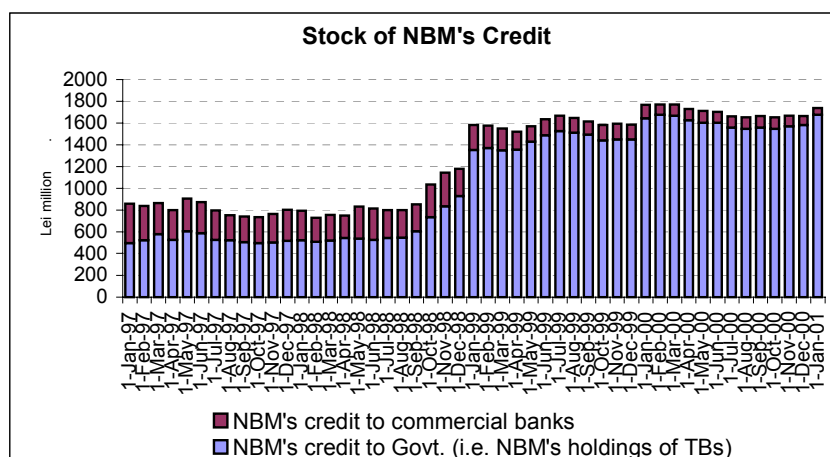


NBM's Credit

According to the Budget Law for 2000 the Ministry of Finance was initially supposed to pay back to the National Bank 256 million lei, out of which about 90 million were already repaid in the first half of the year. However, later in the year, the Budget Law was amended by the Parliament, providing for that in 2000 MoF does not have to repay NBM any debt, i.e. the "zero" variant came into force. Consequently, in December NBM returned to MoF the 90 million lei back.

Therefore, government's debt to NBM, expressed in the stock of NBM's state securities, has remained unchanged on end-year basis - it was equal to 1.68 bn lei at end 1999 and 2000 (excl. NBM's repo transactions with commercial banks).

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 (though NBM may extend loans to the Ministry of Finance to cover temporary cash discrepancy but within the quarterly limits of the monetary program). Moreover, the Government shall reimburse previously extended credits in the amount of 15 million lei. NBM will renew the loans previously extended and collateralized with T-bills within the limits stipulated in the Law on the Budget for 2001 at market rates, setting the maturity for 2002. NBM will also accept in 2001 the further re-issuance by the Ministry of Finance of T-bills, previously transmitted to the National Bank as against credits contracted by the Government during the period 1993 - 1995 in the amount of 360.7 mil MDL with the maximum term of 180 days. The NBM shall convert in T-bills the loans extended to the Government in the amount of 39.3 mil MDL at market interest rate.



The stock of NBM's credit to commercial banks (excl. REPOs) has diminished in 2000 – from 130 million lei at the beginning of the year to 105 million lei at the end, i.e. by 24%. In the absence of refinancing auctions the main instrument of granting loans to commercial banks are open market operations performed by NBM – mostly sale REPOs and direct sales, which exceeded 100 million lei through the year.

According to the NBM's Monetary Policy for 2001 the National Bank will refinance the commercial banks through REPO auctions for a term of up to two months. It should be mentioned that NBM applies the REPO rate as a base rate when it sets the interest rates for the following monetary instruments (introduced in 2001): highest rate - for overnight credits and lowest - for deposits made by the commercial banks at the NBM.

In January 2001 NBM has set the yearly rate on REPO operations at 21%. Other rates set: for the Lombard facility - 26% annually, for overnight credits - 30% annually, for deposits accepted by the National Bank from the commercial banks - 3% annually.

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. It will also, in agreement with the Government, optimize the legal framework in order to stimulate the attraction of credit resources to the real sector of economy.

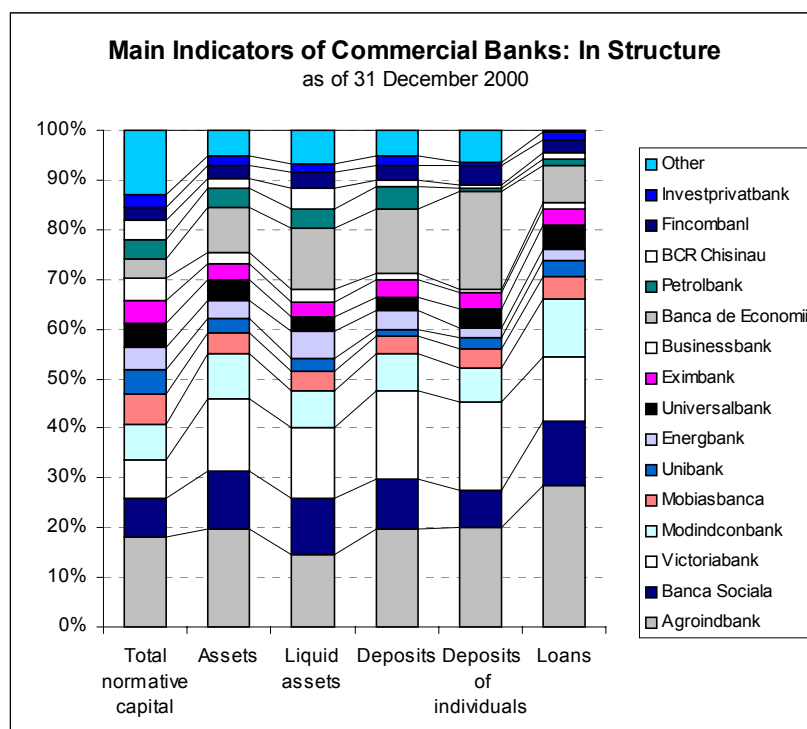
However, it appears that banks have sufficient credit resources and they are not so interested in getting new loans from NBM. There is an excess of liquidity in commercial banking system.

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.

Commercial Banks

Presently there are 20 commercial banks in Moldova, 5 originated from the reorganization of the former state specialized banks, and 15 are new banks. The banking sector is very concentrated with five biggest banks (Moldova-Agroindbank, Victoriabank, Banca Sociala, Moldindconbank and Banca de Economii) accounting for more than 50% of total assets in the system.

The Moldovan banking system's aggregate assets had reached 4.665 billion lei at 1 January 2001 (increased with one-third compared with a year ago). Banks' aggregate normative capital equaled to 1.4 billion lei (an about 60% increase), liquid assets - 1.65 billion (an about 20% increase), and the volume of credits - 2.28 bn lei (increased by one-third), past due loans - 0.34 bn lei.



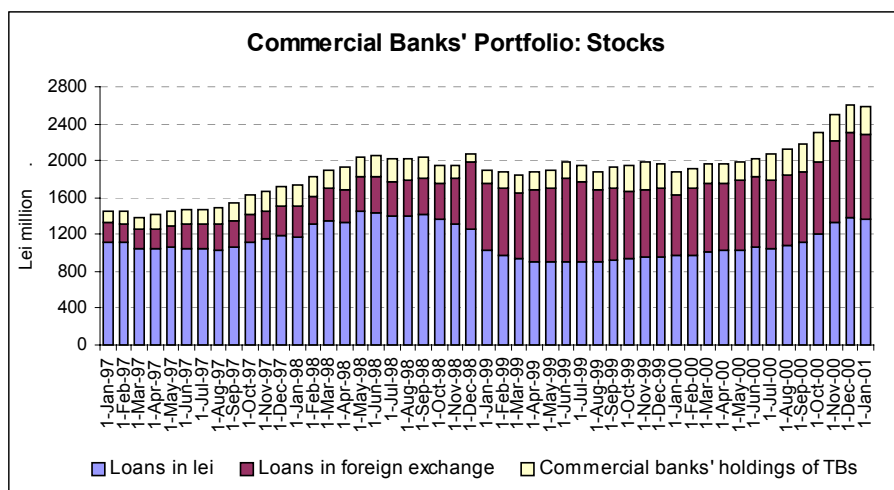
There are several subsidiaries of foreign banks opened and operating in Moldova: BCR – branch Banca Comercială Română (Romania), ICB-Moldova – a branch of Commercial Bank of Greece, BTR-Moldova – a subsidiary of the Banca Turco Română (Romania), and Bankcoop - a branch of Bankcoop Romania. Also, a number of banks have total or partial foreign ownership, among them being: Eximbank, Victoriabank, Investprivatbank, Energbank, Unibank and others.

The evolution of the Moldovan banking system is characterized lately by initiation of merger procedures, a fact not seen in the Moldovan banking practice before. The main reason of this phenomenon is NBM's requirement to continuously increase the normative capital by banks. NBM's minimal capital requirement for commercial banks was from 1 July 2000 - 24m lei for a basic banking license, compared to 16m lei introduced from 1 January 2000. The last minimal capital increase is effective from 1 January 2001 and it is closer to the EU regulations: for a basic license (A type) a bank needs to have 32m lei, i.e. about 2.6 million dollars, for a B type license (allowing operations with foreign exchange) – a doubled capital, i.e. at least 64 million lei, and for a C type license (allowing more operations with securities) – a triple capital is required, i.e. at least 96 million lei.

Some banks started to have difficulties in meeting the imposed requirements in 1999 and especially in 2000. This has spurred the consolidation of the banking sector. The first to announce the intention to merge were the Savings Bank and Municipal Bank "Chişinău", FinComBank and ICB (Moldova), later - Investprivatbank with Moldindconbank.

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 and four of them merged.

NBM's Monetary Policy for 2001 stipulates that NBM shall further conduct the policy of banking system consolidation without resorting to the increase of the minimum capital. It will gradually modify requirements towards the structure of the normative capital with the view to improving the estimation of banks' capitalization level, to improving the information quality and to implementing stipulations of the new Capital Adequacy Framework in conformity with international standards. NBM will also contribute to the development of the market discipline and to the improvement of banking competitiveness through implementation of requirements towards information disclosure by banks. Finally, it will encourage commercial banks towards a qualitative development of internal control systems, reporting procedures and transaction accounting.

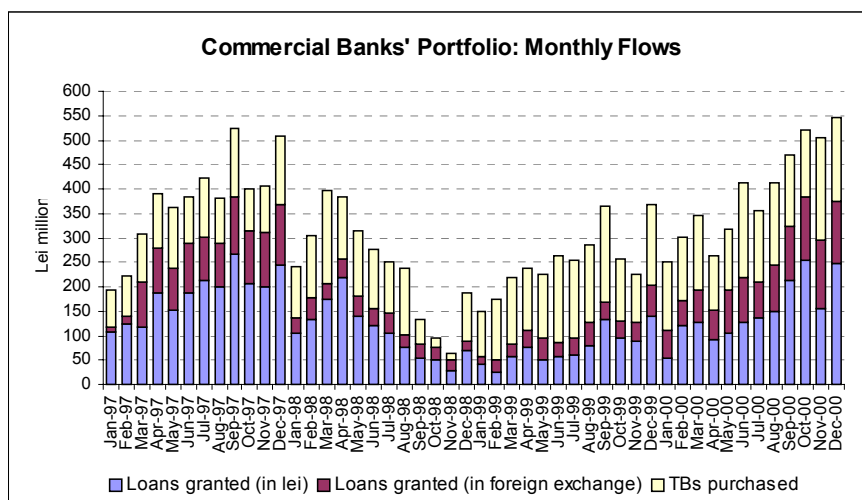


Commercial banks' lending activity was good: in 2000 stock of banks' credits into the economy grew from 1.64 bn lei to 2.3 bn, i.e. by 40% (in 1999 it was almost flat). In structure – about 40% of the stock of granted credits are loans in foreign exchange (i.e. dollarization of credit) and this indicator did not change much during the year (in mid-1999 it reached 50%). As

1. YEAR 2000: MACROECONOMIC TRENDS

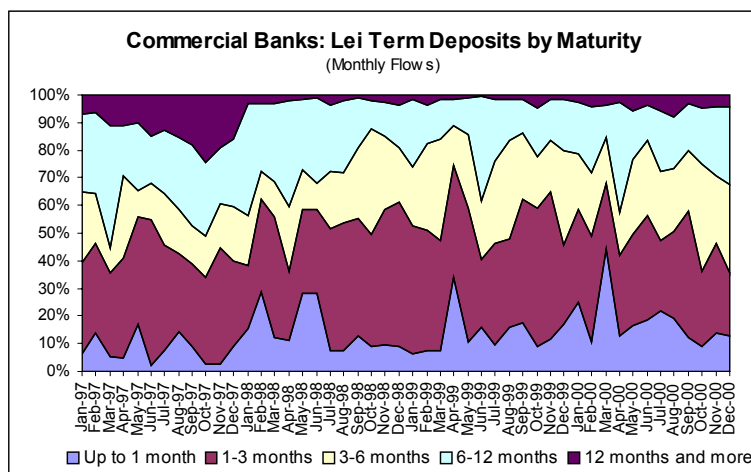
regards the stock of treasury securities in banks' portfolios, it gradually increased from 237 million at end-1999 to 321 million at end-2000.

A more dynamic picture is offered by the monthly flows data for commercial banks' credits. It is clearly seen an increasing trend in banks' loans granted to economic agents: while in January 2000 loans in lei amounted to only 55 million lei (usual seasonality factor), in December this figure topped to 250 million, and in total they were 1.8 bn lei in 2000 (0.9 bn lei in 1999). Similarly, loans granted in foreign exchange jumped from 57 million lei in January to 126 million in December, and in total they were about 1.1 bn lei (0.4 bn in 1999).



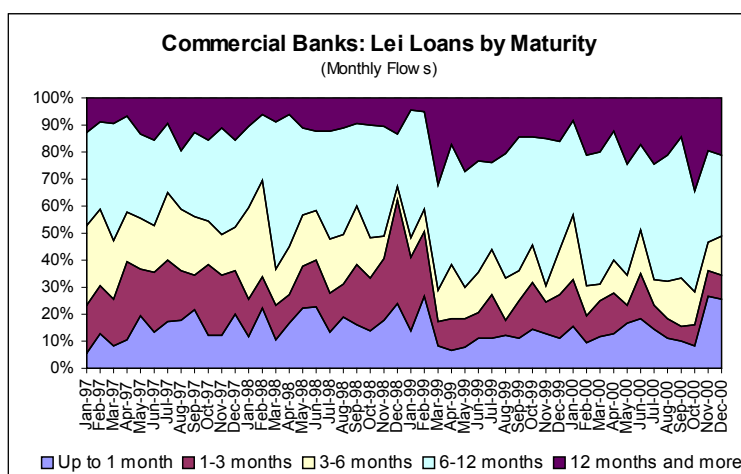
Looking at the maturity structure of deposits with banks and banks' loan portfolios, one could see that in 2000, as well as in 1999, the deposits are mostly short term (95.5% are up to 1 year!), which consequently determines the reduced maturity of the loans granted by banks (79% are up to 1 year). Obviously banks cannot make long-term lending having a short-term deposit base of their clients.

But a good tendency in 2000 was a somewhat broader share of longer term deposits (share of 1-3 month deposits reduced comparing to 1999, while share of deposits with over 6-month maturities grew).



Structure of term lei deposits by maturity (average)

Term:	1999	2000
<1 m.	14.9%	18.3%
1-3 m.	40.2%	31.4%
3-6 m.	25.5%	24.8%
6-12 m.	17.5%	20.9%
>12 m.	1.8%	4.5%



Structure of lei loans by maturity (average)

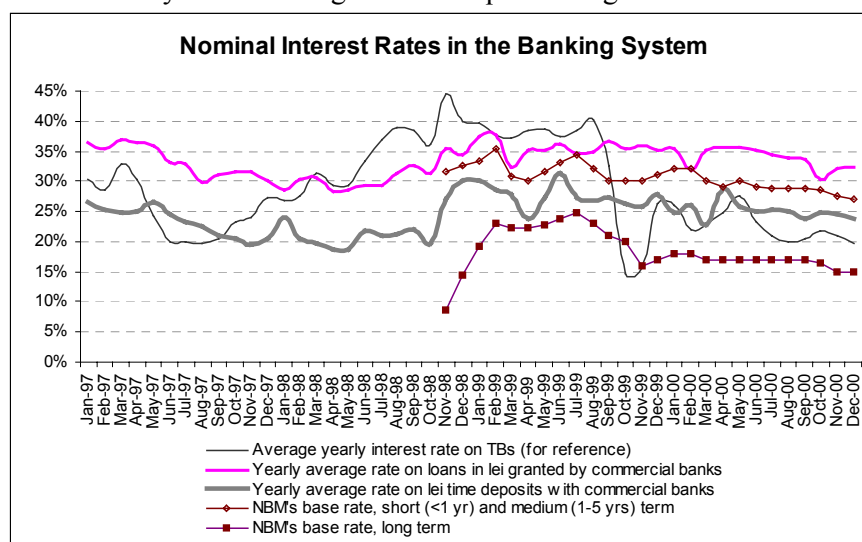
Term:	1999	2000
<1 m.	11.6%	15.3%
1-3 m.	13.6%	9.5%
3-6 m.	13.4%	13.1%
6-12 m.	43.5%	40.8%
>12 m.	17.9%	21.3%

Interest Rates

As it was already noted many times in our previous reports, there is still a problem of availability and cost of credit here, partly resulting from limited competition in the commercial banking sector, which continues to keep the real cost of credit at a high level.

On the other hand, high systemic risk, driven by the weakness of court and legal environment, reduced the incentives for search for profitable lending opportunities.

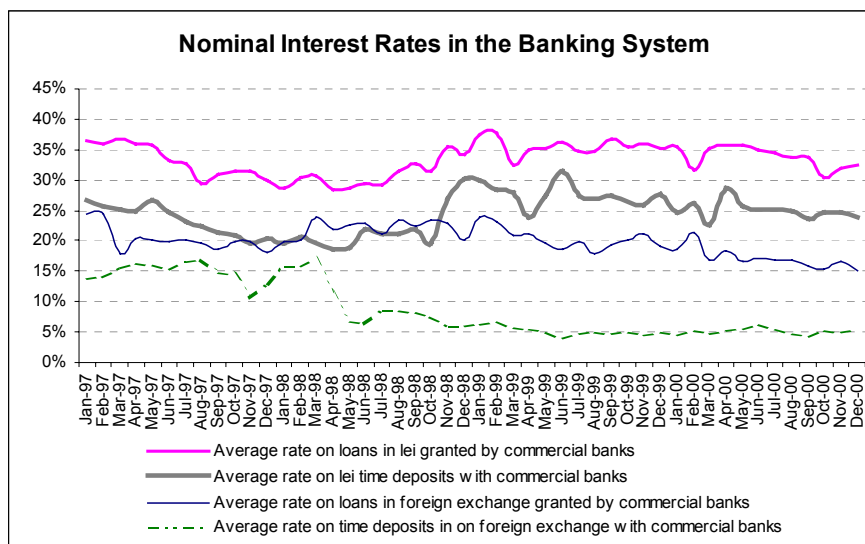
High borrowing requirements of the government combined with low supply of domestic savings led in the recent years to the high interest equilibrating the financial market.



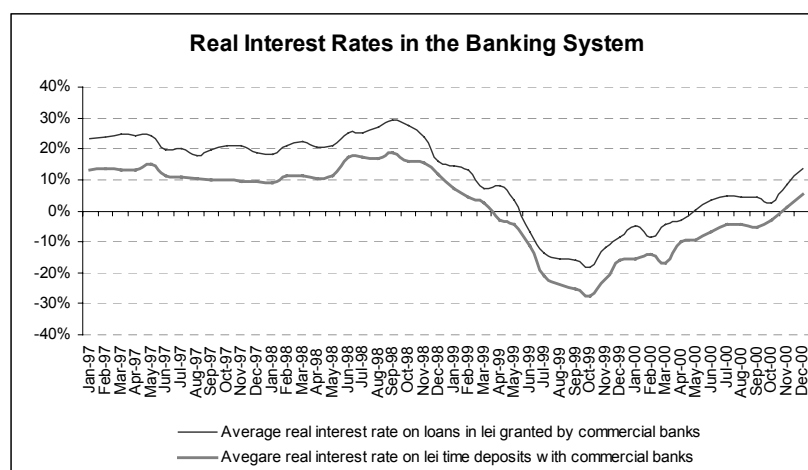
In 2000, similarly with 1999, interest rates on deposits with commercial banks and on banks' loans did not vary much (though a downward trend was observed mainly in Q4 2000). Average nominal interest rate on loans in lei hovered at 30-35% in 2000, while the rate for deposits in lei hovered at 23-26%. Average nominal interest rate on loans in foreign exchange stood at 15-21%, and the rate for deposits in foreign exchange stood at 4-6%.

NBM's base rate was slowly decreasing in 2000: rate for short and medium fell from 32% in January to 27% in December, while short term rate fell from 18% to 15%.

The good thing was that most of the year, as it can be seen on the chart below, the average interest rate on government securities was lower than the average rate on deposits, which imposed on banks a need to find more profitable ways of funding their expenditures (both interest paid to their depositors and operational expenses) than just investing in virtually risk free Treasury Bills.

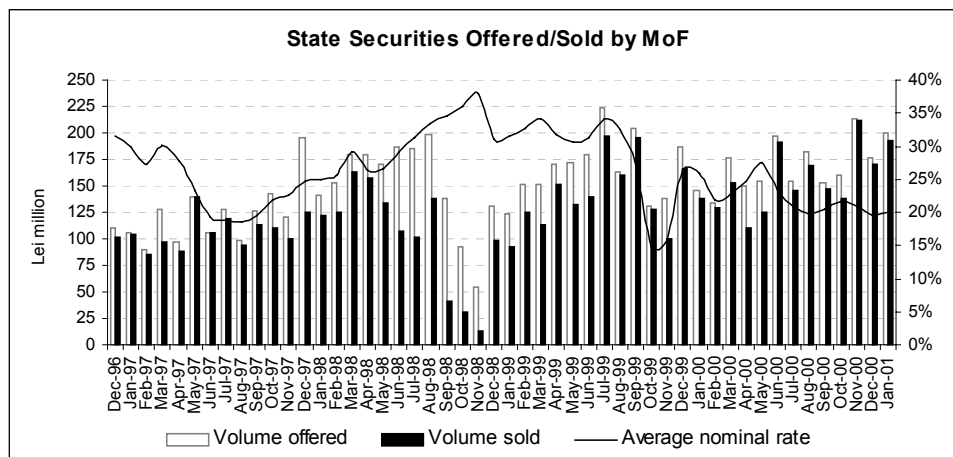


The real interest rate for loans granted in lei was gradually increasing throughout 2000: it was negative in January-April 2000, and positive in the remaining part of the year. At the same time, real interest rate on time deposits in lei was also increasing: it was negative most of the year, and only in November-December it became positive. Speaking on yearly terms, nominal average interest rate on loans in lei granted by commercial banks stood at 33.3% in 2000 (35.5% in 1999), and real interest rate was 2.1%. Nominal average interest rate on lei time deposits with commercial banks stood at 24.8% (27.4% in 1999), and real interest rate was -6.4%. The real interest rates obviously show that commercial banks were not only too cautious, but even made extra profits, gaining both on higher lending rate, and on lower than inflation deposit rate.

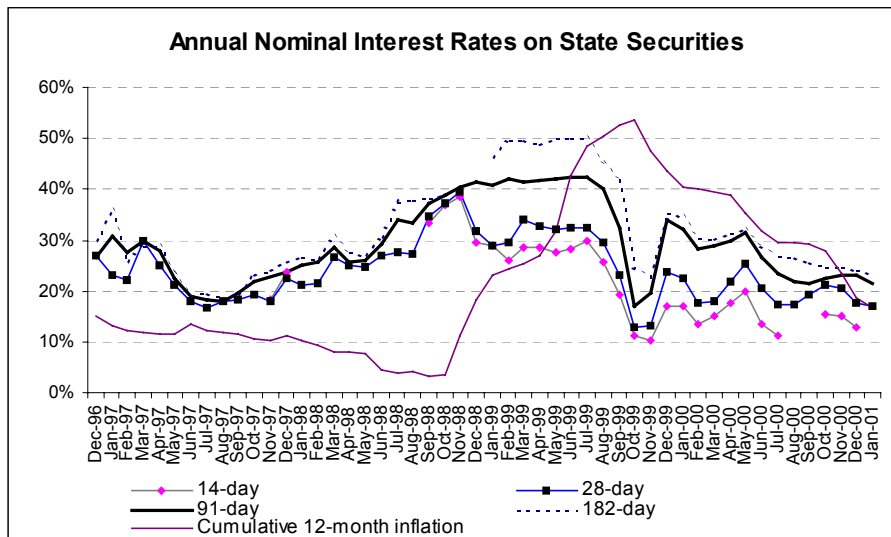


MoF: State Securities Market

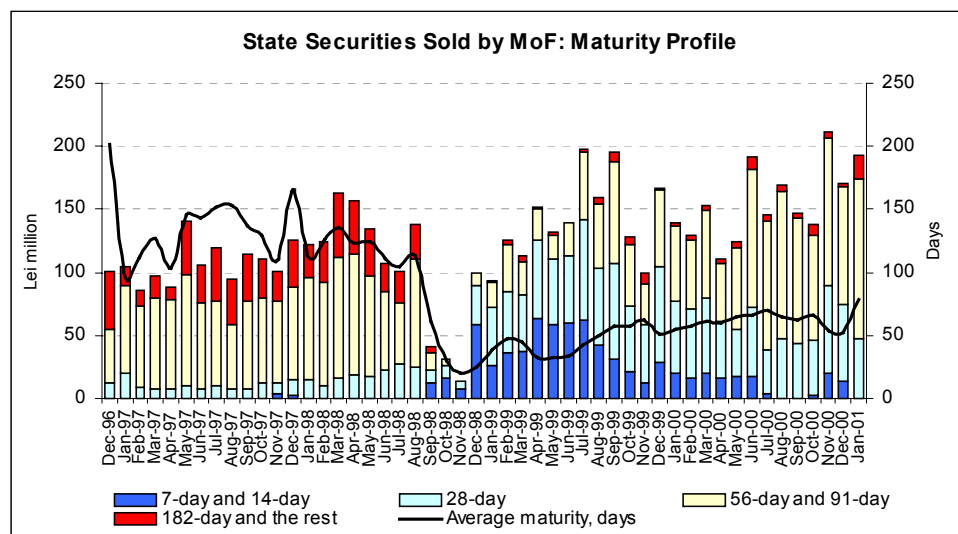
Situation in the state securities market remained stable. Ministry of Finance did not have difficulties in placing the new treasury securities and redeeming those in circulation. In 2000 at the primary auctions at NBM there were offered treasury securities in a total volume of about 2 bn lei, the volume sold being 1.8 bn lei, i.e. on average 140 million lei sold per month (in 1999 were sold securities in the amount of about 1.64 bn lei). Also, in 2000 Ministry of Finance redeemed securities totaling about 1.69 bn lei (net volume was 112 million lei, these funds going into the state budget), while in 1999 were redeemed securities amounting to 1.56 bn lei (net amount being about 80 million lei).



Average interest rate for TBs has been decreasing in 2000: the weighted nominal rate (all maturities) constituted 22.3%, while in 1999 it was 28.9% (in 1998 – 29%). This reduction in interest rates on state securities shows a confidence vote to the government, which managed to maintain the stability on the treasury securities market, i.e. a high demand for TBs, allowing the Ministry of Finance to cut the interest rates, thus reducing the burden of expenditures for servicing the issued securities.



Analyzing the maturity structure of sold state securities, it can be observed a positive tendency of increase in the volume of securities sold with a longer maturity. After the crisis in autumn 1998 treasury securities with a maturity of 182 days and longer could not be put up for sale, except only starting with the spring of 1999. Also, after the above-mentioned crisis, T-bills with a very short maturity (7 and 14 days) were launched and their volume started to rapidly grow, reaching in summer 1999 40% of sold securities. Later on, due to the efforts of government and NBM to stabilize the macroeconomic situation, the volume of short T-bills gradually diminished. After 20 July 1999 there were no more 7-day T-bills sold. Moreover, no 14-day T-bills were sold in January 2001. On 25 April 2000 were launched the 56-day TBs (proved to be in good demand on the market), thus the market segment between 28-day and 91-day securities being covered better.



As for the average maturity in the system, there is a positive tendency of continuous increase of this indicator during 1999-2001. While, before the Russian crisis in 1998 average maturity for all state securities has always been longer than 90 days, already in November 1998 it dropped to 20 days. Later it started to grow constantly, reaching almost 70 days in July 2000.

MoF: State Budget

A highly erratic fiscal performance has contributed significantly to Moldova's economic problems in recent years. Sizeable fiscal deficits were generated by inadequate tax collection and excessive public spending. As a result, public debt has grown significantly.

Total budget revenues have varied considerably from year to year due to a number of factors, including tax evasion, a relatively low tax base, and a revenue stream that is highly dependent on the economic cycle. Expenditures, on the other hand, have tended to increase from year to year, with the result that budget deficits have been extremely large.

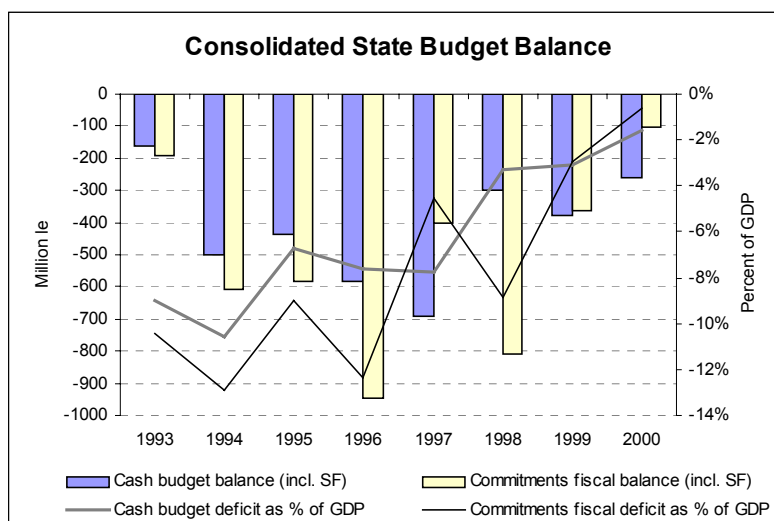
In recent years, the consolidated cash budget deficit, including social fund, was reduced from 7.8% of GDP in 1997, to just 1.6% in 2000.

In 2000 fiscal policy remained tight. Underlying the fiscal tightening was a large reduction of expenditures, including, after years of delay, major efforts to eliminate excess capacity in the relatively sizable health and education sectors, as well as a partial hiring freeze. Most targets set in the Budget Law 2000 were met. Budget execution in 2000 was for revenues - 102%, expenditures - 97%.

Actual figures for consolidated budget (including social fund) are: revenues at 4.9bn lei, expenditures at 5.2bn lei, with a resulting cash deficit of 257m lei, or 1.6% of GDP (3.1% in the previous year).

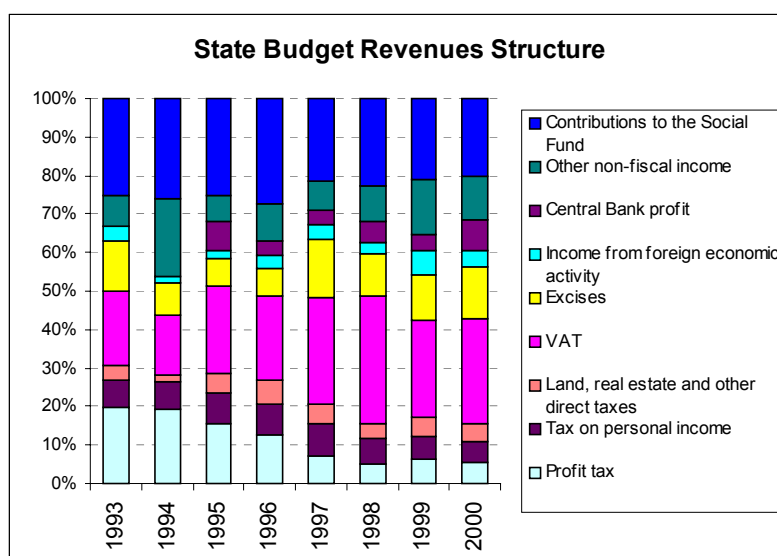
Consolidated State Budget (million lei)

	1993	1994	1995	1996	1997	1998	1999	2000
Revenues (incl. Social Fund)	488	1847	2555	2836	3671	3505	3745	4912
Contributions to the Social Fund	124	474	640	761	729	783	783	994
Expenditures (incl. Social Fund)	652	2347	2993	3418	4363	3805	4124	5169
Social Fund Expenditures	93	452	648	766	1057	912	889	1328
Budget balance (incl. Social Fund), cash	-164	-500	-438	-582	-692	-300	-380	-257
Budget balance, cash, as % of GDP	-9.0%	-10.6%	-6.8%	-7.6%	-7.8%	-3.3%	-3.1%	-1.6%
Change in arrears (+ means increase)	26	110	145	364	-290	510	-17	-325
Budget balance (incl. Social Fund), commitments	-190	-610	-583	-946	-402	-810	-363	-103
Budget balance, comm., as % of GDP	-10.4%	-12.9%	-9.0%	-12.4%	-4.5%	-8.9%	-2.9%	-0.6%

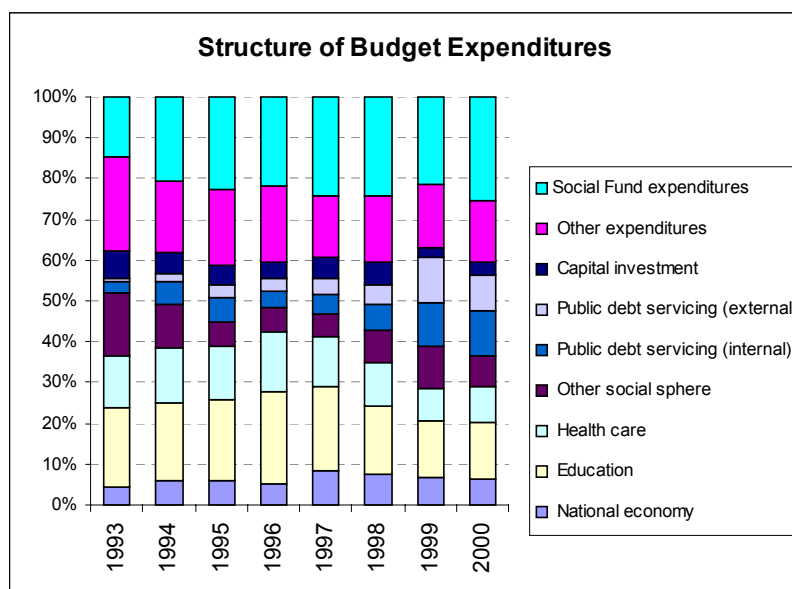


Budget revenues' structure is presented on the chart below – there are no big changes observed, except for a noticeable increase in Central Bank's profit transferred into the MoF account. Absolute figures show an improved tax collection - there was a 20% increase direct taxes collected, and a 44% increase in indirect taxes (growth of VAT collection by 42% and in excises – by 48%). Finally, there was a 35% increase in non-tax revenues, mainly on the account of, as already mentioned, 2.4-fold increase in NBM's profit transfers.

Contributions to the Social Fund have also increased – by 27%.



Budget expenditures' structure is presented on the chart below – there are no big changes observed, except for a noticeable increase in Social Fund Expenditures, reflecting successful payments on pensions and indemnities done by the Government. Absolute figures show that there was a 15% growth in the "national economy" expenditure item, a 17% increase in social sphere expenditures (expenditures for education grew by 25% and for health care – by 38%). Interest payments for debt servicing increased by 13%, mostly on the account of internal debt service. And, as mentioned above, there was a 2-fold increase in Social Fund expenditures.

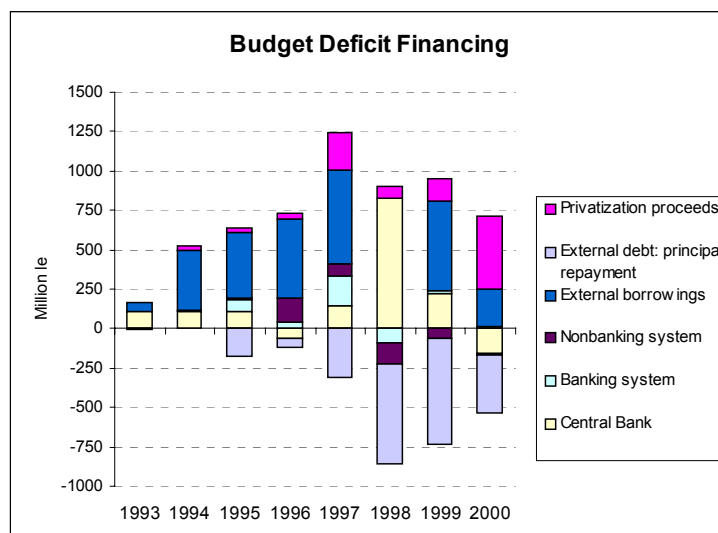


The largest part of deficit financing – about half a billion lei was covered by revenues from privatization (most significant being the amount of \$25m received from Spanish Union Fenosa in Q1 2000). External sources of financing showed a minus 51m lei net, actually meaning that principal repayments were higher than new disbursements (237m lei), but the situation could have been much worse if the \$20m did not come from the World Bank at the end of 2000 (after Moldova prepared the IPRSP and signed the new Memorandum with IMF). As with regards to internal sources, it was also negative in net terms: net financing from NBM was -160m lei

(although net lending from NBM was zero, as mentioned in the section on NBM's credit above, this figure mainly reflects an increase of Government's foreign exchange deposit with NBM from about \$7m at end-1999 to about \$22m by end-2000).

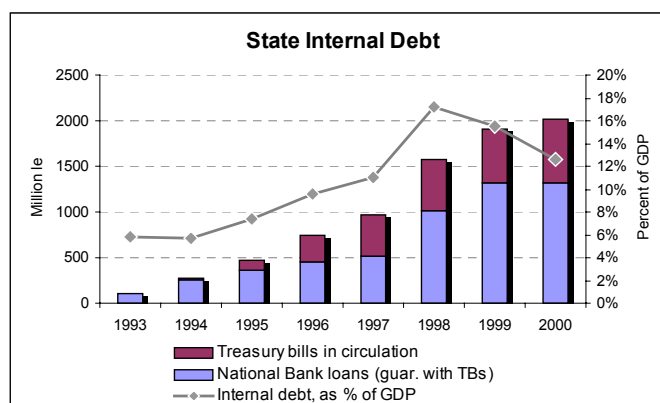
Budget Deficit Financing (million lei)

	1993	1994	1995	1996	1997	1998	1999	2000
Financing of deficit	163	500	437	583	691	300	378	258
Central Bank	110	107	112	-62	142	823	217	-160
Banking system	0	9	69	42	189	-92	26	15
Nonbanking system	0	0	9	151	76	-127	-62	-3
External sources, net	53	384	248	451	284	-304	58	-51
Arrears and debt restructuring	0	0	0	0	0	335	165	81
Privatization proceeds	0	24	24	38	242	77	139	457



Internal Debt

In 2000 state's internal debt grew by 5.8% (in 1999 – by 21.5%) from 1910 million lei to 2022 million lei, mostly on the account of the increased issuance of TBs on primary market. Since GDP has increased, share of internal debt/GDP fell to 12.7% by end-2000.

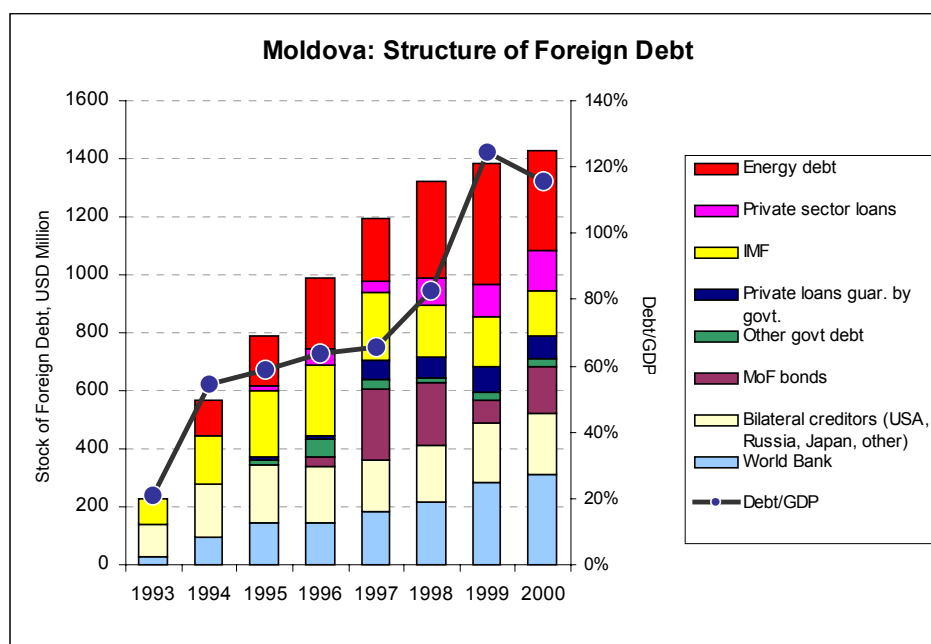


External Debt

Stock of Moldova's total foreign debt at 1 January 2001 has reached about \$1.5bn (116% of GDP), which is only 2% bigger than the previous year level. The said debt figure include: medium and long term loans received by the Government (from IBRD, IDA, EBRD, EU, USA, Russia, Japan and others), IMF loans granted to NBM, MoF's long-term securities issues (in 2000 includes the \$90m bond issue in favor of Russian Gazprom as clearance of energy arrears), loans received by commercial banks and private sector (including government guaranteed), as well as debt for energy resources.

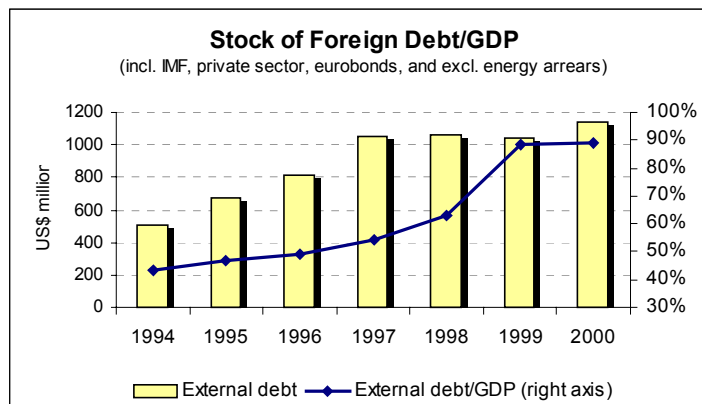
Moldova's External Debt (million USD)

	1993	1994	1995	1996	1997	1998	1999	2000
Total	255.7	630.9	847.4	1062.8	1267.7	1397.3	1454.8	1487.6
Total (excl. private non-guar. and energy)	255.7	506.2	676.4	818.0	1046.6	1064.5	1038.6	1144.1
Direct govt. debt	168.4	343.0	416.9	505.9	710.0	720.5	664.6	770.5
Multilateral creditors (World Bank, EBRD, EU)	59.3	158.4	203.5	221.1	257.0	293.2	355.2	367.2
Bilateral creditors (USA, Russia, Japan, other)	109.1	184.6	198.5	194.2	175.8	195.5	203.7	211.6
MoF bonds				30.0	245.0	215.0	75.0	165.0
Other creditors			15.0	60.6	32.3	16.9	30.7	26.6
Private loans guaranteed by govt.			11.8	12.1	68.4	73.8	86.4	78.4
Multilateral creditors (EBRD)			8.4	0.0	44.5	52.0	65.3	60.3
Other creditors			3.4	12.1	23.9	21.8	21.0	18.1
Other private loans (non-guar. by govt)			17.2	52.3	34.0	93.8	112.2	141.2
Banking sector		0.2	6.0	25.6	11.6	27.7	8.7	6.3
Other sectors		0.1	11.2	26.7	22.4	66.0	103.5	134.9
IMF	87.3	162.9	230.4	247.8	234.1	176.4	175.4	154.1
Energy debt		125.0	171.0	244.8	221.1	332.8	416.2	343.5



According to NBM's data, stock of direct debt of the Government was at 1 January 2001 \$770m, plus \$78 were private sector loans guaranteed by the Government. NBM's debt to IMF was \$154m. Thus, total external debt excluding energy arrears was at 1 January 2001 \$1144m (\$1039m in the previous year), i.e. 89% of the GDP.

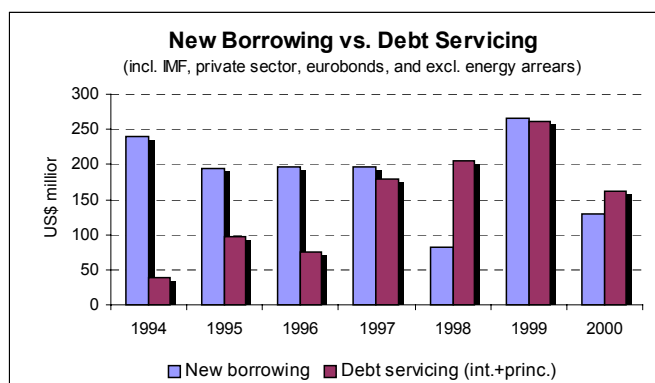
As with most CIS countries, multilateral creditors represent the only feasible source of financing for Moldova. By mid-December IMF's Executive Board has given its final approval of the three-year loan under the new Poverty Reduction and Growth Facility for Moldova (PRGF loans carry an annual interest rate of 0.5% vs. 4.5-5% of the EFF, and are repayable over 10 years with a 5½ year grace period in principal payments) in an amount equivalent to about US\$144 million, and the first tranche amounting to about \$12m was received on the New Year eve.



The final decision by the IMF Executive Board was contingent on a decision by the World Bank Executive Board on December 19, 2000 which concluded that the Government's interim Poverty Reduction and Strategy Paper provides a sound basis for concessional assistance by the World Bank (it disbursed to MoF the last tranche of \$20m from Structural Adjustment Credit - SAC-II arrangement also at end-December). Achieving sustainable economic growth through the implementation of sound financial policies and structural reforms, greater social protection, and policies aimed at human development, as well as an effective strategy to ensure an inclusive participatory process will be important elements of Moldova's poverty reduction strategy.

During January 25-February 5, 2001 another IMF mission was in Moldova, assessing Moldova's performance criteria under the PRGF. Mission concluded that the targets fixed for the end of December 2000 regarding central bank credit to the government, international reserves, budget cash deficit, and wage and pension arrears, have all been observed, thus the next \$12m tranche of the PRGF will be disbursed in the second half of February.

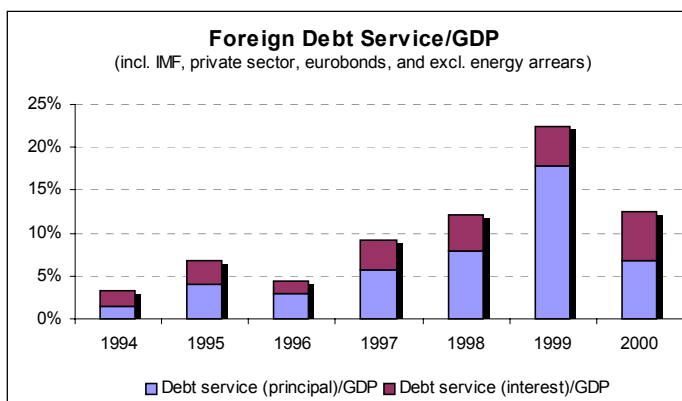
In 2000, Moldova had to repay (interest and principal) over USD 150m to foreign creditors, including private sector. Out of which about \$60m were paid by the Government as debt service (excl. Govt. guaranteed debt), and \$32m were paid by the NBM. Despite the fact that the National Bank had to take over some of the liabilities towards foreign creditors, its foreign reserves did not shrink due to NBM's purchases of foreign currency in the market (gladly, there was an excess of foreign exchange, that could be acquired without disturbing the exchange rate). Moreover, on 29 December the IMF transferred to NBM the first tranche under PRGF amounting to \$12m. Thus, as it was



already mentioned, NBM's total foreign reserves reached \$220m at the end 2000. In 2001 NBM will have to repay about \$23m to the IMF, while the Government will have to service about \$90m to foreign creditors.

All in all, it should be noted that during the year 2000 the government managed to do well in terms of servicing the country's external debt. Among causes of such a good performance were: higher budget revenues, favorable situation in the foreign exchange market (excess of foreign currency driven among others by high remittances of cash foreign currency from residents working abroad), as well as good privatization revenues (mainly from Spanish Union Fenosa, which deposited about \$25m in government's account). The situation got even better by the end of 2000, when after successful negotiations with IMF, the latter agreed to disburse the first tranche of the new PRGF amounting to \$12m, thus showing green light to the foreign community – other IFIs, EU countries, investors. Consequently, the World Bank disbursed the last SAC tranche of \$20m, while the Dutch government provided a \$10m grant. As a result, in December alone Moldova has received about \$40m in hard currency.

Presently, negotiations are under way with the EU on providing the next \$15m loan, successful outcome had the recent IMF mission, agreeing to release the next \$12m of PRGF. However, politics may again jeopardize these bright prospects – IFIs and investors are waiting for the results of the early parliamentary elections to be held on February 25, 2001.



BoP: Current Account

A very important task, especially after the disastrous impact of the Russian crisis in 1998, commonly recognized by both government of Sturza and of Braghis, was a change in the geographical structure of international trade and a switch from historically intensive economic cooperation with the CIS towards western, developed economies. One of the practical steps in this direction is Moldova's admission to the WTO, expected in the near future.

However, the trade deficit reduction was not sustained in 2000 – both trade and current account deficits widened again in 2000. Estimations show that in 2000 current account deficit may be above 8 percent of GDP, comparing to the figure of 3% in 1999. In 2000 imports have started to increase in line with a gradual recovery of incomes, while exports are lagging somewhat because of the impact of the drought on agricultural production.

Balance of Payments: Current Account

	1994	1995	1996	1997	1998	1999	2000e
Current Account balance (USD mil.)	-92	-115	-188	-275	-322	-35	-152
Current Account balance as % of GDP	-7.9%	-8.0%	-11.3%	-14.2%	-19.1%	-3.0%	-11.8%
Trade balance	-54	-55	-252	-348	-388	-128	-310
Export	618	739	823	890	644	469	480
Import	672	794	1075	1238	1032	597	790
Services balance	-46	-96	-64	-52	-73	-23	-19
Income	-16	-29	55	47	41	34	54
Current transfers (net)	24	65	73	77	98	82	123

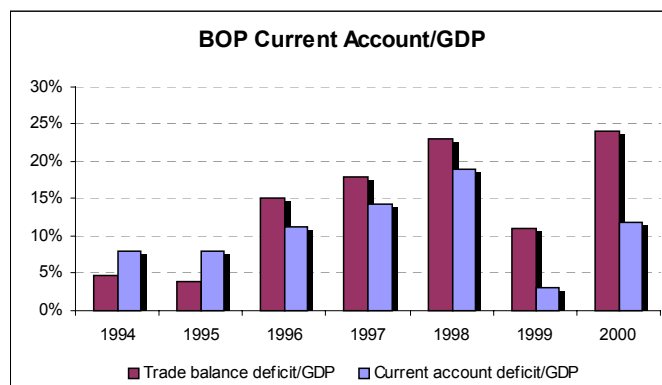
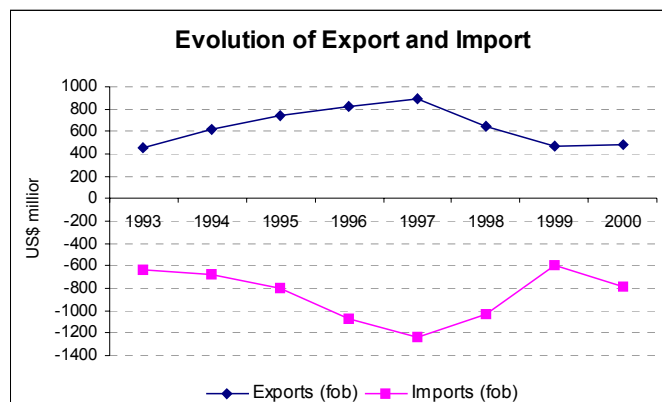
Unfortunately, the country failed to use the opportunity given by the financial crisis in Russia in order to diversify its markets, or at least to revise the assortment of the exported products. As a result, Moldova remains loyal to the traditional ex-Soviets markets, which penetrate the major item of the Moldovan export – agricultural products. At the same time, exports to the EU and CEE markets grew insignificantly after the crisis and comprised mainly the textile items produced from the imported raw materials, nuts and metal waste.

In 2000 Moldova's foreign trade has increased by about 20 percent up to \$1.27 bn, but it was still below the lever registered before the 1998 financial crisis (in 1997 foreign trade volume was \$2.13 bn according to BOP data). According to Ministry of Economy data, trade with the European Union nations rose by 27.3 percent compared with 1999, and by another 18.7 percent with the countries of Central and Eastern Europe, while trade with the former Soviet republics rose by 9.8 percent.

BOP estimates for 2000 show a volume of fob exports of \$480m, i.e. an increase by 2.3% comparing with 1999. Ministry of Economy data indicate that Moldova exported goods and services worth 477.2 million dollars to 76 countries of the world. The primary exports were foodstuffs and beverages, clothes, fats and oils, bottles, instruments and optic equipment, while animal husbandry exports, chemicals, metal scrap and machinery exports reduced.

Same BOP estimates for 2000 show a volume of fob imports of \$790m, i.e. an increase by one third comparing with 1999. Ministry of Economy data indicate that Moldova imported goods and services worth 792.8 million dollars.

Thus, there's a worsening of country's trade balance in 2000 – the deficit expanded to more than \$300m (reaching 24% of GDP - the highest figure ever), comparing to \$128m in 1999. Such a huge deficit could not be offset neither by current transfers and grants, nor by net income (including more than \$100m remittances of Moldovan working abroad), hence current account deficit also increased to about \$150m (12% of GDP), comparing to \$35m in 1999.

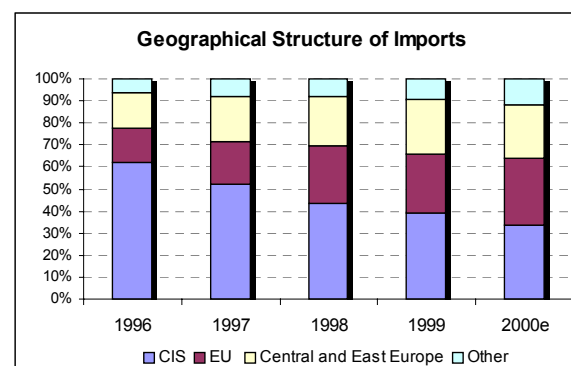
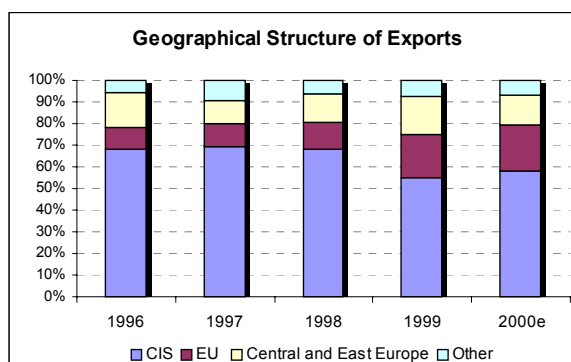


In 2000 the structure of exports noticeably changed for Central and East Europe – exports to this destination decreased, while exports to CIS increased. As in last years, more than half of exports went to CIS countries. Russia traditionally remains Moldova's main trading partner - it accounted for 44% of exports (and 15% of imports). Besides Russia, other biggest trade partners for Moldova are Romania, Italy, Ukraine, Germany, Belarus, USA.

According to official statistics, the main groups of Moldova's exports in 2000 traditionally consisted of beverages (wine exports - \$112.8m, other alcoholic - \$12.5m, juice - \$15.2m), foodstuffs (canned fruits and vegetables - \$4.8m), fruits, vegetables and crops accounted for only \$66.2m (impact of drought), tobacco was exported at \$28.9m, textiles - \$83.7m, machines and equipment - \$25.8m.

In 2000 CIS still remains major import originator, accounting for about one-third of Moldova's imports. Imports from Central and Eastern Europe totaled 24%. For the first time in 2000 Romania topped the list of Moldova's import partners - Moldova imported products worth \$121m, three million dollars more than from Russia, which ranks the second. Thus, Romania accounted for 15.3% of imports, Russia - 14.9%, Ukraine - 13.5%, Germany - 10.4% and USA - 6.1%.

Moldova's energy imports totaled \$262m, i.e. one-third of all imports (natural gas - \$79m and electricity - \$52m). Machines and equipment ranked the second in imports with \$98m, while textiles and clothes - the third with \$77m.



Investment

According to the National Agency on Investments Attraction (ANAI) in 2000 volume of fixed investments of economic agents accounted for 1.5 bn lei or about \$120m. Out of these 67.8% were own investments, 18.2% foreign investments and only 7.8% belonged to state and local budgets. Structure by destination shows that 59.4% were invested in local companies, 36.7% - in joint ventures and 4% - in companies with 100% foreign capital. During the last five years, the volume of state investments in development the real sector of economy has decreased nearly four times: ANAI indicated that the while volume of state investments in 1995 was 132.5 million lei, in 2000 it was 35.9 million lei, and the main cause of this is lack of available funds in the state budget.

In 2000 the total volume of foreign investments in Moldova (stock) was \$415.7 million. The largest investors are: Russia (\$149 million), Great Britain (\$30.8 million), Spain (\$29.6 million), Germany (\$23.5 million) and France (\$22.9 million).

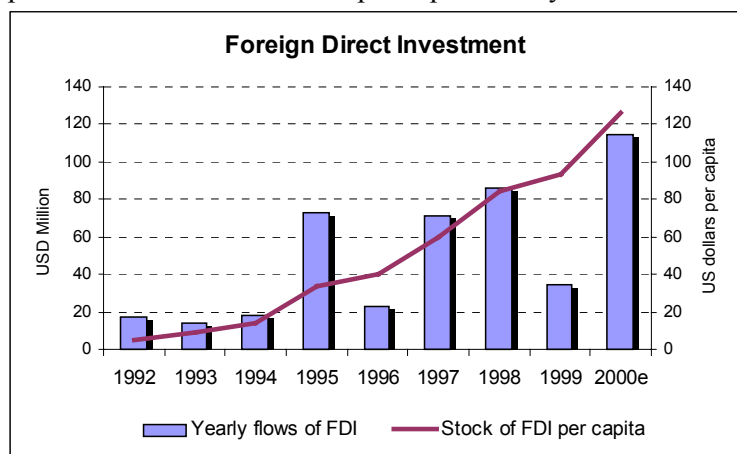
Among the largest foreign investors operating in the country are Union Fenosa of Spain (energy sector), Lafarge Corp. (construction materials), France Telecom (Voxtel - GSM operator), two commercial banks from Romania and Turkey that founded two local banks, the textile group Steilmann, sugar producer Sudzucker from Germany and others.

In 2000, 2050 companies founded with foreign capital participation were registered in Moldova (113 companies more than in 1999). Currently 656 companies with 100% foreign capital are working in Moldova and 1394 - with mixed capital. 71% of companies are involved in retail and wholesale trade, 11% - processing of agricultural and industrial products. The total volume of the statutory capital of local and foreign investors has reached \$572.8 million, out of which foreign investors of 78 countries have invested 58.6%.

Balance of Payments: Foreign Direct Investments

	1994	1995	1996	1997	1998	1999	2000e
Direct Investment, stock, USD mil.	49	122	145	216	302	336	451
FDI stock, as % of GDP	4.2%	8.5%	8.7%	11.2%	17.9%	28.7%	35.1%
FDI stock, per capita, USD	14	34	40	60	84	93	129
Direct Investment, flows, USD mil.	18	73	23	71	86	34	115
FDI flows, as % of GDP	1.5%	5.1%	1.4%	3.7%	5.1%	2.9%	8.9%
Portfolio investment, net, USD mil.	0	0	54	237	-55	-140	94

BOP estimations for 2000 show a highest flow of foreign direct investment into the Moldovan economy – \$115m. However, it is still low compared with other countries of Central and Eastern Europe. In Moldova stock of FDI per capita is only \$129.

**Stock Market**

Foreign investments in the primary stock market of Moldova stood at \$16.8 million in 2000. According data from National Commission for Securities, total number of investment projects is 51, out of which fourteen are in the banking sector. The largest investments are in Voxtel (about 50 million lei), BTR Moldova (72 million lei),

Farmaco (14.9 million lei), BCA Mobiasbanca, Cellular Comunicatii, Ciumai, MEC, Petrom-Moldova and others. Among western investors, invested means in Moldova, seven are registered in Romania, six in USA, five in Germany, five in Turkey and three in France and Russia. On the secondary market: non-residents bought 64.1 million shares valued at 383 million lei, i.e. four times more compared to the last year. At the same time, non-residents sold 20.5 million shares worth 67.6 million lei. The largest deals on buying-selling were deals with shares of electricity distribution (RE-Centru, RED-Chisinau, RED-Sud), "Bucuria" JSC, Tirex-Petrol and others.

Moldovan stock market was more active in 2000 – number of shares traded at Moldovan Stock Exchange (MSE) was 87 million, i.e. one third more than in 1999.

At present, 35 companies are included in the MSE listing. Shares of listed companies are traded only through the MSE. According to current legislation, shares in public companies where the number of shareholders exceeds 300 should also be traded through the MSE. An important step towards the development of the stock market was the foundation of the National Depository, aimed at facilitating clearing operations and hindering illicit over-the-counter operations.

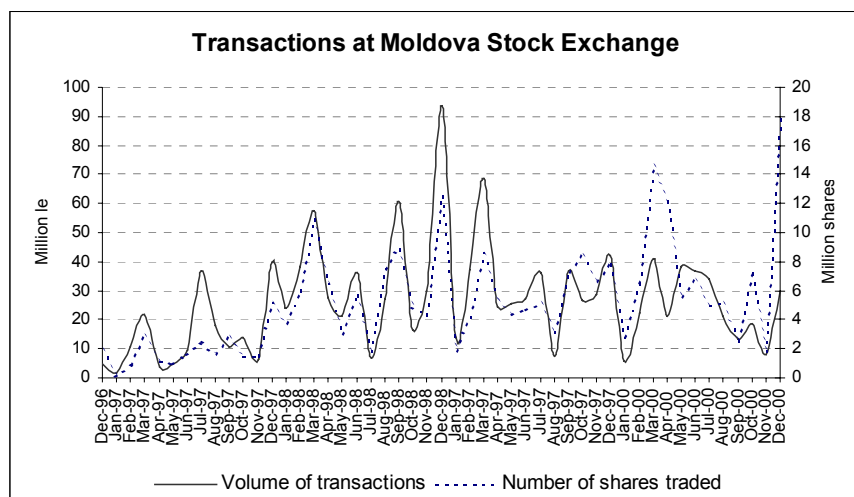
Lion's share of transactions executed at the MSE are primary offerings of companies for privatization, while the secondary market for equities is virtually non-existent.

1. YEAR 2000: MACROECONOMIC TRENDS

Presently, there are 140 professional securities market participants operating in Moldova, including 42 privatization investment funds, 10 trust companies, 25 independent registrars, 8 investment management companies, 1 specialized depository and 54 professional participants (19 out of them are banks). At present, no foreign investment banks or brokerages operate on the market.

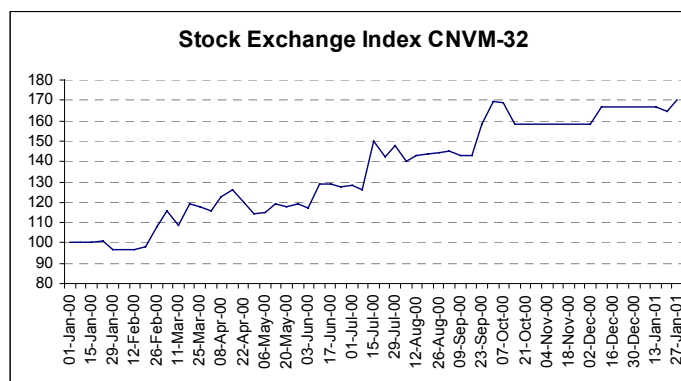
Transactions at Moldova Stock Exchange

	1995	1996	1997	1998	1999	2000
Number of shares	339.6	2226.0	494.7	339.6	2226.0	494.7
Turnover, thous. Lei	3520.6	11468.8	2466.4	3520.6	11468.8	2466.4
Turnover, thous. USD	22446.7	178060.6	38128.6	22446.7	178060.6	38128.6



Starting 1 January 2000 National Securities Commission is calculating a stock exchange composite index (similar to Dow Jones) called CNVM-32, calculated upon transactions of 32 companies' shares. Initially 31 enterprises and one bank were chosen: 58% of companies – food industry and beverages, 19% - light industry, 16% - heavy industry, and 7% - services. Companies need to meet a list of requirements, main being that all transactions with their shares must be made at the Exchange in interactive time. If a company does not trade its shares for more than half a year, then it is excluded from CNVM index.

The index is published weekly starting from 1 July 2000. Initially it equaled 128.33 points, having gradually risen to 166.89 by the end of 2000. At the beginning of December, after almost 2 months of stability, the CNVM-32 exchange index grew up from 158.34 up to 166.89 points, after the National Commission for Securities introduced amendments into the calculation of index, ceasing including into calculation of transactions which cover less than 1% of the company's shares.



All in all, it should be mentioned that the CNVM-32 index is not perfect, and does not always reflect the real situation on the market, however this is the only official stock exchange index Moldova has, and its introduction was very appropriate.

2. IS MOLDOVA READY TO GROW?

The efforts to stabilize the Moldovan economy after the crisis of 1998 have been largely successful. The country avoided international default as current account position radically improved, cooperation with international financial institutions was re-established and a significant primary fiscal surplus was achieved. As a result, the exchange rate was stabilized and inflation substantially reduced. Moreover, several important structural reforms were implemented and privatization of key-industries pursued with much more determination than previously. However, only economic growth would bring real solutions to the persistent problems of external and internal imbalances of the Moldovan economy and would allow the country to face its heavy debt burden in the future. Unfortunately, prospects for sustainable growth remain weak, as the most important issues that constrain private entrepreneurship and investments have not been effectively tackled. These issues include: lack of territorial integrity, ineffective legal system, widespread corruption and rent seeking. It is unlikely that these problems can be solved until the Moldovan parliament assumes full ownership of reform process.

Moldova underwent a major financial crisis that followed promptly after the outbreak of the Russian Crisis in August 1998. Capital flight brought the country to the verge of default, as collapse of the exchange rate put an end of the fragile monetary stabilization and increased abruptly the debt burden, while the real sector was severely affected by the rapid loss of CIS export markets. However, the financial crisis should be seen in the perspective of the proceeding period of a 8-year-long decline in GDP and it cannot be truly overcome without changing fundamental characteristics of the economy.

Table 1. Moldova – basic economic indicators

	1993	1994	1995	1996	1997	1998	1999	2000
Real GDP growth rate	-1.2%	-31.2%	-1.4%	-7.8%	1.6%	-6.5%	-3.1%	1.9%
Annual inflation rate (end of period)	2707.2%	104.6%	23.8%	15.1%	11.1%	18.2%	43.8%	18.5%
Exchange rate, lei/1USD (end of year)	3.64	4.27	4.50	4.65	4.66	8.32	11.59	12.38

Although the determinants of growth and the causes of financial crises belong to the most hotly discussed and controversial issues in the economic literature, economic developments in Moldova are relatively simple to explain. While the initial decline of GDP was related mainly to disintegration of Soviet economic system, very negative changes in the terms of trade (mainly increase of energy prices) and civil war, the prolonged decline was clearly a result of bad policies. The stop-and-go approach to reforms, the development of powerful vested interest groups and political instability prevented the creation of the functioning market economy conducive to growth of private entrepreneurship and investments. Wrong microeconomic incentives, resulting from neglecting structural reforms, proliferation of non-payment culture and corruption, contributed to the slow pace of enterprise restructuring, lack of market orientation, scarcity of new market entries, low level of investments and waste of resources in non-productive or even value-detracting activities. In this situation, sustainable growth simply could not take place.

Microeconomic distortions also had an impact on the macroeconomic policies that clearly were on an unsustainable path. Tight monetary policy was in striking contrast with unsustainable fiscal policy that was driven by the inertia of spending commitments on the expenditure side and by the inability to raise tax revenues on the income side. High deficits led to excessive absorption in the economy that was not met by the supply side response due to the impeded restructuring

process. It fuelled imports and the trade balance steadily deteriorated. Particularly, inefficiencies in the energy sector led to the wastage of imported energy resources. At the same time, capital inflows necessary to finance the budget deficit, combined with domestic restrictive monetary policy, prevented the depreciation of the currency. The ultimate result of the policy mix was the rapid accumulation of external debt and expenditure arrears. The unsustainability of both internal and external position of the state led to the inevitable financial crisis. The turmoil in financial markets that followed the Russian crisis in 1998 was therefore only a trigger that brought the inevitable collapse of the fragile monetary stabilization.

Struggle for short-term stability 1999-2000

The immediate cause for the financial crisis in Moldova was the rapid deterioration in the balance of payment after the outbreak of Russian crisis in August 1998. While the current account imbalances between 1995 and 1997 were coupled with surging capital inflow, both current account and capital account were negatively affected in the second half of 1998. As a consequence of the Russian crisis, Moldova experienced a deep plunge in exports and as other countries in the region – a dramatic outflow of private financing. Moldova did not have a program with the IMF since beginning of 1998, so the situation was further aggravated due to the negative financing from international financial institutions in this year. This dramatic situation and the unsuccessful attempts to maintain the exchange rate led to the substantial loss of international reserves and the increase in external arrears. These tendencies could not be continued in 1999. Accordingly, improvements in the balance of payment were the most important and visible signs of adjustments in the year following the crisis. While adjustments in the current account was spontaneous and did not require the active role of the government – apart from the delayed decision of NBM to float the exchange rate in November 1998 - the government attempts to prevent the collapse of capital account deserve some credit.

The main result of the initial real depreciation of the domestic currency was a sharp reduction of imports leading to a very substantial improvement of the current account. This effect was further strengthened by an increase in transfers (mainly humanitarian aid). As a result current account was reduced to the sustainable level of 2% of GDP¹.

Table 2. Current account as % of GDP

1995	1996	1997	1998	1999	2000-est.
-8.0	-11.1	-14.2	-19.0	-2.0	-7.8

In the year 2000, this adjustment has been somehow reversed as imports surged again due to a moderate nominal and significant real appreciation of the domestic currency. However remittances from Moldovans working abroad and transfers noted unusual highs in 2000, so the impact on the current account was less substantial.

While the situation in the current account improved substantially in 1999, the capital account was subject to further deterioration, as capital continued to flow out of the country. This tendency, however, has been partly offset by two achievements of the government. First, the agreement with the IMF allowed for non-negative net financing from this organization in 1999 and even more importantly paved the way to significant disbursements from other official creditors. Secondly the Moldovan authorities arranged successfully the buy-back operation of 130 mil. USD debt to Russia, that allowed to reduce the debt and debt service significantly. In 2000, the government generated significant capital account surplus, in spite of lack of a program with the IMF through

¹ Jarociński, M. (2000), Moldova in 1995-1999: Macroeconomic and Monetary Consequences of Fiscal Imbalances, CASE, Studies and Analyses, No. 205.

the ambitious program of privatization that together with raising capital standards for the banking system contributed to the rise in the FDIs.

As a result of these actions the overall balance of payment² improved significantly in 1999 and further on in 2000. In 1998, the substantial overall deficit aggravated by payments to IMF forced the sale of a substantial part of foreign reserves (220 mil.) and the accumulation of new arrears in sum of 93 mil. USD (including 111 mil. USD for energy). In 1999 reserves actually increased by 40 mil. USD, although arrears increased further by more than 25 mil. USD (including 83 mil. USD for energy). Although the Russian energy suppliers implicitly accepted the increase in arrears, it posed an extreme risk to Moldovan economy, as the country was experiencing temporary cut-offs in energy supplies. In 2000 the overall balance was actually positive, which forced NBM to buy dollars (51.6 mil. USD) in order to avoid excessive appreciation of domestic currency and allowed for some reduction of external arrears. In 2000 international reserves further increased by 42 mil. USD.

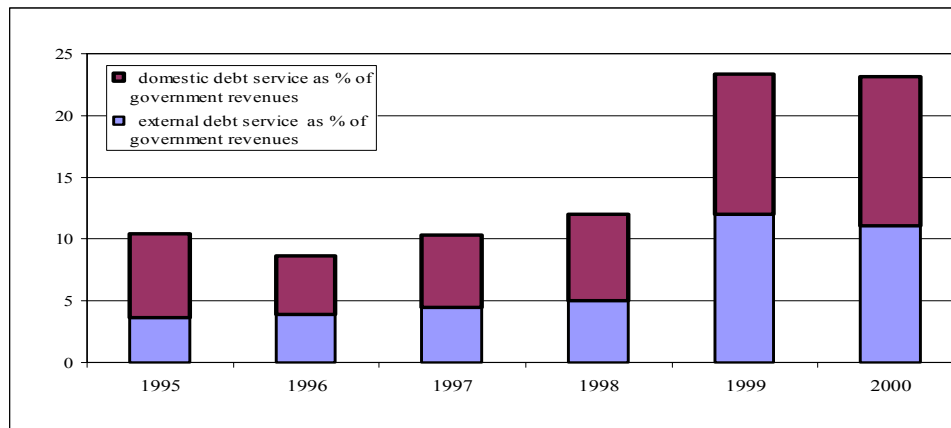
In general, while government policies should be praised for preventing further capital account deterioration in the years 1999 and 2000, the re-emergence of a large trade balance deficit in 2000 calls for attention, as it might contribute to the repetition of the crisis in the future. This consideration is especially important as imports fuel mainly private consumption and therefore do not build up export potential of the Moldovan economy, while FDIs may be much lower if the privatization slows down in the future.

Capital flight in 1998 had major consequences for fiscal policy. The unfavorable situation in international financial markets, which preceded the Russian crisis, made external debt financing of the deficit impossible. Also domestic commercial banks were not willing to provide liquidity to the state budget. As the revenue side of the budget was below expectations, the government had no choice but to introduce a series of ad-hoc expenditure cuts throughout 1998. However, the problem of servicing the internal debt could not be solved this way. In this situation, NBM was forced to extend direct credits to the Ministry of Finance. Such a policy could not be continued, however, as it would lead directly to hyperinflation. Instead, the government had to undertake a dramatic adjustment of its fiscal policy. This adjustment had to be even harsher, as the external indebtedness of GDP almost doubled between 1997 and 1998, due to the depreciation of the domestic currency.

Accordingly, all external interest and amortization payments that the government needed to make required more domestic resources and other expenditures had to be squeezed substantially (or revenues increased) in order to achieve a substantial primary surplus.

However, tax revenues remained very weak in 1999, partly because of crisis, partly because of changing structure of GDP (less consumption and imports implying less revenues from VAT, excise and duties) and partly because of a reduction of non-cash payments. Therefore, almost all the adjustment had to be achieved through the reduction of expenditures. Expenditures cuts initially were of an ad-hoc nature and therefore of rather low efficiency. Only later on, some more planned expenditure rationalization started to be introduced and more systematic attempts were made to increase tax collections. One of marked achievements of these policies was the constraint in the accumulation of arrears.

² Overall balance of payment, as defined here, excludes adjustments in international reserves of national bank, changes in net position against IMF and exceptional financing through restructuring and changes in arrears (items shown "below the line" in the analytical form of balance of payment).

Figure 1. Government interest payments

Source: Ministry of Finance, own calculations, 2000 forecast from GTZ macroeconomic model.

Although a primary (accrual) surplus has been achieved, the acute problem of cash deficit financing remained, as a further increase in external debt was not possible, financial capacities of commercial banks were very weak and the constraint on direct credit from National Bank of Moldova was necessary for containing inflation. There was only one option available and accordingly, the government with unprecedented determination launched a cash privatization process.

The currency crisis in Moldova that of the second half of 1998 forced rapid macroeconomic adjustments that took place in 1999. Lack of foreign financing reduced the current account deficit substantially, similarly the budget deficit had to be decreased, as nobody was willing to finance unviable budgetary expenses. After a sharp depreciation the exchange rate is stable and inflation, although still high, is subsiding. Macroeconomic stability is however still fragile and prospects for growth weak.

Strategy for growth and long-run stability

Internal and external imbalances in the Moldovan economy that led directly to the crisis will not be removed unless there are development dynamics in production that may satisfy expectations of Moldovan consumers. Unless sustainable economic growth is achieved, the aggregated demand is reflected either in current account deficit or inflationary pressures. Real economic growth is also essential for human development and reduction of poverty.

Various answers are offered to the question of causes for depths and length of economic decline in Moldova. Sometimes it is argued that promoting more domestic demand for Moldovan products is necessary for stimulating the growth of production, either through the increase in incomes (more government transfers?) or through import substitution (protection of domestic producers?). Sometimes the lack of profitability of Moldovan firms and an excessive tax burden are underlined (more subsidies? less taxes?). Finally, market allocations are described as inefficient and not allowing for investments in the most productive sectors (more state intervention?). The analysis of the economic developments in Moldova before the 1998 crisis gives allows an assessment of some of these claims. Relatively high domestic demand before 1998 resulted in a growing trade deficit rather than the increase in production, subsidies and lax fiscal policy contributed to the lack of restructuring while attempts to encourage investments through state credit guarantees inevitably led to failures of the supported projects and accumulation of bad debts. Finally, a very significant depreciation of the currency after the Russian crisis did not lead to any significant export growth or major import substitution.

It is argued here that the fundamental weakness of the economic reforms in Moldova was the failure to create an economic situation in which the supply side responds to market demand. This is essential as there is a substantial potential demand for Moldovan products. Most importantly there are very large export possibilities and the country could and should have developed rapidly its export sector, while building on its well-known comparative advantage (cheap and well qualified labor, fertile soils, climate). Because of the small size of the Moldovan economy in comparison to international (and also national) markets, such expansion would not even require the acquisition of large market shares. Yet, there are barely any signs of such an expansion. Although export orientation is far more promising, Moldovan producers should also serve domestic markets more effectively. Still, at the present moment domestic markets are highly penetrated by foreign products even in sectors in which Moldovan producers should specialize (labor intensive agriculture, food and beverages, light industry). This is not only caused by the liberal external trade regime, but by the lack of quality domestic substitutes of foreign goods.

What is therefore absolutely necessary for seizing demand opportunities and bringing economic growth, both in respect to exports and domestic sales, are changes in production patterns and quality adjustments. Producers should simply respond to consumer demand and not be driven by inertia or government influences.

Creating a situation in which producers are willing and able to respond to the market demand through relevant changes in production patterns is the most important task for the government. There are few key directions in this effort.

Firstly, it is essential *to promote profit orientation of enterprises*. This means that economic agents should be reacting to price changes both in internal and international markets. Price changes should in turn signal changing market demand, including changes in preferences towards quality and increasing importance of marketing and advertisements.

The basic requirement for promoting profit orientation is the improvement in corporate governance. This in turn should be achieved foremost through increasing the share of private sector and less state involvement in current economic life. The second requirement for effective profit orientation is the strengthening of the price signal and is strongly linked to a better organization of markets. The most important solutions here include the promotion of wholesale trade, commodity exchanges and struggle against barter, in-kind operations and arrears that diminish price transparency. Another issue involves elimination of internal and external barriers to trade and especially elimination of regional market segmentation. The role of the state in providing the proper market and transport infrastructure is especially important here.

On the intersection of the general effort to restructure and the development of infrastructure is the issue of the energy sector. Until now it is a source of waste and many distortions that have both microeconomic and macroeconomic consequences. The energy sector became the focal point for vested interest, corruption and fraud. For all this reasons the restructuring of the energy sector is on top of the structural reform agenda. The most immediate tasks require the introduction of payment discipline and individualized responsibility for non-compliance. This will most likely lead to the rationalization of energy consumption and gradual elimination of non-cash operations from the economic life in Moldova. In order to introduce these necessary changes, privatization of the energy sector needs to be completed under a well-defined state energy regulatory agency.

Secondly, distortion-induced attractiveness of *non-productive and value detracting activities* should be diminished. Instead, as a result of the search for business opportunities under a proper legal framework, resources should be channeled to the most productive uses.

Currently much resources and especially entrepreneurial energy is wasted in non-productive activities. Most of them are linked to various forms of rent seeking (search for profits artificially created by state induced distortions). The most common distortions include hampering competition through extensive licensing and barriers to entry - which encourages monopolistic

practice - and inducing dependence of economic results on government decisions on unequal treatment of enterprises through subsidies or tax exemptions. These distortions need to be removed through “the hands-off approach” of the government towards current economic life and more actions towards deregulation and demonopolization of markets. Even more dangerous than the attractiveness of rent seeking is a good climate for activities that are on the verge of criminal offence. Weak state structures, corruption and lack of effective law enforcement give rise to actions ranging from smuggling and tax evasion to asset stripping to fraud and racketing. These activities not only divert economic resources from productive activities, but also discourage the development of honest businesses.

Thirdly, adjustments in production patterns would not be possible without ***growth of factors of production***. This requires an increase in investments in physical and human capital and the development of infrastructure. However, the most crucial factor that affects all others is the creation of a stable and credible system that allows confidence of domestic citizens and foreign investors.

The search for business opportunities based on improvements in the production and sales' efficiency requires adjustments and necessary investments. There are two crucial issues that determine the level of actual investments. The most fundamental issues are confidence, stability and protection of investments. Closely related is the issue of financing. For a small open economy like Moldova, foreign direct investments are crucial for the development, as they bring not only capital but also modern technologies, managerial and marketing oriented know-how. Equally important is the effectiveness of the banking system in converting savings into productive investments. It would require a further strictly supervised development of capacities of commercial banks (including building know-how and experience in crediting real sector) and also the reduction of attractiveness of portfolio investments in T-bills. In most of successful transition countries own resources and retained earnings were the major fuel of initial growth. Firms and individuals invested these resources only because an appropriate level of confidence was secured by the state structures. In case of Moldova, these resources either remain idle or are transferred abroad.

Key conditions for building confidence include political stability and most importantly the resolution of the Transnistrian conflict. This is absolutely essential as the lack of territorial integrity and even the slightest possibility of an armed conflict puts under the question mark any serious economic decisions. Other crucial component of building confidence in Moldova is a well-defined strategy towards EU accession with fast progress in implementation of the Partnership and Cooperation Agreement and the accession to the South-East European Stability Pact. Establishing and sticking to the general pro-European development strategy would make all reform efforts irreversible and therefore much more credible. Unless significant progress in this respect is made, the chances for sustainable growth are weak.

From a macroeconomic perspective, the tightness of fiscal policy is essential, as the conservative monetary policy cannot make up for the mistakes in fiscal field and the excessive budget deficit brings inflation, accumulation of foreign debt, crowding-out of private investments or accumulation of budgetary arrears. All of these are detrimental to long lasting economic stability and were at the core of financial crisis in 1998.

Real sector reforms in 1999-2000

The crisis forced the Moldovan authorities to undertake real reforms that were broadly consistent with the development strategy. The critical situation also made the public more likely to accept painful measures necessary to revert the negative tendencies accumulated in recent years. Moreover, the large external debt left the country fully dependent on the co-operation with international organizations, especially the IMF, and therefore more likely to accept their policy

advice. Indeed, the new cabinet of young and liberal reformers voted in March 1999 initiated a more energetic program of reforms and arguably, it was the first government in the office that was truly determined to introduce real reforms. Although this government was forced to resign in the end of 1999 due to the political backfire to the program of privatization of wine and tobacco industries, the new government (to some surprise of local observers) continued consequently the reform efforts. The most focus has been put on the areas, where progress is relatively easiest to achieve, provided that there is a political will or enough external pressure from international organizations. Accordingly, privatization was accelerated and fiscal policies adjusted. Much slower progress has been noted in the institutional and legal basis of the economic life and real restructuring.

The largest achievement of structural reforms in Moldova since 1998 is undoubtedly the ***acceleration in the land reform***. During 1998-2000, significant progress was made in the break-up of large-scale collective farm and privatization of agricultural land. The nationwide phase of the National Program "Land" was launched in March 1998 and the end of 2000 was completed. As a result, 989 large-scale collective farms (96% of total number and 75% of the agricultural land) were broken-up and agricultural land titles for more than one million hectares were distributed to 800 thousand farmers. For the first time since the II World War, farmers can themselves make decisions about the most optimal usage of land, capital and labor. A fast process of land concentration followed. It is very important, that farmers choose leaders on a voluntary and democratic basis with the sole purpose of increase of agricultural production efficiency. So far, farms greater than 100 hectares have been formed on over 69 % of all land distributed in the national land program and farms having more than 500 hectares – 23% of land. Consolidation is proceeding mainly through lease agreements concluded on total land area of 700 thousand hectares. The land market in Moldova is practically still no-existent due to lack of implementation of the regulation, especially the still non-operational national cadastre system (although the work on it is very advanced now). Also the development of market institutions in agriculture, including commodities and wholesale centers, the insurance system and access to the banking system has hardly begun. However, a three-year post-privatization program will be launched on January 1, 2001 with the aim to support and develop mortgage crediting, offer juridical consultations, create about 72 agricultural shops and centers to serve farmers. Success of the development of market-oriented farms will be the most important stimulation to the growth of Moldovan economy, the result is however still difficult to predict as vested interest groups still oppose the free trade of land as well as transparent and liberalized trade in agriculture products.

The second key for economic development in the post-crisis period is the ***acceleration of privatization process***. Since the beginning of the 90s, three privatization programs were adopted and implemented, the first one - for patrimonial bonds - in 1994, the second - mixed privatization for bonds and cash - in 1995-1996, and, finally, privatization for cash exclusively in 1997-1998. All programs were heavily delayed, implemented fragmentally and highly politicized. While state management proved to be very inefficient, the most important weakness in the privatization process largely conducted on non-cash basis was the lack of improvement in corporate governance in the privatized companies. Two thirds of all property for privatization against patrimonial bonds is controlled by investment funds³. On one hand, due to shortcomings of the legislative base, the funds could not control managers. On the other hand, the funds themselves gave in to the temptation of gaining unjustified profits through transfer pricing and asset stripping. In order to stimulate corporate governance more oriented towards shareholder value, the National Security Commission strengthened significantly in 1999 the standards of disclosing information as well as regulation of purchases of the control package. These improvements are however unlikely to

³ Ellerman, D. (1998), Voucher Privatisation with Investment Funds: An Institutional Analysis, World Bank

change the situation considerably. More important changes after 1998 have entailed the full endorsement of cash privatization strategy in case of enterprises remaining in state hands. Accordingly, cash privatizations accelerated significantly, especially in the case of enterprises in key-industries. These enterprises were initially excluded from the privatization process, as the government tried to keep control of them (especially in energy sector), because of strategic considerations. This choice had very negative consequences, as after the rapid accumulation of arrears in recent years, suppliers gained eventually the ownership in Moldovan enterprises through non-transparent debt for equity swaps. It meant that by restraining the privatization in the first place, the government achieved the most dreadful outcome. Moreover, even recent privatizations of natural monopolies do not generate expected revenues as delay caused the gradual decapitation and deterioration of financial condition of enterprises and made them unattractive to foreign investors.

Energy sector. In mid-1999, the long-awaited privatization of the public gas company Moldovagaz took place. Without the announcement of a tender the Russian gas supplier Gazprom took a majority stake in “Moldovagaz” in exchange for reduction of energy arrears. This transaction is highly non-transparent and until now is not fully finalized. It is also uncertain and rather unlikely whether it can improve the functioning and efficiency of the energy sector. Uncontrolled borrowing policy and lack of political decisions of the government in 1992-1998 have resulted therefore in indebtedness and even higher dependence on the Russian trade partners.

Similarly, the privatization of the state fuel company “Tirex-Petrol”, former monopoly, was not proceeding till 1999, as the influential political forces lobbied for crediting of agriculture through the company in the form of fuel. During these years the enterprise has been practically lead to bankruptcy. When in July 1999 the parliament adopted the law On privatization of “Tirex-Petrol”, 51 percents of the state shares in the company were offered to the Romanian party on account of arrears for deliveries. However at the last stage of negotiations it was unexpectedly found out, that “Tirex-Petrol” had accounts payable before German firm “Mabanaft” unknown at the previous stages of negotiation. Finally, “Mabanaft” took over ownership through direct negotiation with the government. This example illustrates not only the quality of the management of privatization process and the uncertainty that foreign investors face while considering investments in Moldova, but also the weak control that the government has over state enterprises.

More encouraging has been the progress achieved in the restructuring of electric energy distribution in years 1999-2000. This is probably the only example of a prepared and consequently implemented (although delayed) privatization project in Moldova. In December 1998 the Law On the Individual Project of Privatization of Energy Sector Enterprises was adopted by the parliament. The former state monopoly “Moldenergo” electric utility was broken into nine separate firms specialized in generation, distribution and transmission activities. The first stage of the project involves privatization of electricity distribution companies, while the second stage involves a simultaneous privatization of the heat and power production plants. In summer 1999, the government of Moldova announced an open international tender for the privatization of the electricity distribution companies. Of the nine companies, which applied for the preliminary selection stage, eight firms were admitted to the main tender stage, but after a resignation of the reformist government in the end of 1999, six firms (world leaders in this area) have withdrawn their applications. In the end only two firms; “Union Fenosa” and “LuganskOblEnergo” participated in tender. At the beginning of 2000 “Union Fenosa” has won the tender on a privatization of three (from five) distributive networks. “Union Fenosa” was also the only company that responded to the tender of remained two distributive networks in the end of 2000, as the trust of investors has not been recovered. The crucial factor of the political instability in undertaking privatization projects is also reflected in the privatization of thermal power stations (CETs). Not a single application has been submitted to the tender commission by the November 2000 deadline. Chances of a privatization of CETs are very uncertain as prospects of new elections

make foreign investors very reluctant to commit to the long-term presence in the country. It is also under question mark, whether privatization of the Chisinau heating supplier S.A. "Termocom" might be completed successfully soon, although the government agreed to forgive the enterprise debts in a move to attract more investors.

The experience is therefore mixed. What is the most important achievement is that new owner of electricity networks increased payment discipline, what allowed for the elimination of single largest distortion from economic life in Moldova. On the other hand this success was achieved by the privatization of the natural monopolist at very favorable conditions. However, this is a price that Moldova has to pay for waiting so long with launching privatization projects. In any case, the bad situation of enterprises and financing needs of the budget leave the government no option, but to privatize.

Wine and tobacco. Wine making and tobacco are two the most prospective branches of Moldovan industry. The lack of real ownership and restructuring put a barrier to their development and this situation has not been changed in 1999 and 2000 due to political controversies and powerful vested interest. In the end of 1999, the reformist government actually has been removed from office and the cooperation with international organizations broken, exactly because of failure to privatize these enterprises⁴. The decision on privatization accepted finally by the parliament in October 2000 does not bring any guarantee that this time the privatization really will take place, as important political groups continue to profit from the current situation.

Telecommunications. Privatization of state enterprise "Moldtelecom" is an extreme example of inefficient management of the privatization process in Moldova. On the one hand, during the last 5 years the governments declared necessity of "Moldtelecom" privatization according to the requirements of the international financial organizations, on the other hand, process of privatization was delayed by all accessible means. Especially since July 1999, after adoption of the law "On individual project of reorganization and privatization of state enterprise Moldtelecom", practically there were no obstacles to the privatization. Delay of the process led to reduction in the market price, as in last two years Moldtelecom practically lost monopoly for long distance calls to internet-phone companies and is not able to respond properly to rapid development of mobile telephone services.

Summary. Although the process of privatization has been significantly accelerated in the period following the crisis, much of work has to be done in the future. At the end of 2000 the privatization neither of leading winemaking and tobacco enterprises, nor "Moldtelecom", nor heating and electricity enterprises, nor heating distribution was carried out. Out of the 1,155 companies included in the privatization program for 1997-1998, only 661 companies have been privatized so far. As a consequence of years of neglect and consequent reduction of market value of enterprises combined with high political instability, it is very difficult to attract investors, even to participation in the privatization of natural monopolies. The key issue during a privatization is the resistance of directors of the privatized enterprises, which are not wishing to lose the control over assets⁵. This is because high level of corruption and incompetence of state ownership allows managers to draw unjustified personal profits at the expense of enterprises. The government therefore has no options: cash privatization is the only realistic solution for improvements in corporate governance and reduction of fraud in state owned enterprises. Moreover, only privatization proceeds might allow for timely service of debt and financing from international organizations is conditional on progress of privatization.

The hard budget constraint and the control of creditors may contribute to better corporate governance and elimination of the non-payment culture. Especially the consequent and efficient

⁴ At the 1999-2000 the fulfillment of privatization program for tobacco and leading winemaking companies becomes one of the main conditions of renewal of the financing of Moldova from the IMF and WB.

⁵ Djankov, S., (1998), Restructuring of Insider-Dominated Firms: A Comparative Analysis, World Bank.

implementation of the **bankruptcy law** mechanisms can ensure financial discipline and development of viable strategies in enterprises.

The first variant of the bankruptcy law was adopted by the parliament at the beginning of 1992. Poor quality of preparation of this law and absence of legal institutions for its implementation has caused practical non-appearance of bankruptcy procedures until the end of 1997. Improvement of the legislation and mechanisms of bankruptcy procedure became therefore a priority for the government and the parliament in 1999 and 2000. The goal was to provide a more efficient and credible legal environment in order to optimize company liquidation procedures and therefore establish the shortest possible legal process, without loss in fairness. Accordingly, the parliament adopted in March 1999 amendments to the bankruptcy law, allowing for the simplification and acceleration of procedures. In early 1999 the government has adopted the decision that committed Ministry of Finance not only to speed up a development of new national standards of book keeping, but also to initiate promptly bankruptcy of the loss making enterprises, whose overdue debts before the state budget exceeded 5 million lei. The same recommendation was given to the Social Fund while power enterprises were committed to initiate bankruptcy of enterprises, having energy debts exceeding 1 million lei. Although over the last three years the economic court declared as insolvent 213 companies (practically none before the end of 1997), the number of actual bankruptcy procedures is much lower than their potential number. Even as the understanding of the necessity to bankrupt enterprises is rising, there are important obstacles to efficient proceedings, including foremost low quality of law and lack of functioning judiciary.

At present, a new variant of the law on bankruptcy is being developed, again with the purpose of establishing firm and simple bankruptcy procedures and extending the powers of state creditors. However, even the prompt approval of the new law will allow streamlining bankruptcies and therefore increasing the financial discipline in the economy, only if the effective judiciary is created.

The efficiency of any bankruptcy procedures implementation depends on the quality of the **judiciary institutions**. However there are only two economic courts in Moldova (Chisinau district economic court and economic court of Republic of Moldova). In spite of their key role and substantial income they generate to the budget, there is also a problem of insufficient financing of these structures. There are only 12 judges within district court and each of them considers annually more than thousand legal cases, which means that it takes years to complete a particular case. The legislation provides also for own law enforcement of economic court decisions, but because of lack of financing this provision is not respected. Only recently has the economic court of Republic of Moldova prepared the draft of the law providing for the creation of two new economic courts (at the north and at the south of Moldova) and the increase of the number of the judges for Chisinau district court up to 16 persons. However the budget for 2001 is not providing funds for these purposes. Unless expenditures on judiciary are strictly prioritized in the budget, the prospects for more effective economic law enforcement are marginal.

As an alternative to the bankruptcy procedures some potentially viable enterprises are undergoing **restructuring process**. The reorganization plans are elaborated and implemented by these companies with the support of the Council of Creditors and ARIA (Agency for Enterprise Restructuring and Assistance). Restructuring and reorganization activities with ARIA technical assistance have achieved some success between 1997 and 2000. However, experts insisted on creation of the new legal rules for the acceleration of restructuring processes. Accordingly, in early 1999 the government has approved the decision "On urgent measures on restructuring and financial improvement of the industrial enterprises". Although many rules of this decision are not executed up to now some improvements in restructuring process with the benefit of participating companies have been reported. This achievement is particularly important as currently over 33 percent of the industrial enterprises currently do not operate or operate in much below capacities, generating losses.

Rule of law and business environment. An effective legal system that protects contracts and property in an enforceable manner is the first condition for development of private entrepreneurship. The Civil Code adopted originally in 1964 does not correspond to the current legal and economic reality, as the law was heavily influenced by communist ideology. By opinion of experts, the Civil Code in present shape lacks roughly one third of necessary norms and concepts in regulating life in the market economy. Parallel functioning of Civil Code stipulations and provisions of recently adopted laws that bring different solutions to the regulations of similar legal relations, creates conflicts and ambiguities in the process of application of the law. Accordingly, the work on creation of new Civil Code began in 1997. In October 2000 under pressure of IMF the parliament passed in the first reading one of the three drafts of the Civil Code. There is some moderate optimism, as the adoption of Civil Code in June 2001 is strictly required by international financial organizations. The further delay could become the large impediment for market development. However, even if the Code will be adopted it remains an open question, how effectively will it be enforced, as the juridical system remains very weak and undercapitalized and law enforcement is impeded by corruption.

Among the main impediments to business developments are often changes of the legislation, including retroactive modifications. During 1998, for example, there were at least four rounds of changes on the rules governing incentives for foreign investors. Investors are also concerned about the policy for removing the incentives that have already been approved. Also at the end of 2000 the parliament has adopted a set of modifications to some laws, according to which the state has the right to demand the cancellation of court decisions on sequestrations of property of public utilities issued since January 1, 1999.

In summary, some progress in building up legislation in line with requirements of the market economy has been achieved. However, frequent changes in laws are introduced in an unsystematic and contradictory way sending the wrong signals to existing and potential investors, for whom stability, consistency and transparency of legal base are very important.⁶ At the same time law enforcement institutions remain very weak.

A **fiscal consolidation** was the crucial component of post-crisis policy adjustment. While it was mainly forced by lack of financing and involved radical cuts in the expenditures, structural reforms in the budget sphere have been necessary to make the program more sustainable.

Work is pending on the new tax code. The chapter on *tax administration* of the Tax Code is planned to be approved in March 2001 and was passed by parliament in the first reading. This law foresees large empowerment of the financial guard, the most effective arm of tax enforcement. It will be invested with special rights to carry out operative and sudden control over the tax compliance, to penetrate into public and private premises, to arrest property, to stop vehicles, to carry out investigations, to use physical force and weapons, to 'implant' agents into any company or enterprise, to carry out independent investigations and to send findings directly to court, not to the police or prosecutor's office. Ministry of Finance managed also to pass through the parliament in the first reading the legislation empowering tax authorities to get from the banks any demanded information on their clients (even classified as commerce secrecy), to suspend the flow of payments from banking accounts, to penalize enterprises, high-ranking executives and individuals. Unless an economic entity has fully discharged their tax liabilities, tax offices will have the right to refuse a certificate allowing opening and maintaining two or more accounts with unrelated banks. Nor will be such entity allowed to close available accounts. These changes, if introduced might increase the efficiency of the tax collections. On the other hand however, they may have negative impact on the development of private companies and a functioning banking system, virtually defenseless against widely corrupted tax officers.

⁶ Moldova. A diagnostic review of the environment for foreign investment. – MIGA, May 1999.

There have been other efforts to introduce a modern tax administration system already taking place in last two years. Important, but only potentially, is the establishment of the Large Taxpayer Unit at the end of 1998, a separate body for monitoring and tracking the major tax-payers - 626 enterprises. The Large Taxpayer Unit is however not operationally effective due to lack of resources and technical assistance, or, as might be argued, because of strong vested interested constraining its operations. Since 1999 tax officers are also more determined to seize the property of tax defaulters. This experience has to be given a mixed assessment: while it increased fiscal discipline, such seizures are highly non-transparent and especially the value of arrested property is determined in an arbitrary way. Moreover, similarly as in case of in-kind payments, Ministry of Finance has a major problem in selling the property. At the same time there is no control over it and it is widely believed to be subject to fraud. Only direct seizures of banking accounts can be seen as radical, but effective way of tax liability collections.

As a result of all these measures and proposals, tax collections in years 1999 and 2000 are believed to be significantly stricter. Available statistics however do not confirm the anecdotal evidence, number of audits, discovered violations and number of imposed payments are all in the decreasing trend – while tax evasion was most likely on the rise in examined years.

Table 3. Struggle against tax evasion

	1997	1998	1999
Number of audits	17,541	15,345	12,103
Number of detected violations	9,233	9003	7,167
Imposed payments (MDL mil.)	290	375	168
Actual payments (MDL mil.)	39	50	50

Source: State Tax Inspectorate.

Only one element of the program of improving tax administration has been undoubtedly successful, that is the elimination of non-cash payments to the budget, that used to contribute heavily to the development of non-payment culture and related distortions in Moldovan economy. As a result of tough conditions, imposed mainly by IMF programs, these transactions have been sharply reduced, especially between budgetary institutions and the energy sector. It should be noted that while revenues to the state budget are recently almost exclusively executed in cash, revenues to local budgets contain a higher share of netting-out. There are also encouraging attempts to reduce in-kind payment to the Social Fund. In this respect, important improvement was that the State Tax Inspectorate took over functions of revenue collections of Social Fund, which increased the efficiency of collection of contributions.

Table 4. Netting-out operations – revenues of consolidated budget

	1998	1999	2000Q3	2000E	2001E
MDL mil.	975.5	350	148.5	187	148.5
Share of revenues	36%	11%	5%	5%	3%

Source: Ministry of Finance

This gradual elimination of netting-out operations will affect positively tax collections and also efficiency of budgetary expenditures in medium period. More profoundly, elimination of netting-out operations attacks the roots of non-payment culture in Moldova and therefore

contributes to a more transparent economic life with diminished opportunities for fraud, tax evasion and rent seeking.

The *new tax code* strives to put together VAT measures that are in force and stop the practice of annual VAT legislation changes through the budget bills. It also aims at the full change towards the destination principle. This issue is complex, as in reality it requires the cooperation with major trade partners. Indeed Moldova and Russia are discussing the draft of a bilateral agreement on collecting indirect taxes on the destination principle. As for now, Russian authorities keep on levying taxes by the origin principle. The situation is particularly troublesome for Moldova in the field of oil-product and gas imports as related revenues are directed exclusively to the Russian budget. The improvement achieved so far in 1999 and 2000 were related to the reduction of VAT exemptions, while granting of new exemptions has been much more rare than in previous years⁷, which contributed to a more equitable and transparent system. Introduction of VAT in agriculture for 5% (20% basic rate) in 1999 is the key achievement. While in 1999 almost all kinds of agricultural produce were still exempted, in the year 2000 the list of exemptions has been substantially shortened. Also producers of bread, milk and dairy have to pay 8 percent of VAT since 1999 and 5% VAT on the imports of gas were also introduced in 2000. Some efforts are however contradictory: for example in late 1999, the Moldovan parliament cancelled the three-year VAT exemption for foreign investors. This decision, though positive for the budget has further deteriorated the image of Moldovan authorities, which illustrates the negative consequences of an incoherent reform strategy.

The Moldovan parliament has passed in the first reading a chapter of the tax code on excise duties. The bill envisages the introduction of the so-called 'excise duty certificate', that should result in more effective taxation of manufacturers of goods subject to excise. A complete switch to the destination principle is also foreseen. Ministry of Finance attempts also to rationalize excise taxes, as it is planned to eliminate excise tax on all goods except tobacco products, alcohol and alcoholic beverages, imported cars and petroleum products. This work is however lagging and the list of excised goods remains long and contains items that are difficult to tax, and that not bring substantial revenues. This reduces the overall efficiency of the tax collection system. Interesting solutions were applied in case of excise on cigarettes. For legalizing cigarette imports Ministry of Finance proposed to decrease tax burden on importers. The experiment gave positive results, at 1 November 2000 budget revenues from cigarettes excise was 107 million lei, therefore twice higher than in the previous year. Before 1999 revenues from this source were marginal as illegal imports practically monopolized the market. By reducing excise rates in the budget for 2001, the government hopes to resolve also the problem of smuggling of oil products. So far the volume of illegal imports is at least as large as official. However the real crack on smuggling and related tax evasion cannot be achieved until Moldova has well-defined, supervised borders with a functioning customs system.

The *new Customs Code*, based on EU standards, was passed to the parliament in July 2000. Introduction of export and import monitoring in correspondence with international nomenclature should provide the basis for improved revenue collections. There also have been investments in fiscal posts in years 1999 and 2000. Further on, a tender to hire an import pre-shipment inspection service has been completed. Although some points of the agreement signed in early 2000 with a selected firm may indeed be seen as problematic (as it is not absolutely clear how activities of pre-shipment inspection should be coordinated with those of regular customs), the new service will undoubtedly increase the efficiency of the system and lead to a decrease in corruption and

⁷ Temporary tax holiday for oil importers in 2000 is one of main exceptions.

smuggling. However in the end of 2000 the implementation phase has been halted by the parliament and the basic reasoning would suggest that it was a result of vested interest pressures.

Notwithstanding some improvements in customs administration, the most important issue of practically transparent external border with Ukraine, especially via Transnistria, remains unresolved. To address the problem, the government established 30 mobile and 17 fixed fiscal posts as a substitute to fully-fledged customs system in April 1999. However, in spite of first encouraging results, the collected revenues remained weak, main reasons being poorly defined responsibilities and insufficient financing of the posts. These imperfections derive from an essential political problem that is a lack of resolution of Transnistrian conflict. Although Transnistria is in practice conducting independent tax and customs policy, Moldovan authorities are reluctant to establish and finance the real border as it could be seen as acknowledgement of Transnistrian independence. As the settlement of territorial dispute is distant, prospects for effective tariff and fiscal policy remain weak.

Definitely the most important reform in this field was *the elimination of large number of non-targeted privileges to the population* and the rationalization of the energy subsidization. In 1999 measures were taken to reduce compensations for heating and energy. More fundamental reform was introduced in the year 2000, when a new law annulled various privileges envisaged in 16 different laws, such as privileges for communal services, energy and transport that cost a budget about 600 million lei annually (that is about 20% of budget revenues in 1999). Instead of these generous privileges for all (and in practice the most privileged population of big cities, especially Chisinau), the parliament passed a separate law on targeted cash compensations available to only few the most vulnerable groups: invalids, disabled children, World War II veterans, pensioners the victims of Soviet-era political repressions and families of victims of Chernobyl disaster. The aggregate figure of such compensations represents just one fifth of costs of the previous privileges and will be available to some 225 thousand people (while the number of pensioners living in this republic exceeds 700 thousand). Cash compensations will be paid directly to beneficiaries and there will be no direct subsidies to energy companies (that were taking place through complex netting-out operations previously). The reform would therefore support the strategy of tackling the poverty through targeted social assistance and at the same time reduce the extent of non-payment culture.

In 1999 *subsidies* to vineyards, dairy and milk production were also eliminated. However, partly as a consequence of draught, partly as a stimulus of land privatization and partly as a result of populism, subsidies to agriculture remain at roughly the same level since 1999, although a reduction with respect to earlier years has been achieved. Elimination of subsidies is important not only for the state budget, but also as a condition for real restructuring of enterprises and elimination of rent seeking.

The Law on *Administrative and Territorial Reform* is effective since January 1999, with the number of local administrations cut from 38 to 11. Further on, the Law on Local Public Finances was submitted to parliament in June 1999 and will be effective since January 2000. The law not only codifies the relations between the central budget and local governments' budgets, set norms for local budget preparation and execution, but also streams towards more financial independence and decentralization, essential for better expenditure targeting. Accordingly, 100% from enterprise income tax and value added tax on goods and services will be retained by local authorities (50% percent recently). This will allow for more discretion of local authorities in deciding on expenditures, while restrictions on borrowings should prevent debt accumulation. As a result of the reform, the local administration employment was reduced by roughly 10 thousand.

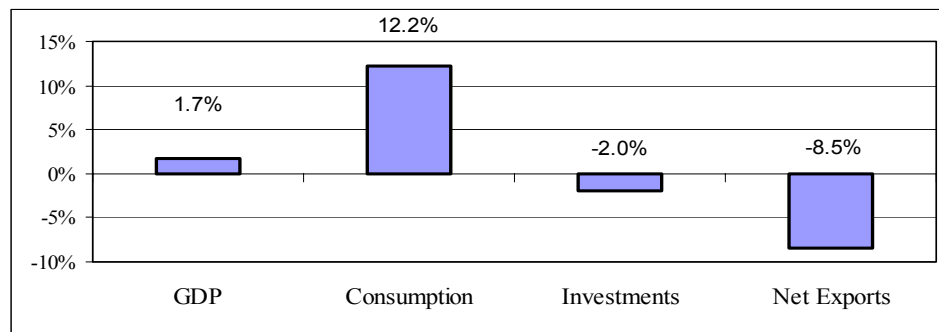
There were also other large cuts in public sector employment in the period following the crisis. It fell from 332 thousand in early 1998 to 309 thousand in 1999 and to 285 thousand in 2000. Some efficiency gains were also achieved. However in order to strengthen state structures

and to increase the quality of public sector services, more systematic changes are required. More specifically, it is necessary to recruit employees only on the base of contracts with precise responsibilities and performance targets allowing for better evaluation and more performance-oriented remuneration.

Conclusions

Some developments in the year 2000 have been seen as a breakthrough and a sign of the end of the economic crisis in Moldova. These developments included foremost the stabilization of macroeconomic situation and the growth in the first half of 2000. Such optimism, however, is only partly justified. The macroeconomic stability is fragile and might be only temporary as heavy debt payments in next years would require even more disciplined financial policies and stronger export orientation of the economy. On the contrary, the growth in first half of 2000 has been driven exclusively by consumption with the subsequent surge in the non-energy and non-investment imports.

Figure 2. Contributions to growth: H1 2000.



Source: Department of Statistics

Exports did not exhibit any significant dynamics while exports to the non-CIS markets were actually diminishing. Dependence on non-reliable Russian markets is therefore increasing again. If the current level of privatization proceeds is not maintained and used for investments rather than consumption, Moldova may face another balance of payment crisis soon.

Our conclusion is therefore of only moderate optimism. Although real reforms undertaken in last two years by the Moldovan governments are conducive to growth, the critical mass has not been reached yet. The most important problems of lack of territorial integrity, ineffective legal system, widespread corruption and rent seeking have not been effectively tackled so far. Yet exactly these fundamental issues will determine the growth prospects of Moldova in the medium perspective. While virtually all structural reforms undertaken in years 1999 and 2000 were driven by pressures of IMF and World Bank⁸, the most fundamental problems can be solved only if the Moldovan parliament assumes the ownership and full responsibility for reforms and building up functioning market economy.

Positive tendencies registered in economy of the Republic of Moldova in 2000 created prerequisites for its further development. One should take into consideration, though, that in 2000 31% increase of incomes of state and consolidated budgets was to a great extent caused by the inflation component that allowed diminishing of wage and pensions arrears. It is expected that in 2001 increase of incomes of the state budget will be of 7%.

⁸ Most of described structural changes have been stipulated as structural conditions for disbursement of funds to Moldova.

Moldova did not use the time after the regional financial crisis of 1998 to a due extent: a radical change of the structure of production and marketing outlets of its products did not happen. Now, when economical advantages unexpectedly obtained after the crisis (considerable devaluation of the Moldovan lei facilitated the raise of the Moldovan produce's competitiveness) are already exhausted and competitiveness of the Moldavian produce decreases again, opinions for protection of domestic producer are being expressed more and more often. Unfortunately, this implies nothing else than cordoning off the domestic producer from sound competition with foreign producers that per se contradicts the logics of market economy.

Today, it becomes more and more obvious that overcoming of depression in the Moldovan economy is not possible without mass investments into advanced technologies and wider entering of the Moldovan producers into stable markets. This task can be realized only through structural reforms, creation of institutional and legislative environment for development of the market economy and making of democratic institutions that, without any doubt, will attract foreign investments and will open new markets. But political stability in the society is necessary to realize such an economical policy.

Unfortunately, one has to state that frequent change of governments, constant anticipation of Constitution amendments, and ferocious fight of political formations created incertitude in the political stability of Moldova. Again, due to the making of the new Parliament and Government, at least half of a year, 2001 this time, will be lost as regards enhancement of interest both local and foreign entrepreneurs in the investment into the country's economy. Fall of the country's rating on international markets, seemingly, will not be stopped. In such a difficult situation leadership of the country will have to make hard decisions.

Incertitude retention regarding economical policy, naturally, will not facilitate real sector development. This incertitude concerns primarily attitude of the new parliamentary majority to the agricultural sector reformation, privatization of wine and tobacco enterprises, enterprises of the energy sector and telecommunications, social sphere reformation. Attitude of international financial organizations to Moldova and, consequently, to its crediting will depend on approaches and methods of these problems' solution. It is known that in 2001 Moldova has to reimburse more than 100 mil USD of the main sum of debt to its foreign creditors (including IMF) and in 2002 – more than 200 mil USD. Furthermore, Moldova has to pay before July 2001 for the consumed natural gas no less than 18 mil USD that was not budgeted. Apparently, Moldova will not be able to meet its obligations without the help of international financial organizations.

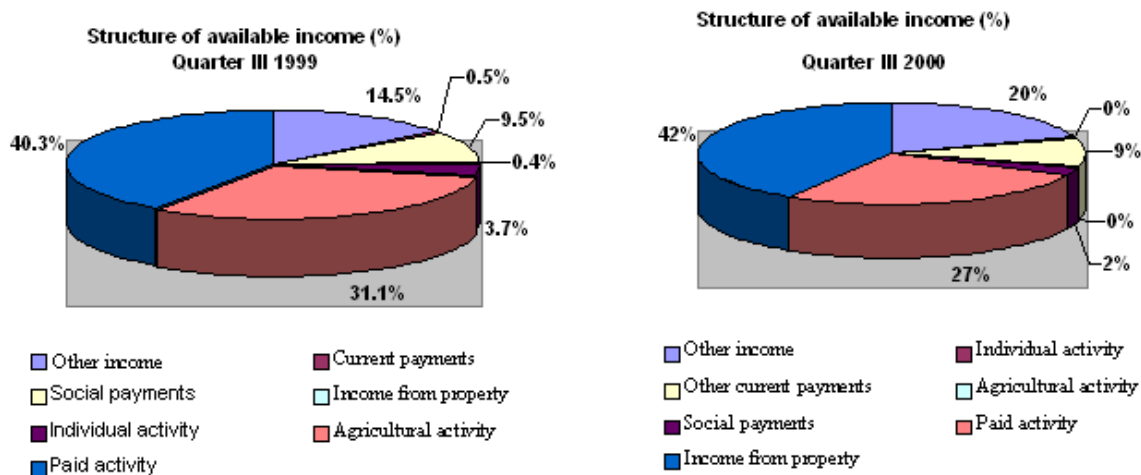
Internal debt increase is also a threat. According to the data at the end of February 2001 quantity of T-Bills in circulation constituted 792, 6 mil MDL that is almost one quarter of the State Budget incomes. To be noted that, according to the Budget Law for the year 2001, the Ministry of Finance can cover, by HVS sales, 136 million lei of the budget deficit. For the first two months quantity of T-Bills in circulation increased for 70 mil MDL that constitutes more than 50% of T-Bills emission for this year.

From all these facts emerges that only clear and determined policy regarding the economy reformation can recover the country from the crisis, enhance its image and attract new partners to collaboration on stable and long-term basis.

3. SOCIAL SECTOR REFORM

The year 2000 for the Republic of Moldova represents a controversy year regarding evolution of both real economy and social sector. The beginning of the year promised nothing glad. The energetic crisis caused by debts for gas, the drought, and low perspectives of economic growth, all these conjured up a continuous decrease of the quality of life of the population of the republic. The critical situation was also aggravated by the instability of the republic legislative, which evidently protracted the process of social sector reforms promotion. The difficulties have been determined by both external and internal factors, by the infection of structural reforms in the social sector.

The most difficult phenomenon during the above-mentioned period was the continuous decrease of the living level of the population, owing to the decreased level of buying capacity of their wages. According to a household budget study in the first half of the year 2000 the real wages of the population continued to decrease. Although, the average income for one person for the first trimester of the year 2000 registered an increase of 40% (from 114 lei in 1999 up to 160 lei), its value was 2% under the inflation level of the same period.



At the same time, during the second half of the year a diametric opposed situation in the evolution of the social –economic processes is observed. Although the progresses regarding the rise of the welfare of the population are not essential, however, they encourage us. During the III trimester the available funds of a person constituted 193.1 monthly, which represent an increase of 35.2% compared with the same period of the last year. Simultaneously, the real income of the population increased with 4.6%.

Another factor, which reflects amelioration of the situation of the population's income, is the rise of the weight of salary in total incomes. Thus, in the III trimester the main formation source of available income became the salary, which constituted about 41.1% of total income, which is 6% more than the same period of the last year. This growth has been determined by a refresh of the activity in the real sector of economy, as well as the executive's policy regarding the formation of income. Not at last this growth is due to the decrease of debts for salaries and pensions.

At the same time, the weight of income from agricultural activity essentially decreased, constituting 27.1%, which determine a partial decrease of non-productive activity of the population, the purpose of which was not only the growth of the welfare of the population, but also crisis situation supervision.

The income policy for the last years has been *volens-nolens* oriented towards continuous discrediting of the role of the salary in the national economy of the Republic of Moldova. The

3. SOCIAL SECTOR REFORM

froze of the average salary at the level of 18 lei (this is not correlated with the minimum level of sub-existing), with the purpose of fighting against inflation processes and consolidation of the national currency, using an unique tariff network of remuneration, not indexed during a couple of years, in budgetary sphere of activity and in some non-budgetary enterprises, profaning state obligations towards budgetary employees by an increase of debts leading to eroding real income of persons, who directly depend on this kind of income, and on the other part to stimulation of some phenomenon, which undermines the state authority in such a perspective like shadow economy, fiscal evasion, corruption, criminality, etc. within the purpose of redressing their financial situation, surviving in this critical period, they emigrate from the country for a long or short period, or leave it definitely.

Within the purpose of redressing the created situation, the Government has promoted a series of concrete measures among which elaboration of new Laws on budgetary employees remuneration, promoting the law on minimum salary. The results of these measures have not been waited for a long time. Thus, the salary for the first category of remuneration grow up to 115 lei, and the tariff salary for some categories of employees from education, medical, cultural, sport, social assistance sectors, increased with 30-50%. Although the increase of the salary for this period is not essential (compared with the minimum consumption basket established at a level of 970 lei), this amelioration of the situation may generate a rehabilitation of the credibility of the population towards authorities. At the same time, the lack of political will may lead to undermining reforms regarding remuneration policy and incomes, and the Government efforts in this area shall have null effect.

The measures undertaken by the Executive led to an increase in the average monthly salary. In January-November 2000 it constituted 388.8 lei and increased compared with the same period of the last year with 33%. The maximum level has been registered in the financial activity – 2262.5 lei, electric power, gas and water – 715.5 lei. Under the average in the republic the employees of agricultural and forestry sector- 216.0 lei, health and social assistance – 219.9 lei, education – 243.0 lei. In November 2000 the average salary constituted 488.9 lei, or 30% more compared with November 1999.

A characteristic phenomenon for the economy of the Republic of Moldova on this stage, which considerably affects the income of the population, represents delay on salaries and social transfers, which late with 1 up to 4-5 months. During the year 2000 the debts for salaries were considerably reduced. Thus, starting with January 1 up to December 1, 2000 the amount of debts for salaries was reduced with 74.3 million lei, inclusively in the budgetary sector – 66.4 million lei, being 477.8 million lei, inclusively budgetary sector up to 177.2 million lei. On December 2000 the salary debts in the education constituted only 38.3, million lei, and in health sector 28.5 million lei. Understanding the importance of this problem, the Government does extremely high efforts in its over fulfillment. During 11 months of the year 2000 there have been paid 11 monthly salaries compared with 6 salaries for the same period of the year 1999. These results give perspective hopes.

Although the evolution of income registered progresses, the differentiation of population after income remains an acute problem. The polarization of the society continues to persist in the second half of the year 2000. Thus, in July – September 2000 the income of the richest part, 20% of the population were 9.5 times higher than those of the poorest part 20% of the population, inclusively for rural population this indexes constituted 7 times. The Gini coefficient, which shows the level of social differentiation, has a stable tendency of growth. In the year 2000 it constituted 0.40, calculated after total income of the population. The differentiation of the population after their incomes is conditioned not only by the diversification of income forms, but also by differentiation of salaries in different branches of the economy of the republic.

The social difference in the rural area is less than in the urban area. This fact is due to relative homogeneity of occupation in the rural area compared with the urban area, and by

diminution of the role of salary in the income formation, by wages in kind and more pronounced elements of in kind economy.

At the same time, differentiation of the income of population by areas (urban-rural) is quite commanding. Thus, in urban areas the average salary is 1.6 times higher than the average in the republic, and the difference between the available income of urban population and rural population in July-September 2000 constituted 65.5 lei. If for urban population the main income source is salary (64.3% from total available incomes), for rural population the main source is the agricultural activity (respectively 45.1%).

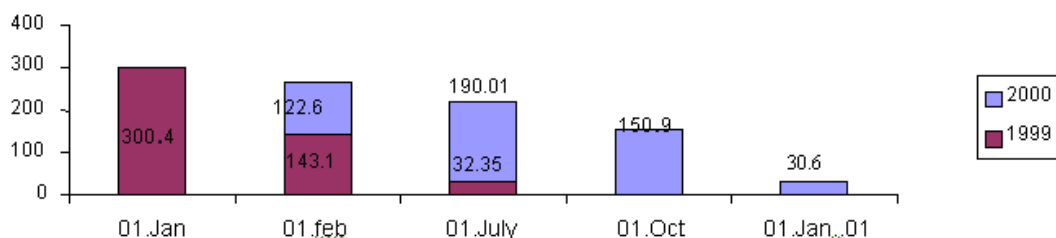
The main priority of social policy of the Republic of Moldova is poverty control. The decrease en mass of population real income during the years of economic transition led to pauperization en mass of the population. Among traditional social affected categories – incomplete families, and families with many children, invalids, retirees, there are such categories as unemployed, persons who work ion agriculture, budgetary sector, where the salaries are extremely low, and can not assure a decent leaving. The poverty has taken an extremely high proportion, thus it may compromise all the social policy components promoted in the country. The created situation represents a real danger for the existent human capital degradation and it is urgent necessary the state to interfere. Tergiversation of these measures, their insufficiency, may lead to an unforeseeable situation regarding social-economic development of the republic, inclusively, transforming the republic of Moldova into a undeveloped country from the third world without perspectives of leaving this situation.

Within the purpose of poverty control and intensification of reforms in the social sector, the government launched in June 2000 “The National Program of Poverty Attenuation”. The main objectives of this program are:

- forming of minimum state social standards system and their implementation;
- reforming social protection system of poor population;
- liquidation and non-admission of debts in payment of salaries, pensions, and indemnities, efficient use of manpower.

Some measures foreseen in this program are successfully realized. Thus the Government partially liquidated the debts from the budgetary sector, pensions, and indemnities. At December 1, 2000 the debts for pension constituted 1.4 monthly pensions, compared with 4.7 pensions in 1997.

Pensions payment debts for the year 2000



At the same time, the Government put great efforts regarding the improving of advantageous conditions for some categories. In the basis of the Law “on special social protection of some categories of population”, approved on April 14, 200, almost 300 thousand persons benefits of nominative compensations. As of December 6, 2000 for July –October there had been transferred the amount of 51 million lei. According to Joint-Stock Commercial bank “Banca de Economii” data there had been paid nominative compensations in amount of 47.3 million lei, which constitutes 93% from the transferred amount. Thus, one of the main parts of the social protection system reform is taking place, and namely implementation of the nominative (address) principle of granting help.

3. SOCIAL SECTOR REFORM

Although, one of the component parts of this reform is successful, some legislative elements for fighting against poverty have not been adopted. It is mentioned the key-law, on the minimum of existence and social guarantee, law, which is on the basis of the institutional frame necessary for fighting against poverty, as well as efficiency of the resources necessary for this purpose. There had been attempts to calculate the minimum of sub-existence. Thus, through the Decision of the Government No. 902, from August 28, 2000 had been adopted the "Regulation on the way of calculating the existence minimum". But, the above-mentioned law has not been adopted yet. The adoption of this Law will contribute to a precise estimation of the poverty level, as well as to the elaboration of some more efficient programs of social protection, adequate to modern conditions, which will grant real social assistance to the population affected by poverty risk.

In general, poverty may be considered as an illness of the society, because it is affected not only by social groups attacked by poverty, but also by those, who will not be considered poor. If not so long ago the poverty was considered only a temporary phenomenon related to social costs of the transition, now it is possible to say that poverty becomes a chronic phenomenon, which requires different measures of fighting against it. Poverty transforming from a temporary phenomenon into a chronic social phenomenon is natural for an economy, which is in transition to the market economy. The market economy itself is based on social differentiation, which supposes poverty. Thus, in economically developed countries, the poverty is at the level of 10-15%. At the same time, the state assures to the poverty risk affected population an adequate social protection, thus this persons can surpass the situation.

In the conditions of a market economy, the problem of fighting against poverty constitutes not only its definitively eradication but also its managing, i.e. its maintaining to such a level that the financial possibilities of the state may really assure a relatively decent living level to poor persons. In the Republic of Moldova the level of poverty is estimated on the level of 80% from the population, and the state through its protection system can not assure real social protection to vulnerable persons.

Fighting against poverty may be realized, first of all, in the conditions of a quick and durable economic growth, which would assure both working places and a real growth of the income of the population. In this context, the Government in collaboration with the World bank and International Monetary Fund have launched "the Strategy of preliminary reducing of poverty and economic growth", for further elaboration of a final strategy, the purpose of which is creating of conditions for attracting foreign investments, stimulation of entrepreneurship. The main principles of the strategy in the domain of social policy are oriented towards: canceling privileges and advantageous conditions, which are not addressed to poor people, monitoring of social programs on insurance of financing social policy actions, establishing priorities among them, revising the system of social assistance and advantageous conditions.

Grounding a strategy of fighting against poverty is a problem of knowledge. In general, it is mentioned the evaluation of size, profile and reason of poverty, of the systems of social protection and possibilities of their perfection, of characteristics and different categories of population behavior particularities (common, demographic, civil social, etc.), of values, habits and mentalities, which generate this behavior, of the economic situation and its capacity of creating and make available necessary resources for improving the living level of the population.

Evaluation of poverty dimensions is a very delicate problem. The poverty level may have higher or lower dimensions depending on the method of evaluation. Choosing a correct method of evaluation, in function of the budgetary possibilities, and the specific of poverty condition the success of the strategy. In its study of poverty evaluation, the World Bank calculates the level of poverty through the weight of persons, who have a consume basket under 40% from the average one, that constitutes 19% of the population.

Estimation of poverty dimensions in the Republic of Moldova is used in "The national Program of Fighting against Poverty", approved in June 2000, has been effected on the basis of household budgets investigations, carries out by the State Department for Statistics (by a technical

support of the World bank). For estimating this social phenomenon, as quantitative indexes, both for the whole population and for every social group, there has been used the “existence minimum” in amount of 233.1 lei. Household budget’s analysis showed that the poverty in the Republic of Moldova grows rapidly: in 1999, 79.3% from the questioned people are under the living minimum (considering the equalizing scale). From those, 65.5 % live in rural milieu, phenomenon explained by the high rate of rural population in the total of republic’s population, and by the risk for rural population to be affected by the poverty more than the urban population. The limited budget’s resources don’t permit to the state to grant social assistance to all persons that live under the sustenance minimum. The state has the responsibility of all poorer people’s social protection, so of persons that are on “the brink of poverty”, established at 30 % from the sustenance minimum, of 70 lei. According to study’s data 21 % of questioned people are on the brink of poverty. Therefore, each fifth republic’s person is in an absolute poverty situation. This type of poverty may be considered for short time (temporary persons’ incapacity to keep their existence). Without an adequate assistance and at the timely moment from the state, it may be transformed in chronicle poverty, namely the appearance of automatic poverty reproduction conditions.

But this estimation can’t be considered exact. The value of existence minimum, as well as of the poverty’s brink is outran and doesn’t correspond to actual economic conditions. Simultaneously, in the poverty phenomenon evaluation has to be considered its complex specific feature that appears in economic, social, behavioral and cultural spheres etc. If the poverty’s economic aspect is reflected directly by the republic’s economic evolution, by the population wages’ level, by the level of differentiation, by the consumption structure, employment rate etc., the social aspect is focused especially on social phenomenon that accompanies the poverty, namely: criminality, drugs, population’s demoralization, analphabetism, morbidity, corruption etc. As regards the psychological aspect the poverty, especially the chronicle poverty, generates abnormal behaviors, characterized by strange social-human values arisen as a result of miserable living. The poor people, auto organizing themselves develop a specific culture, a living stile different from that of the people non-affected by the poverty risk. Finding themselves in the poverty trap make seldom efforts to outrun it. Only the specialized social assistance services (psychological, legal, consulting etc.) can help people to outrun the poverty crisis. All these poverty’s aspects are interrelated conditioning each other.

In this context the government, through the UNDP's technical competition, has initiated a project regarding the organization of population welfare monitoring that supposes the both quantitative and qualitative evaluations (multidimensional) of poverty.

The elaboration of poverty control strategy has an important political element, in the way that implies the political decision of choosing the necessary instruments, whose solving is related to the interests’ harmonizing that meet and confront each other in different strategy points. Moreover, it is necessary political will to conscience the fact that the poverty in the Republic of Moldova, has impressive proportions that can affect the state security, and its controlling have to be one of prior objectives of state activity. Actually, for the social vulnerable groups protection from the poverty risk in the Republic of Moldova, the state takes a lot of measures related to the social protection, a great part of which are inherited from the socialistic economy, that had proposed to the society’s members a generous social assistance. The social protection system offers the following services guarantied by the state:

- pensions’ payment;
- indemnities’ and compensations’ payment for social vulnerable people;
- payment of facilities for certain social categories: for medicaments’ buying, public transport traveling, communal services;
- keeping in hostels old men, invalids and orphans;
- social assistance at home for powerless old men;
- material aids allocation for needy persons.

3. SOCIAL SECTOR REFORM

This social protection model, inherited from the old system, had a political reason, but not economic. As a result it became very expensive and socially unfair, and what is more in the conditions of economic transition.

Thus, in conditions of an impressive reducing of population living level, and as a result, the growth of social protection beneficiaries, concomitantly with the substantial reduction of state financial possibilities so necessary to provide all needs of this social protection system, social protection guarantees are transformed in empty rhetoric, undermining state reputation as a guarantee of population's welfare. The named social protection system may be considered not only inefficient, but also unfair, because the social assistance is granted equally, ignoring the nominative principle (by address), and so the small financial resources are used inefficiently. A great part of transfers are allotted for some merits and not for social protection of social vulnerable groups. As a result, the actual social protection system contributes in some way at the profound of population's social difference, leaving helpless the needy people, and proving an impressive inefficiency as regards the realization of its objectives.

All these show that the actual social protection system doesn't correspond to conditions of transition to market economy. The state has proved that it isn't prepared for the poverty's phenomenon. Above all, its keeping may provoke a bankrupt. Therefore, a thoroughgoing reform in this domain is an urgent objective. It needs an immense state managerial effort, as well as of non-state institutions in the social protection system's reformation, so that it will correspond to the philosophy of a new society in formation, to the new economic system principles.

The first serious step in social protection system's reformation may be considered the pension providing system's reformation, adopted by the Moldova's parliament in December 1998. The law regarding the retirement system's reformation stipulates the passage from the old retirement system, based on the generations solidarity principle, that besides its actual inefficiency, was characterized by high taxes, to a new system, based on the principle of personal contribution of each person to its future pension. New retirement conditions suppose in some measure the liberty of each individual to choose independently the pension's size, having the possibility to participate by their contributions both in the state retirement funds by the compulsory insurance and in private retirement funds by the voluntary insurance, increasing so substantially their pension. The pension size will depend on both the individual contribution's level and the period of taxes' payment in retirement funds, providing to the new retirement system an adequate social equity and contributing to the motivating factor's growth. The retirement system will correspond by its efficiency and equity to the market economy functioning principles.

The new retirement system functioning really may contribute to the amelioration of old population situation. But in case you want that this system functions, it is necessary a period of time in which the retirement fund may accumulate a certain resources amount to be paid for beneficiaries. Consequently, the actual old persons can't benefit by the new retirement system services, because their personal accounts didn't accumulate anything. Depending on this, the new retirement law stipulates a transition period during which will function the both retirement systems, for actual and future pensioners with a growth of the new retirement system's part. The promotion of population pension providing reform continued in the 2000 year, in the first semester of 2000 was elaborated the Rule regarding quotations' calculation and confirmation for pension establishment in the purpose to create a legal medium for pension reformation. Also in the same period was restructured the Social Fund in the National Social Insurance Office.

A controversy situation is noticed on the Moldova's labor market. Indeed, the labor market situation reflects all successes and failures of republic's economic progresses, and the real economic animation was felt on the labor market. Therefore, according to the statistics' data, the number of unemployed people, calculated following the LIO methodology in the 3d semester of 2000 was of 123000 persons, the unemployment rate being of 7.3 %, in comparison with 10.5 % in the first semester of 2000. Simultaneously with the occupational level have increased the real employees' wages.

Although, the labor market of the Republic of Moldova has to be analyzed as a market in formation, for which a lot of its elements don't provide a normal functioning of its mechanism that provokes many lacks of poise. Thus, the registered unemployment rate, of 2 %, is extremely low in comparison with the real unemployment rate of 7.3 %. This fact supposes a serious lack of statistical evidence or an insufficient activity of Labor Offices or it's a specific feature of the republic's economy. A thoroughgoing study proves that the three sides of this phenomenon are present and interrelated. Indeed, the statistics has some problems concerning the unemployment registration. The rate of 2 % indicates only these unemployed people that have applied for labor Offices. In economic crisis conditions when the state can't really help the disposable manpower in the way of providing work places, no much of these disposable people have confidence and appeal to state institutions. As a rule this disposable manpower finds an occupation in the shady sector that has increased in the Republic of Moldova, either practices the self occupation in agriculture or in handicraft. The registered low level of unemployment is made up with a bigger level of latent unemployment.

Although, the low level of registered unemployment is actually an acute problem that the state tries to outrun. Thus grows up the quality of services supplied by Labor Offices and the resources designed for unemployed people's social protection are used for more efficient measures. The quality of labor market's foreseeing made by the Division for Manpower usage so necessary for the elaboration of unemployed people's requalification and the coordination of the manpower supply and demand.

The formation in the republic of the labor market is a hard and for long time process, but the most difficult problem in this case is the manpower adaptation to new market conditions, because a modern labor market needs from the participants a specific behavior for a competing medium, based, first of all, on an individual responsibility, behavior that leads inevitably to a growth of manpower's productivity and quality.

An other problem specific for labor market in the Republic of Moldova is the high level of unemployed young people. According to the manpower's Questionnaire the highest unemployment rate is registered at young people between 19-24 years – 13.2 %. Being unsolicited on the labor market, those, either are involved in the shady sector of the republic's economy or in the underworld, escaping of the state control. The 3d part of those, enough big, leave their home and family and go ahead to look for a job that will provide a decorous wage for keeping up their families, enduring all risks related to this departure. According to the questionnaire's data 153 000 persons are declared left ahead to look for a job, among which 54.3 % are young up to 30 years old.

The lack of competent institutions and adequate experience concerning the social integration of young people, inclusively on labor market, makes an uncertain situation for disposable young people, and sometimes for non-disposable people that are forced to apply for some solutions that run counter to the actual policy of manpower's occupation.

3. SOCIAL SECTOR REFORM

Clearly, in these crisis conditions the state implication in the republic's labor market is necessary. Being a fragile market, even in conditions of macroeconomic stabilization, the labor market needs a permanent assistance from state authorities. The problem that appears in this case is the determination of both the degree and the mechanisms of state's intervention on labor market in formation. The economic transition to market economy imposes to the state the formulation of concepts on manpower's occupation that will correspond entirely to the new economic conditions.

During the last years of transition, state's intervention on the labor market has registered a lot of transformations as regards the elaboration of a new legal and institutional milieu, the promotion of manpower's occupation policy, as well as the remuneration policy. Thus were adopted new completions to the law regarding the manpower's utilization, especially the social protection of unemployed people, a new law regarding the remuneration will be adopted by the new parliament, the Labor Code was improved substantially, being adapted to the market conditions, the activity of institutions from the labor market is perfected continuously. The policy of manpower's occupation has been changed, being improved and rationalized. If in the first years of transition it was orientated to active and expensive measures in the purpose to provide a total manpower's occupation, actually the manpower's occupation policy promotes passive measures that are more efficient in conditions of economic decline.

The policies on the labor market that promote the wages' growth and the decrease of real unemployment may be considered the most efficient and important policies of poverty's control because by these is stimulated the consumption making up the necessary resources for the state redistributing policies, implemented for social-vulnerable groups to control the poverty.

Actually, an efficient way for the realization of occupational policy and wages' growth may be considered the small business' promotion. The small business is the sector in which the majority of population finds a source of existence and of poverty risk's outrunning. At present, in the small business are employed about 700 000 persons. Although this sector has increased essentially, this kind of activity confronts a lot of economic, financial and administrative barriers: the fiscal, the limited access to external market, bureaucracy, corrupted public employees and the lack of managerial experience. The incoherent state policy's promotion concerning this sector stimulates its passing for the shady economy.

The state has to consider the small business development not only as an essential source for the budget, but also for the poverty's control. That's why the small business must be supported by different fiscal and administrative facilities, because in the near future it can be the main source for investments so necessary for the growth of national economy of Republic of Moldova.

So, the year 2000 with all difficulties may be considered as a benefic year for reforms going regarding the social policy in the Republic of Moldova. Nevertheless the obtained successes are only apparent that can be dissipated in case of political forces' and executive institutions' inconsistency in the social reforms' promotion, and the economic transition will last for a long period of time, accumulating new social costs.

4. NEW PHENOMENON: MASSIVE LABOR MIGRATION

Actually, one of important phenomenon that characterized the situation on the labor market of the Republic of Moldova is the international manpower migration. Last years this phenomenon became widespread, being one of more discussed and analyzed phenomenon by mass media, scientific people and decisional factors in the republic.

Actually, the estimations regarding the number of emigrants that look for a job ahead, made by different sources, vary from 120 000 persons (according to manpower questionnaire made by DASS) to 600 000 persons or 1/3 of active population (estimation made by informational and security services), but some independent sources give the number of 800 000 persons. This difference among different estimations motivate the fact that for the young state the Republic of Moldova the international manpower migration is a new phenomenon and the state, hasn't necessary experience to appreciate its size and to promote a coherent policy for its settlement, and to define a clear official position concerning the manpower migration.

The international manpower migration is a widespread phenomenon in the world. Actually the number of migrants in the world counts 130 billions of persons, international institutions try to elaborate different theories and efficient methodologies, in the purpose of its measuring and complex studying, as well as finding real solution to obviate negative aspects of this phenomenon. Peter Stalker – WLO's expert from Geneva, has concluded that from billions of people who circulate annually as tourists, as businessmen or within the framework of governmental agreements, may be mentioned five groups of proper migrants, namely:

1. **Colonists** – people which live in an other country that their own in the purpose to work and to live there permanently.
2. **Persons that leave with a labor contract** – are those that migrate for a determined period of time. This category of migrants includes non-qualified workers or with a weak professional preparation. Also there are included seasonal workers, engaged in agriculture, tourism etc.
3. **Specialists** – persons with high education who are prepared in a country, but of their qualification's results profits an other country. In this category may be included University's staff and students.
4. **Illegal immigrants** – persons which come illegally in a country or whose visas for this country aren't in force.
5. **Persons that asked for asylum and refugees** – persons which leave the country to escape for some dangers.

All these migrants types are characteristic also for the typology of international manpower migration in the Republic of Moldova. The purpose of this research is to determine both the intensity of each type of migration and the causes that generate each type of migration. Although the phenomenon of international manpower migration is considered new for the Republic of Moldova, this affirmation is correct only partially. In the period of centralized economy, the Republic of Moldova being a part of SU was characterized by an intense internal manpower migration. Among the 15 union's republics the Republic of Moldova had the biggest population density, but the economy's structure were more agricultural. As a result, Moldova's labor market was characterized by a excess of manpower supply, that was absorbed via union's services of placing manpower, by "big socialistic construction's building sites". Many migrant people found a job ahead, especially in north regions of the country, with the purpose to have a prestigious professional career or to earn big salaries. The manpower migration within the SU was conditioned by the going away of young people for studies or military service for Soviets Army, from which a part remained to live and to work there were they had done their studies or military service.

4. NEW PHENOMENON: MASSIVE LABOR MIGRATION

With the disintegration of URSS the internal migration became external, changing its intensity and causes. The frontiers between republics didn't limited the migrant fluxes to the East. Quite the contrary, they became more intense, being determined especially by big wages and employment possibilities that were missing at home. The type of migration has changed. From permanent it became temporary or seasonal. However the migration to a permanent residence persists. Therefore, since 1990 till 1998 from the Republic of Moldova to ex-soviets republics have emigrated 252 000 persons. Simultaneously, from these countries in the Republic of Moldova arrived 195400 persons, the balance being negative and counting 56600 persons. The majority emigrated in Russia and Ukraine – 243800 persons or 96.7 % of all migrants in this direction.

An essential factor that facilitates and stimulates the manpower migration to eastern regions, in comparison with western regions is the knowledge by migrants of local language, psychology and traditions.

Simultaneously, the declaration of independence of the Republic of Moldova and the society's liberalization have conditioned the opening of frontiers to European countries. The possibilities of leaving in European countries have changed the manpower migration's geography, reorienting the migration's vector from the Republic of Moldova from the East to the West.

In the eastern direction we may notice a considerable and permanent migration. Therefore between 1990-1996 in eastern countries have left from the republic 69600 persons, but became and remained to live in the republic of Moldova 6700, the migration balance being of 52900 persons. The majority of emigrants left the country for Israel (44300 persons), USA (15700 persons), Germany (12200 persons).

Table 1: Emigration from the Republic of Moldova by destination country
(according to data of Ministry of Internal Affairs of the RM), persons

	1985	1990	1995	1996	1997	1998
<i>Emigrants from the Republic of Moldova</i>	533	16776	5432	4720	5503	4783
From which:						
Australia	-	48	43	33	8	6
Bulgaria	-	-	3	8	42	45
Canada	-	178	47	48	61	32
Germany	293	634	1625	1286	2419	1406
Greece	-	3	5	1	3	2
Israel	193	15230	2266	1762	1193	784
Poland	-	1	11	8	13	6
Romania	9	2	7	8	28	15
USA	8	672	1379	1482	1314	1350
Other countries	30	8	46	84	422	1137

Source: DASS

Generally, the actual international migration may be defined as an oscillating change of place of manpower between the residence (the own country) and the working place (hosting country). The first is characterized by a low level of economical development, with a high rate of young people and active population, the lack of possibilities to use the local disposable manpower, the lack of investments and so of creating new working places. In consequence, the necessary and sufficient condition for the existence of migration process is: to have in a country a "disposable" quantity of manpower, in an other country to exist economical entities which need manpower, and that this manpower shall be disposed to leave for these working places.

All these conditions are characteristic for the Republic of Moldova. During 10 years of transition the human resources didn't decrease, but the excess of the supply of manpower increase substantially as a result of dismissals en masse due to privatization process and economical crisis. There don't exist prospects of absorption of this excess of manpower supply by the national economy. However the official rate of unemployment oscillate around 2 % - a extremely low level for an economy in crisis. Neither the figure 11.5 % - the best level of unemployment rate officially declared shouldn't correlate with the economical decline during 10 years estimated since 1990 as 66 %. In consequence a main part of disposable manpower that isn't in evidence, earns its sources of existence in shady sector of the economy, or leaves ahead to look for a job.

Among the most notable phenomenon within the actual process of manpower migration from the Republic of Moldova may be mentioned:

- a) Rapid migration of high qualified specialists, both from developed countries and from undeveloped countries, as a result of unemployment, with adequate consequences.
- b) Extension of surreptitious migration.

International migration of high-qualified manpower – actual specific feature of manpower, known as “brain drain” – invokes from the start a loss of intellectual capital. The Republic of Moldova inherited from the socialistic period a good human potential as for quality. More, during economical transition its development possibilities have increased, by opening more private institutions of high and medium education. Actually in these institutions are studying around 79 000 of students from which every 8th finds a job within the country. Moreover, a part of students are studying in Romania. They can't find an attractive job for their professional realization and leave ahead for good and all. We have to mention that leave ahead the best specialists. Therefore, the Republic of Moldova gradually become a high qualified manpower supplier for other countries to the prejudice of itself.

In these conditions, we may notice a degradation of manpower of the Republic of Moldova, due to other phenomenon as corruption in education, mediocrity's promotion, the lack of requirements for the quality of professionals' preparation etc.

In conditions when the qualified manpower can't practice at home and the republic's economy can't find an adequate use and remuneration, this “loss of human capital“ may be explained. The human resources like the capital have the property to loose value, needing permanent investments for its liquidation. Investments for human resources are materialized in different measures of qualification's improvement, studies, but not at last the manpower's utilization in the direction of its specialization. If the manpower is not used it loose the qualification. Therefore qualified manpower's migration may be considered simultaneously as a keeping of its qualification.

The phenomenon of “brain drain” is widespread in republic, being stimulated by young people's frame of mind that don't bound up their future with the Republic of Moldova. This lack of patriotism at young peoples is caused not only by the economical crisis but also by frequent political crisis and by indifferent attitude of authorities given this problem, which come at power only to solve their personal problems and not the society's needs. Human resources' degradation cause considerable and dangerous lack of poise to actual transition, economical growth, and country's future, that's why the problem of “brain drain” shouldn't be ignored by authorities. The lack of concrete measures on state behalf regarding the “brain drain” considerably minimizes the chances of crisis way out.

Manpower's emigration is possible among persons that have a job within the country as a result of national wages' differences. In industrially undeveloped countries, based on low salaries, the employees migrate to developed countries where the wages are lower that the average wages of local employees but upper that those in their own country. The economical crisis in the Republic of Moldova has caused a considerable decreasing of real wages, therefore in the rating of both European countries and CIS countries, Moldova's salaries are on the last place. Often with these wages people can't provide their necessary minimum of physiological

existence. Low salaries and no chances for their increasing are also a reason for international manpower migration from the republic.

In the purpose to determine the international manpower's migration we have to examine this from two points of view: an individual approach (a point of view of an individual) and a structural approach (a point of view of emigrants which are a social category).

The individual approach examine each emigrant as an individual with a rational behavior that evaluate possible employment and unemployment situations at home and ahead, and choose the optimal combination – the wage's level, taxes, employment chances and professional performance, transport cost etc. This is called "human resources" consideration because every individual decision to emigrate is considered as an investment in human resources. Taking this decision, the individual compare both the moral and material costs of emigration (investment's size) and the benefits that he may earn following this migration (difference between salaries, welfare increasing, moral satisfaction, professional performance etc.).

The structural approach examines the emigrants' destiny characterized by circumstances that they endure. Everybody emigrate within some social, economical and political structures that lead their life. The structural explanation includes the people who are constrained by some liberties, for example, or without a job.

One of relevant examples of fusion of these two approaches is illustrated by the network migration – where the old migrants help the following to look for and to find a job. These networks often began with an individual choice. When the individual had success that encourage the migration. Similar examples we have in the majority of republic's regions that are specialized by different countries. In case when a person, braver and more tenacious had a success in looking for a job ahead, at his next departure his countrymen accompany him.

A negative aspect of manpower migration specific for the Republic of Moldova may be considered the manpower disqualification. As a rule, the majority of persons that emigrate to look for a job, being good professionals, are hired for seasonal works, non qualified. These persons, working enough time at these jobs, loose their qualification. From 11 000 of teachers which have abandoned their jobs based on lower salaries and on late salaries' payment, a big part of them works ahead at non qualified labors. Few of these persons will come back to schools. Same cases may be mentioned among doctors, engineers, scientific researchers and other professional categories, which need big investments for their professional preparation.

The ignorance of this phenomenon by decisional factors may bring to an intellectual crisis, whose outrunning will need a bigger period of time, that the economical growth in republic.

An alarming aspect related to the international manpower migration is the extension of surreptitious migration. A lot of persons that leave ahead to look for a job, as a rule, leave illegally, by means of tourist visas. Being hired, these persons make up the double nature labor market in the hosting countries, stimulating in these countries the developing of shady sectors and sometimes criminal sectors. The surreptitious migration is a problem not only of hosting countries, but also of our authorities that are obliged to protect its citizens not only at home but also ahead. About the shady sector's extension, the surreptitious migration generate and other tensions in the labor market, because the migrating people, consent to work with a salary lower than on the market, occupy local people's working places. Social risks, loosing working capacity, abided by illegal migrating people are big and their avoidance is often uncertain.

Simultaneously, the economical and social role of external migration is also favorable. It consists, in general, in satisfaction of supplementary needs in manpower of national economy's branches of some hosting countries, in which, based on the specific production structure, the deficit is considerable. These branches are constructions and public works, public alimentation, housekeeping etc, namely branches that need a lot of non qualified employees. The fact that the number of local employees hired in foregoing branches decrease and increase that of immigrating people, motivate that they receive a job only in sectors from which the local employees leave. There is a process of international labor division, caused by the economy's globalization.

External labor migration is favorable also for the economy of the Republic of Moldova. Under economical crisis conditions, with unemployment's growth, with low wages and no chances to outrun this situation, the external migration appear as a essential source to provide a decorous existence for the majority of republic's people. The income of currency means as a result of external migration, increase considerably the welfare of a great part of population. In the same time, through the consumption's growth it stimulates the increase of demand, providing favorable conditions for the economical growth. Simultaneously, the income in country of currency means, namely foreign currency, makes up to a certain extent the commercial balance's deficit, providing stability to national currency. According to some estimations, during the year 2000 as a result of labor migration in the republic were income 250 billions USD. In other words, the external negative trade's balance is made up by the manpower export that may be considered as a similar value of consumer goods and investments.

An other favorable factor for the Republic of Moldova caused by the external manpower migration is the education. One of more difficult problems of the Republic of Moldova in transition conditions is the change of economical people's behavior and its adaptation to new market economy's requirements. The external migration contributes directly to the adaptation of manpower to the new economical conditions. The persons that leave ahead looking for a better job not only increase their welfare but also receive new working habitudes, specific to the market economy's conditions, and using these habitudes at home, contribute at the consolidation of market relations and the reduction of economical transition period.

Concluding, we may say that the international manpower migration is neither a negative phenomenon nor a positive phenomenon. It is a normal phenomenon, caused by the process of economy's globalization that increases of late. The phenomenon of international manpower migration is widespread in the world. All countries with market economy have known this phenomenon. Many of these countries seized this opportunity later. For example, Chinese Diaspora that emigrated ahead many years ago makes a lot of actual foreign investments in China.

An important role in the external migration's evolution has the attitude of authorities to this phenomenon. Some of these countries facilitate the local manpower emigration or on the contrary prohibit it, others facilitate the free manpower's circulation based on some interstate agreements or carry out policy of emigrants' attraction, as in the majority of European countries, Canada and USA.

Regarding the attitude of authorities of the Republic of Moldova to the migration, we may mention an uncertain position. The Republic of Moldova has a legislation that settles the migration, but it doesn't correspond to actual needs. The government took some measures regarding the settlement of manpower migration, but these are so uncertain in comparison with the size of migration process in the Republic. Officially, the Republic of Moldova has signed bilateral treaties regarding the labor and social protection with Russia, Byelorussia, Israel and Czech Republic. They negotiate with Greece, Italy, and in the near future with other countries.

Although, many people leave ahead to look for a surreptitious job, consulting many firms that supply this type of services, enduing risks related to this phenomenon.

The actual policy of manpower's occupancy have to settle this process and minimize its possible risks, thus, providing an efficiently utilization of human resources in the republic and simultaneously contributing at the human resources' developing.

5. TRANSNISTRIA: ECONOMIC RISKS FOR THE COUNTRY

The Republic of Moldova being a young European state that emerged into the post-soviet area in the 90s had to solve a triune task: consolidation of the statehood, transition to the market economy and democratization of the society. Openness to the world and democratization of social life (multi-party elections, freedom of religion and mass media, activity of non-governmental organizations) can be considered as positive results. As per changes in the economy, a stable depression settled, social costs of the reforms are high - area of poverty, unemployment and labor migration extended.

Moldova has certain advantages and limitations in its development. It is the most Eastern country of the Latin world; the advantages are: geo-economic location at the junction of the Balkans, the CIS and the region of the Central and Eastern Europe, developed infrastructure, fertile soils and century-old traditions of food production, qualified labor forces, which create prerequisites for placement and development of labor-intensive industry, oriented towards export. One of the advantages is a multiethnic composition of the population, its knowledge of two or three languages and traditional for Basarabia enterprises. Among limitations - the most dangerous, is almost complete dependence of the country on the external energy supplies.

The Republic of Moldova is the only one among 27 transition countries that officially recognizes existence of two problematic regions on its territory - Transnistria and Gagauzia. Problem of Gagauzia is successfully solved by provision to this region a status of autonomous administrative territorial unit (1995) and adding rights for social and economic development. But the situation of Transnistrian region is much more difficult.

Transnistria is a multilateral problem that includes political, legal, military, economic and humanitarian aspects. During the last ten years, from the moment of self-proclamation of the "Transnistrian Moldovan Republic" (September, 1990) and the military conflict (spring - summer 1992) the main focus is made on political, legal and military aspects of the issue. They are evident without in-depth examination.

But in the in-depth, the economic core of the Transnistrian problem becomes outlined. Four layers of interests are observed in Transnistria: Russian strategic presence; political interests of the new regional nomenclature, interests of the directorial bodies and interests of shadow economy, as well as criminal structures. Each of these components contains the economic aspect.

It is obvious now that the economic aspects of the Transnistrian problem «embrace» not only the Republic of Moldova and Transnistria itself but also cover a more vast area both to the East -Russia and CIS region, and the West - USA and some countries of Europe.

Transnistria, as it is known, is the most historically developed industrial region of Moldova. In the soviet times, the biggest in the Balkans thermoelectric power station of 2.5 mil kilowatt capacity (which in 1989 produced 95% of the energy in the Soviet Moldova), a group of 12 unique for the former USSR engineering plants (plants of production of electric appliances, lathes, electric motors, pumps and equipment, the majority of whose output is aimed at the military-industrial complex), an electrometallurgical plant with the capacity of 700 thou tons of steel, two textile enterprises, a large group of food industry enterprises, including a wine-cognac complex, tinned food factories and other were located.

It should be mentioned that gas pipelines cross the Transnistrian territory, which provide gas supply not only for the Republic of Moldova, but also to the Balkan countries. Thus, figuratively speaking, TMR authorities possess the "knife-switch" that allows them (exactly as it was in 1992) to cut off energy and gas supplies to Moldova.

For the time being the Transnistrian economy is based on two pillars: cheap electric energy and gas (due to privileged tariffs from Russia) and, accordingly, higher, as compared to the Moldovan, competitiveness of products delivered to the CIS countries. Despite this, about 50%

of export constitutes electric steel of the Ribnita metallurgical complex which is sold at low prices to the USA, Canada and a number of the European countries. The region's budget is mainly maintained by the work of 12 - 15 industrial enterprises; agriculture and social sphere are supported by the state subsidies.

Notable is the fact that economic aspects of the problem of Transnistria are usually covered at a very poor level. Lack of trustworthy statistics on this region is not completely the reason. The statistics is of the same "quality" as in other CIS countries. Besides, Transnistria from time to time gets into the area of sociological investigations (in 1997, for example, with the participation of the World Bank experts), and certain data is available. Recently, a well elaborated monograph "Economy of Transnistria on the transition stage" with the official statistical data was published with the support of the dominating in Transnistria company "Sheriff".

Impulses of "inattention" to the economic "kitchen" of Transnistria come from the shadow sector the fact that is determined by an active involvement into economic processes and external economic relations of this region of economic agents and group of interests from other countries, including the Republic of Moldova. Thus, according to some estimates not less than 60% of gasoline and diesel oil and 80% of tobacco articles get to Moldova as contraband through this region. There are similar problems with electric energy supplies, transit of goods, customs operations.

At the international conference held at the Tiraspol University (27 - 28 Sept. 2000), dedicated to the economic problems of Transnistria (the author was the only one speaker from Moldova), a panorama of erosion of pseudo-state property and regulating methods for the region's economy was unambiguously revealed, where processes of privatization of industry and services sector, transformation of kolkhozes and sovkhozes, and concentration of land on the basis of leasing.

Further, in October, at the round-table on the Transnistria's problems organized in Odessa by a number of non-governmental organizations of the Ukraine, Moldova and Russia with the support of Friedrich Ebert Stiftung (Germany), a political conclusion was formed rather vaguely: "nobody is interested in the solution of the problem of Transnistria", the political benefits are too obvious for some people and for the others, if not for all, - the economic advantages of the preservation of status quo.

To the most extent from this situation suffer, primarily, 600 thousand of Transnistria's population and, of course, the Republic of Moldova, for which this problem is a "millstone round its neck" that drags to the bottom not only the country's economy, but as well can "sink" the state itself-through methods of energy and transport blackmail, contraband, corruption, degradation of power structures.

All parties and, first of all, the population, are interested in restoration of unity of the "common state's" territorial economic complex, putting in order of administrative and financial economic relations of the Republic of Moldova and Transnistria on the basis of the European standards of regional self-administration. Apart from this, as the solution of the problem of Transnistria is of the All-European importance, the necessity of internationalization of actions and active attraction to its solution of the international organizations, of both state and non-governmental types becomes more and more evident.

6. CORRUPTION AS SEEN BY BUSINESSMEN

One of the necessary conditions for a successful transition of the Republic of Moldova to the market economy is the development of private sector. During 10 years of transition a number of State Programs for the support of small and medium enterprises were adopted. The possibilities to support the development of private sector by lightening the tax burden for producers, introduction of a system of tax holidays, simplification of the registration procedures were considered. But this did not seem to give a real impulse to the development of this sector. A number of opinion polls with regards to identification of the main impediments to the private sector were carried out⁹. As the main impediments for the business are recognized the overburdening tax system, the bureaucratic administrative control of state departments, the changing legal conditions of operation, the high inflation, the shortage of working capital, the high interest rates and, therefore, the difficulties to obtaining credits, the lack of raw and other materials, the underdeveloped infrastructure, the problems of technological upgrading, a weak organization of advertising campaign, the low purchasing capacity of the population, and others.

In the previous researches corruption was not examined as being one of the main impediments for the development of private sector. It is largely known that corruption undermines the development of private initiative, it increases the cost and drops the quality of public projects, it causes an excessive tax burden, and it raises the risk of capital investment and discourages potential investors. *That is why the Center for Strategic Studies and Reforms and Transparency International – Moldova carried out an opinion poll “Corruption as seen by businessmen and households”. The research was funded by the United States Affairs Section – Chisinau.*

The opinion poll was carried in November 2000. More than 1,000 of people were interviewed, including 504 businesses and 502 households, as well as 60 respondents for the pilot study. The whole report on the nominated opinion poll can be found in “Corruption and Quality of Governance” of the Center for Strategic Studies and Reforms with Transparency International – Moldova (January, 2001). This chapter includes only a selection of results on the questions addressed to businessmen.

The *purpose* of this poll is to study the opinion of population regarding the acuteness of the problem of corruption in the Republic of Moldova. Besides the general goal of increasing our understanding of the corruption problem in Moldova, specific objectives of the survey included the following:

- To identify the impact of corruption as a factor, impeding private sector development and general efficiency of the government for the business;
- To assess the general attitude toward corruption in the country, and to evaluate when the phenomenon reached dangerous proportions for the society;
- To study corruption in customs and fiscal inspections;
- To study the issue of public tolerance with regard to corruption, that is, people's willingness to pay bribes;
- To study public opinion about main ways of fighting corruption.

⁹ For example, Small and Medium Enterprises Baseline Survey, Moldova 2000
*Developed and conducted by Development Alternatives, Inc. (DAI) in collaboration with NGO ADSISTO,
Center for Strategic Studies and Reforms (CISR), Kiev International Institute of Sociology (KIIS)*

Structure of the questionnaire

The questionnaire may be subdivided into four main parts: a) data about the respondent; b) general assessment of corruption phenomenon in the country; c) corruption in tax and customs services; d) corruption in education and health sectors. This chapter reflects the results for part a) and c).

Data about the respondent includes general data and personal evaluation of his own economic situation by the respondent.

Corruption in tax and customs services

Evaluation of pressure from the side of Tax and Customs Services: **Entrepreneurs were asked how often they were visited by representatives of the audit system during last 12 months (fiscal inspections, economic police, fire inspectors, electricity inspector, the sanitation and anti-epidemiological station, the Financial Guard and others); whether it was “easier” to avoid troubles with these institutions by paying bribes; how the inspector usually behaved when he detected deviations from statutes.**

Evaluation of the frequency of corrupt acts at different levels of Fiscal State Inspection and of the Customs Service. The interviewees were asked how often corrupt acts take place at the level of the director of a department, the vice-director of a department, chiefs of regional offices, chiefs of local offices, and local inspectors.

The expectation regarding their own behavior with regards to corruption. The respondents had to estimate the consequences of the choice whether to behave in a corrupt or on honest way.

Main causes of corruption in tax and customs services: The businessmen were asked to evaluate which is the most important cause of corruption in these two sectors: are inspectors too greedy, or there is a crisis of ethic values during this transition period. Does the government not pay them properly, or laws/rules are so poorly designed and difficult to follow that it is easier to pay officials to get things done. Is this a cultural tradition, or do inspectors have too much discretionary power. Is the control over the inspectors weak, or is judiciary power inefficient. Is the reason that public officers want to gain “easy money”, or it is the lack of administrative control.

Measures to curb corruption in tax and customs sector. The questionnaire asks the interviewee to evaluate how effective lowering taxes on export-import activities could be, and increasing the salaries of state employees, as well as increasing punishment costs for corrupt behavior, and increasing the transparency of the tax, or did they have any other suggestions.

Characteristic of respondents

Age of respondents: The distribution of respondents according to their ages is as follows: those under 30 make up 28.3%, between 31 and 40 – 33.5 %, those who are 41- 50 account for 28.4%, 51 – 60 years – 9.4%, and elder than 60 – 0.4 %. So, we can see that those between 31 and 40 make up the main part, and 90.2 % of all businessmen are under 50.

Gender: In the total number of interviewed businessmen men make 63.2 %, and women – 36.8 %. Among households – 41.7% are men and 58.3% - women.

Education: The breakdown of the total number of respondents by their education is as follows: 4% had doctorates, 65.3% had graduated from universities, 17.2% have unfinished high education, and 13.5% - secondary education.

Rural – urban distribution: Among businessmen 460 (91 % of total number) live in urban area and 45 (9 %) in rural areas.

Summary of the results

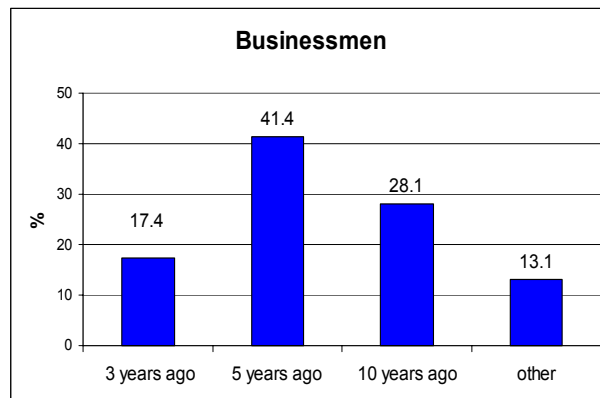
When asked to *evaluate the problem of corruption in the country on a scale of 6* (where 1 means that it is not acute at all, 2- it is acute only to a low extent, 3- it seldom causes problems, 4 – it often causes problems, 5 – it is acute, 6 – it is very acute), the average for the businessmen is 4.84, which means “it is acute”. Nearly 82.3 % of businessmen rank corruption from the position of “making problems often” to “very acute”.

When in your opinion has corruption reached dangerous proportions for society?

The majority of businessmen think that corruption grew especially 5 years ago. One of the respondents answered with a sense of humor: “I may tell you the exact date: 7 of November, 1917...”

It is not surprising that in the opinion of many respondents, corruption has risen in especially big proportions during the transition to market economy. First reason for this is during the years of autocracy people had little access to information regarding grand corruption. Next, corruption took mainly the form of mutual services, which were not rated as real corruption, even in cases when people were offered free apartments, prestigious jobs, education, access to credits and other facilities groundlessly, things which could be evaluated very highly in terms of money.

Fig. 1



How often, do you think, people have to offer cash, gifts, or favors to public officials in exchange for the solution of a problem? (1- never, 2 – very seldom, 3 – sometimes, 4 – often, 5 – very often, 6 – every time).

Fig. 2

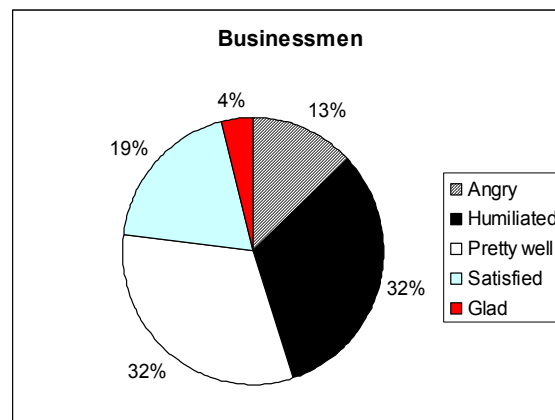
In the opinion of businessmen, the most corrupt sectors they deal with is health services. After this comes customs, police, tax inspections, the municipality, the educational sector, the judiciary, local administrators, ministries, departments, sanitation and anti-fire inspections. For the comparison the table includes the answers for similar questions for households. As we can see, the health services are the priority in the opinion of both, businessmen and households.

Sector	Businessme	Households
1. Tax inspections	3.84	3.94
2. Customs	4.03	4.61
3. Police	3.98	4.32
4. Sanitation and anti- fire inspections	3.32	2.86
5. Obtaining licenses for import / export	3.34	3.46
6. Access to credits	2.96	2.94
7. Registration of property	2.84	3.10
8. Privatization	3.03	3.23
9. Rent of state property	3.02	3.11
10. Employees of city halls	3.61	3.24
11. Judges	3.48	4.06
12. Public procurement	2.90	2.81
13. Education	3.58	4.33
14. Health services	4.05	4.90
15. Ministries and departments	3.38	3.68
16. Local administration	3.45	3.24

Imagine someone who has extended cash or a gift to an official and has obtained what they wanted. How, in your view, is this citizen most likely to feel?

Neutral, or even positive feelings about offering bribes are evidenced by 55 % of businessmen. A similar question was asked in the opinion poll carried out in Macedonia. About 30 % of respondents answered that they would feel content. However, in that questionnaire the possible answers were the following ones: content, angry, indignant, embarrassed. In our opinion the interviewer gives little choice to the respondent to express his attitude, because three of four answers express a negative feeling.

Fig. 3



Speaking about public tolerance towards corruption, we could give a number of examples.

During an interview, code #16, 11/4/2000, 12:30, Chiadâr-Lunga, the respondent said he will accept the bribe, because "...this is a MUST".

Int. code #19, 11/10/2000, Leova, when asked to tell a concrete story about herself, the respondent said "...There are plenty of them, but I will not tell you any, because it will change nothing anyway..."

Int. code #33, 11/5/2000, 10:20, Stefan Voda: "Here there are many people who possess a lot of land, but do not pay taxes. They register the plots under many names, so they do not have to pay taxes. Everyone knows this and does no one does anything about this".

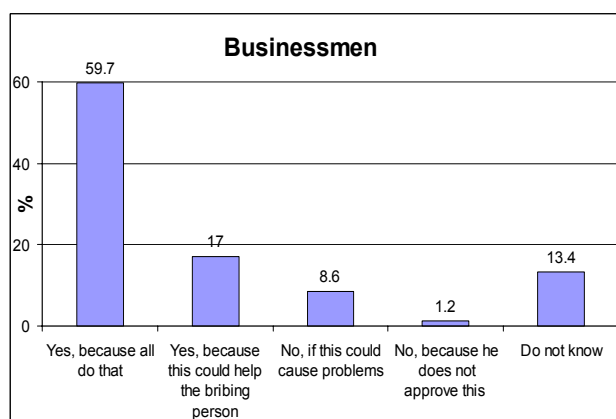
Int. code #2, 11/27/2000, 10:40, Chisinau. "They (inspectors) do not ask for anything. This is already a custom, a tradition. If you want something, you are supposed to pay".

Int. code #6, 11/8/2000, 13:30, Chisinau. "I was suggested that I export money outside the country in an illegal manner. For this I was promised 9% of the total sum"

Imagine a low paid official, who is approached by someone offering cash, a gift or a favor to solve this person's problem. What would he do?

Fig. 4

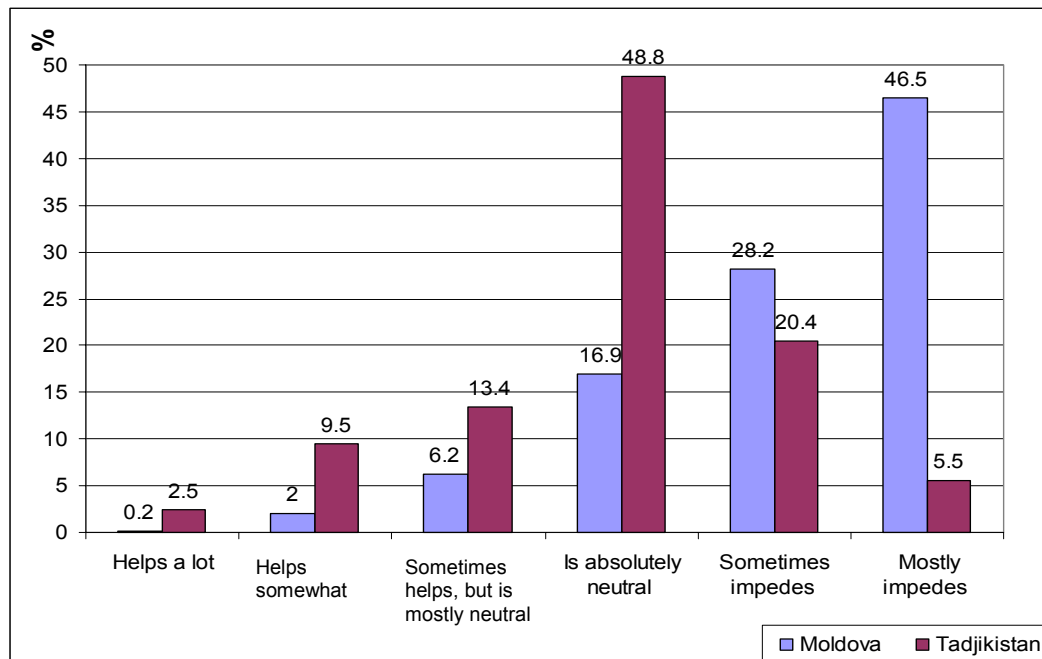
The majority of businessmen (76.7 %) agree that the public official would most probably accept the bribe for various reasons. It is remarkable that about 60 % of all respondents explain the acceptance of bribes by saying that all do that. It is also remarkable that only 12 % of businessmen do not approve of bribery.



The next question businessmen were asked ***whether they felt that the government is supporting them while doing business***. Although the question might sound like a provocative one, it also provides a good sense regarding the significance of the corruption problem in the country. 2.2 % of the total number of respondents said that the Government helps a lot or helps somewhat for doing business in Moldova, 6.2 % says that sometimes it helps, but mostly is neutral, 16.9 % - it is absolutely neutral, 28.2 % - that it sometimes impedes, and almost 46.5 % of respondents said that the government mostly impedes

the development of the private sector. By comparison, in Tajikistan 20.4 % of businessmen consider that their government is mostly neutral but sometimes impedes, and only 5.5 % of the respondents think that the government mostly impedes their development. This might mainly mean a negative attitude toward the state from the side of private sector, and the first outcome of this attitude may be the neglect of the state institutions, and growth of tax evasion.

Fig. 5



How problematic (impeding) are the following factors for doing business in Moldova?

Fig. 6

	Moldova	Tajikistan
1. Inflation	4.20	5.06
2. Exchange rate instability	4.13	5.22
3. Tax regulations	4.83	4.67
4. Undeveloped banking sector	3.31	4.34
5. Crime	4.19	4.36
6. Corruption	4.81	4.28
7. Deficiency of skilled labor	2.79	4.07
8. Harassment by the police	3.08	4.01
9. Difficult to find/ purchase or deliver inputs/raw materials	2.87	3.9
10. Political instability	3.92	4.07
11. Unpredictability of changes in regulations	4.39	3.65
12. Too "sophisticated" rules for starting a new business	3.64	3.55
13. Foreign trade regulations	3.53	2.9
14. Price controls	2.85	2.88
15. Foreign currency regulations	2.73	2.87
16. Labor regulations ¹⁰	3.63	2.51

¹⁰ One of the respondents (Int. code #47, 11/10/2000, 16:00, Chisinau) mentioned with regards to the "regulation on the labor force (high payments to the social fund)": "This is not a problem at all for me. In documentation I write that I pay them ML 200. In reality I give them ML 1,800 more".

A good understanding of the main impediments for private sector development is important for the elaboration of an efficient and targeted state policy. To understand the most significant problems for the private business the respondents were asked to rate a set of 16 factors in terms of the threat for doing business in the Republic of Moldova. The results show that the businessmen in eastern and western countries in transition rank their problems in different ways. Thus, in the Republic of Moldova first place belongs to tax regulations. The average is 4.83, which means something closer to „impedes very much”. Corruption holds the second place among the main impediments for doing business in Moldova. The average for corruption is 4.81, which is also closer to the meaning „impedes very much”.

After this comes inflation (average – 4.2), crime (4.19), and exchange rate instability (4.13). The same is true in the case of households, as well as in the case of businessmen, corruption is one of the greatest impediments for doing business in the Republic of Moldova. In fact, the opinion poll shows that complicated tax regulations and high taxes, results it turns in a high level of corruption.

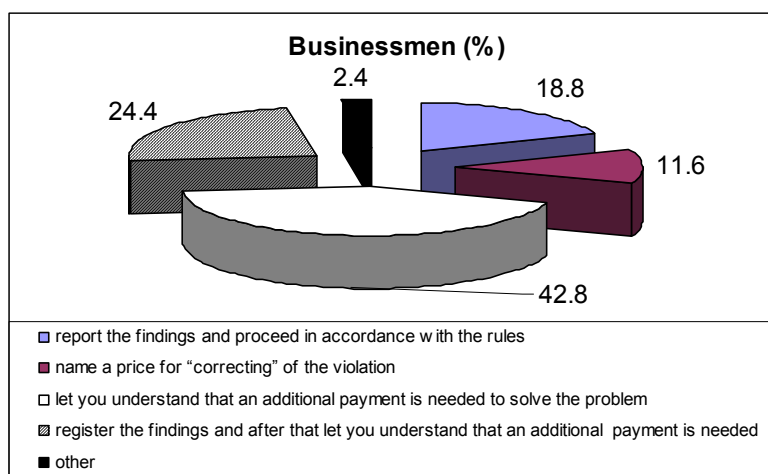
The situation is slightly different in Asian countries. In Tajikistan, for example, businessmen rank corruption on the fifth place among the main threats to the private sector. First place belongs to the instability of the exchange rate (the average being 5.22). After this comes inflation (5.02), tax regulations (4.67), and crime (4.36). Here we should remember that the main form of „informal” relations in Moldova is bribe in cash, whereas in Tajikistan personal contacts predominate. Hence, in Moldova the population feels more directly the pauperizing effect of corruption.

When a violation of the tax code is found, a tax/customs inspector is likely to ...

According to the opinion of businessmen, in 42.8 % of cases inspectors give the person to understand directly, or un-directly, that an additional payment is needed to solve the problem. In 24.2% of cases they first register the findings and after this give understanding that an additional payment is needed. Only 11.6 % directly name the price to “correct” the report. As for those who report the findings and proceeding in accordance to the regulations, in the opinion of Moldovan businessmen, they constitute only 18.8 %, which is, however, anyway more than in Tajikistan (14 %).

Generally in Tajikistan, according to the authors, 79 % of tax inspectors seem to operate as true market agents by immediately naming the price for “correct” the violation (when found) and avoiding punishment. Since in most cases the price is lower than the penalty one would pay to the state and given the amount of potential timesaving, it is obvious that deals are closed in the majority of cases. This is common for both countries.

Fig. 7



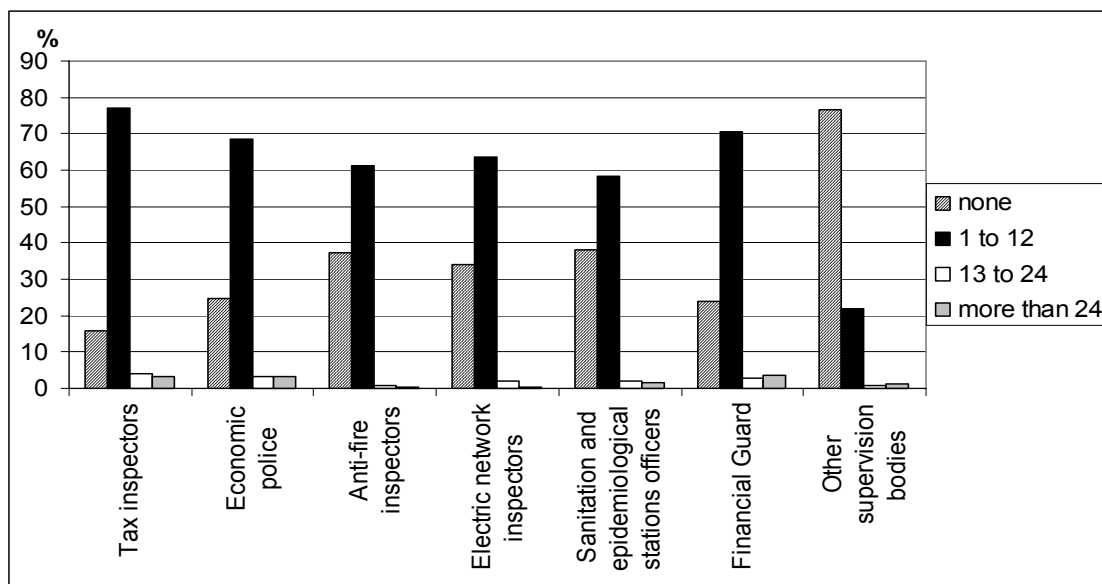
During the last 12 months how many times and by who were you inspected?

Fig. 8

	Average (times/12 months)
1. Fiscal inspections	6.28
2. Economic police	6.4
3. Anti-fire inspections	3.04
4. Electrical systems inspector	5.46
5. Sanitation and Anti-epidemiological Station	6.03
6. Financial Guard	6.04
7. Other (specify)	5.1

The results show that in average businessmen are visited by various kinds of inspections very often – about 38 times. It is not surprising then why, according to the evaluation of the World Bank and EBRD, the „administrative burden” on businessmen in Moldova is one of the highest among all countries in transition.

Fig. 9



Many respondents complain about repeated inspections. Thus, in the interview code #6, 11/16/2000, 11:45, Chisinau, the businessman reported: “All of them visit me about 12 times per year. This is as if they come to pick up their wages”.

Int. code 24, 11/6/2000, 17:30, the interviewee said that besides 73 visits of control organizations mentioned in our questionnaire, he also was visited by a representative of the Dept. of Standards 2 times, a representative of the Direction of Trade – 3 times, by the Preture – 3 times, by the Veterinary Inspector – 1 time, Termocom – 5 times, Apa-canal (water channel) – 12 times.

Int. code # 24, 11/8/2000, 9:30, Chisinau, “Policemen visit our dairy shop about two times per day”; Int. code # 24, 11/9/2000, 11:55, Chisinau, “I was visited by representatives of the local administration about 20 times”.

Int. code # 11, 11/6/2000, 19:00, Chisinau, “Besides 28 visits of representatives of the nominated institutions I was also visited by representatives from the Department of Protection of Work, the Dept. of Environment Protection, the Dept. of Standardizations, the Dept. of Combating Corruption and Organized Crime”.

Int. code # 4, 11/8/2000, 10:35, Chisinau. “Besides 21 visits listed in the table, I had two visits of representatives from “Solubilitatea”, four - from “Apa canal”, and four from the Dept. of Trade”.

Int. code #6, 8/11/200, 11:30, Chisinau. “I HAD NO INSPECTIONS, because I have connections everywhere”.

Int. code # 6, 11/6/2000, 16:02, Chisinau. “Additionally we were inspected by representatives from the Department of Statistics, Financial Dept. and the Social Fund”.

Int. code #14, 11/11/2000, 10:35, Donduseni “The tax inspectors visits me almost every week, the Financial Guard – once a week, and sanitation inspectors – once a week”.

Int. code #2, 11/27/2000, 10:40, Chisinau. “Tax inspector comes 5 times per year, before every holiday. The district policeman comes when he needs a gift”. Int. code #2, 11/13/2000, 11:30, Chisinau. “Tax inspector and economic police come, unauthorized, almost every day. The electric net inspector and the sanitation inspection, every month, a man from the Financial Guard – sometimes 3-4 times per week”.

Int. code #2, 11/9/2000, 15:30, Chisinau. “We HAD NO INSPECTIONS, we have paid all of them”.

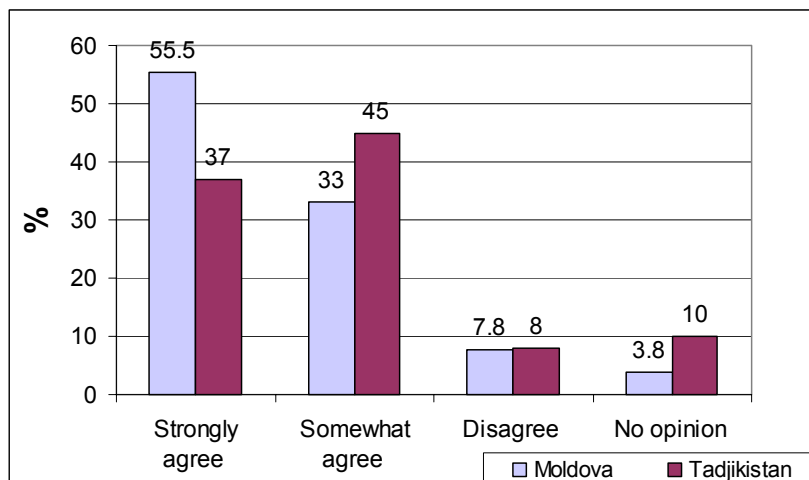
So, the conclusion is, if the inspectors are „rewarded” adequately, they do not bother the entrepreneurs too much. If the entrepreneur is not willing to pay, he will be visited as many times as are needed in order „to collect” the required „reward”.

Do you think that taxes levied on business activities are so high that most of businesses prefer to pay in cash to tax inspectors to avoid full tax payments?

Most respondents (88.5 %) recognize that businessmen would prefer to avoid full tax payment and to pay in cash to tax inspectors. In fact this is a very high indicator.

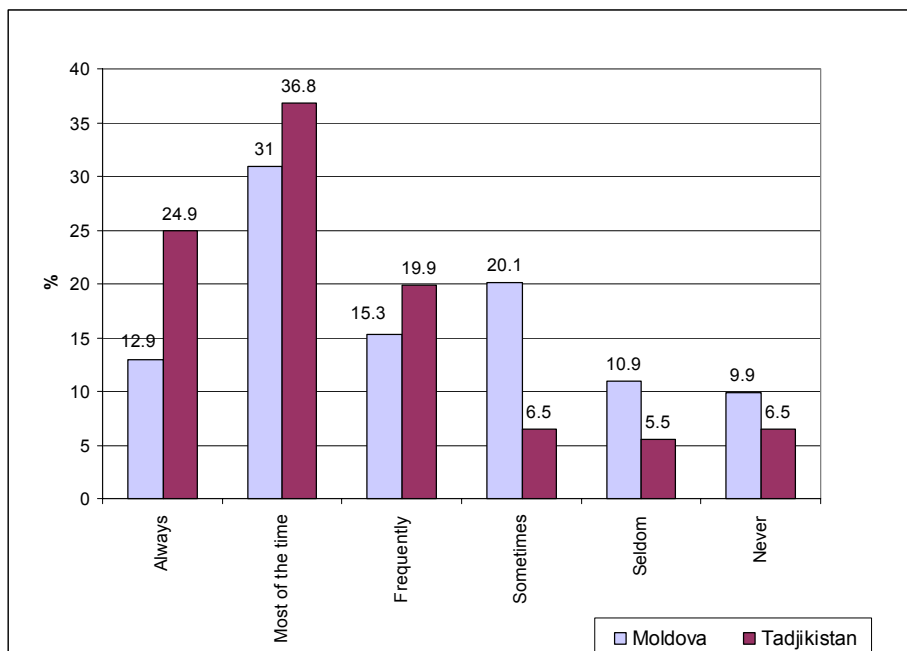
Because the supply side of corruption is very strong, it is not surprising that corruption has reached such great proportions in this country. Only 7.8 % of respondents would refuse paying bribes.

Fig. 10



When being inspected by the tax/customs authorities, is it likely that you will be asked for additional payment to “ease” the inspection process?

Fig. 11



About 60 % of businessmen expect to be asked to pay a bribe when being visited by the tax inspector. In fact, this means that they are already morally prepared to pay bribes.

During the interview code #2, 11/15/2000, 16:30, Chisinau the respondent said: “No one asks me to pay a bribe. I understand for myself, that I have to pay in since I am dependent upon the circumstances and the inspector”.

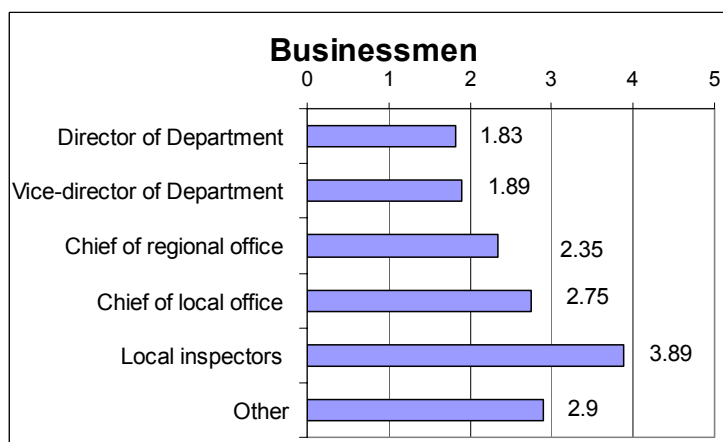
It is a little surprising that in Tajikistan, where corruption is considered as being a less harmful factor for the development of the private sector, more than almost 81.6 % of respondents expect to be asked to pay a bribe when being visited by the tax inspector.

How often bribes, gifts and personal contacts are used at different levels of State Inspection and Customs Service? (1 - never, 2

– seldom, 3 – sometimes, 4 – frequently, 5 – most of the time, 6 – always).

Fig. 12

In fact, a pyramid structure of corruption can be designed. The lower the level is, the more often the public officers take bribes directly from the public. Every level is supposed to share their „rewards” with the upper levels. Thus, at the department director’s level bribes are seldom taken (the average being 1.83). At the vice-

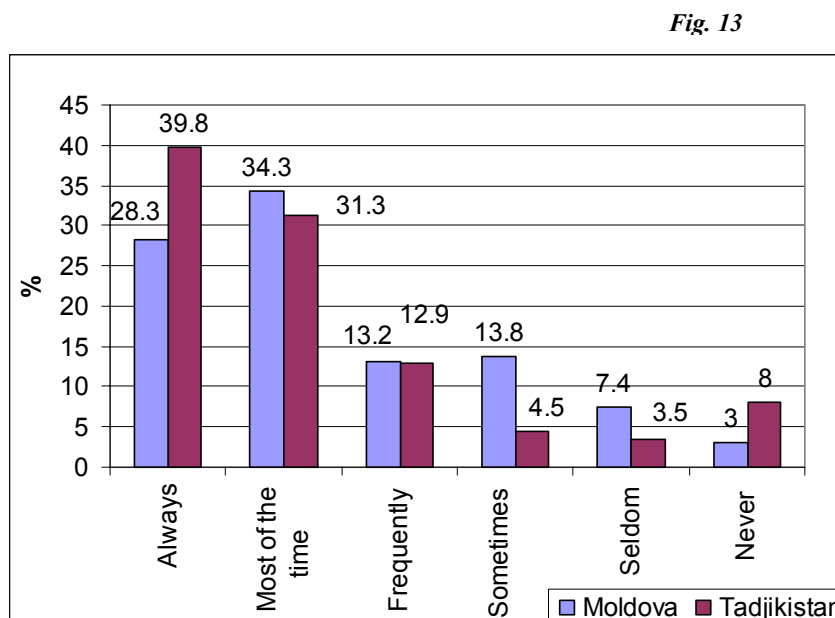


director's level it happens seldom (1.89). Chiefs of regional office and chiefs of local offices are ranked at the level, which means „sometimes”. Local inspectors accept bribes most frequently (3.89). A respondent (int. code #03, 11/8/2000, 15:00, Chisinau) commented in his evaluation as follows: “The staff of these institutions is very incompetent, so, they need to take bribes in order to pay to keep their jobs”. Another respondent, int. code #47, 11/16/2000, 10:40, Chisinau, states: “They have to accept bribes in order to share this money with their superiors.”

However, these figures do not tell anything about the manner of distribution of the total amount of bribes among all levels of the institutions. During the interview code #47, 11/16/2000, 10:40, Chisinau the respondent has mentioned: “For 10,000 Lei no one will even speak to you at the department director's level. You must know someone at a lower level”.

When a businessman refuses to pay a bribe, will he find doing business even more problematic?

More than three fourth of respondents are likely to expect problems upon refusing to pay a bribe. The purpose of this question is not so much to evaluate the possible effect of refusal to behave in a corrupt manner, as it is to understand the expectations of the respondents, and, hence, their most probable behavior while being inspected. The results show that the respondents will more probably offer a bribe.

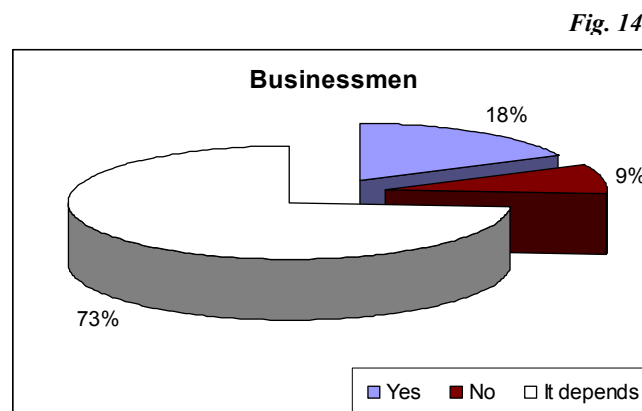


If asked to pay a bribe, will you pay it?

Here the question is very direct. So, only 14 % of respondents answered unambiguously „No”, and 15.5 % - „Yes”. For the majority (70.5 %) the answer was “It depends...”, although this is another way of saying that they probably would pay a bribe.

During one interview (code #47, 11/10/2000, 16:00, Chisinau) the respondent stated: “If they ask you, this is already a good sign. This means that you may negotiate. It is better when they name the “price”.

In the case of Tadjikistan the respondents had to choose between only two options: „Yes” or „No”. So, 74.6 % answered „Yes”.

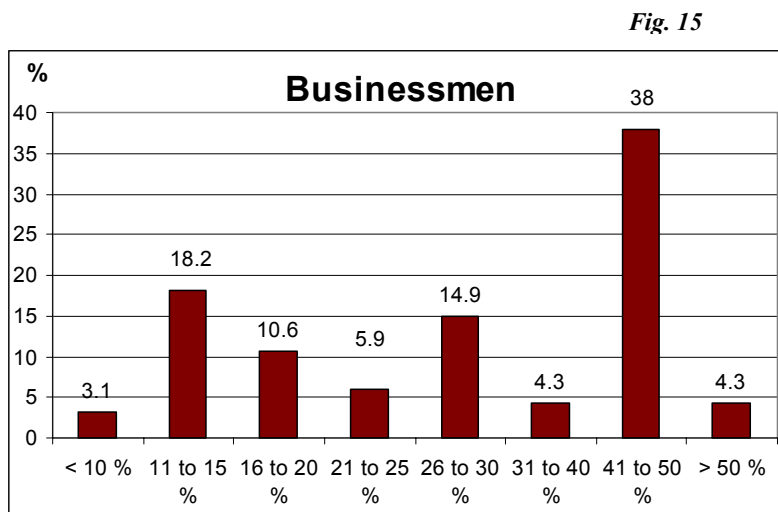


Do you think paying a bribe will “ease” your life“?

The results show that 48 % of the businessmen are not optimistic about results of paying bribes. Nevertheless they still prefer to pay them. This response could serve as a starting point for a public discussion about whether people ever expect to „gain” by paying bribes.

If during the control process the inspector finds that you are supposed to pay to the government a sum of money X, what part of this sum (% of X) is usually enough to pay directly to the tax inspector in order to “solve” the problem?

The average for all respondents is 34.22 %, this means that on an average businessmen may „save” about two thirds of the sum they were supposed to pay to the state. This presents a very favorable background for bribery. The distribution of the answers shows that in reality tax evasion is even more attractive.

***Evidence of corrupt behavior in state agencies***

This section was written mainly on the base of an open question for businessmen: ***“Will you share a story of what happened to you in this regard?”***

The question was asked tentatively, because it was not expected that the interviewees would be very sincere while answering direct questions. In fact, to admit that one has paid a bribe is in fact, an admission that the person has committed a crime. For an economic study this means just the supply side of corruption. So the majority of interviewees refused to answer this question, indicating that this question is too personal, sensitive, and intimate, or they are not sure about the confidentiality of the interviewer. They value their business too much, to answer these questions. However, the main part of those, who decided to be sincere, double-checked that the interview had an absolutely confidential character before sharing their concrete cases with us. So, in order to keep the confidential character of the questioner, we included only the interviewer’s code, date, time and the location of the interview. In certain cases, when the interview took place in small villages, and the respondent could be very easily identified, the geographical region in the country replaces the name of the location, however, the questioners are still kept in order to prove the true (the reality) of the responses.

Customs Service

The frequency of corrupt officer in Customs services is likely to be very high. Customs officers accept both, cash and “in kind bribes”. More than this, sometimes they prefer to choose themselves the goods they want:

Int. code #16, 11/3/2000, 17:03, South. “I have to make unofficial supplementary payments very frequently to the customs service”.

Int. code #38, 11/17/2000, 17:00, Chisinau. "The customs officer asked me to give him a golden chain with a cross which cost me \$ 300....".

Int. #19, 11/11/2000, 11:35, South. The customs officer had a short look into the car, and named the sum to be paid unofficially. She (the respondent) put the money into her passport and gave them to the customs officer; or, for example, the customs officer has a look into her bag, choose a thing he liked the most, which are usually the more expensive things, and let her go.

Int. code #5, 11/17/2000, 10:40, Chisinau. "While taking out the seal, the customs officer grabbed the goods he liked the most and asked additionally to give him money for a cognac".

Int. code #9, 11/9/2000, 13:10, Chisinau. "While entering on the territory of Moldova I was asked to pay 20 Lei, otherwise they would break the lead (seal). A new lead (seal) would cost me 3 Euro".

Int. code #2, 11/9/2000, 15:30, Chisinau. "Last year, while importing some equipment, I had to pay \$ 300 to the customs, otherwise, officially, I would have to pay half of its cost".

One way of forcing the population to pay bribes is slowing down the customs procedure. Usually importers have to pay per every hour of the transportation mean, so, delaying the customs procedures would cause considerable losses to the business, and will force the entrepreneurs to pay a bribe in order to accelerate the procedure:

Int. code #5, 11/17/2000, 10:40, Chisinau. "Passing the customs is every time synthetically slowed down, so if you are in a hurry, you do not want to spent a couple of hours, or, sometimes, days at the custom, so you will pay".

Int. code #51, 11/9/2000, 10:25, Chisinau. "Even if all documentation is perfect, the customs agents will never just let me go. They will say that I have to wait and show me the place. I will wait 10 minutes, 1 hour, 2-3-4 hours, until I will understand that I have to pay. If you start to protest, you will have troubles. After being paid \$10, 20, 50, sometimes even more (it depends on what you have), they let you go very quickly."

Int. code #25, 11/11/2000, 17:15, Chisinau. "...all documentation was fine, but then the customs agents started to count manually slowly every piece of imported goods, so, that I had to pay them cash in order to "accelerate" the procedure". Int. code #6, 11/9/2000, 12:40, Chisinau. "Customs almost always takes money, however my documentation is every time OK".

Int. code #9, 11/3/2000, 13:15, Chisinau. "Customer demands to make "a corridor" inside the truck, which means to make an empty place in the middle of the truck, or to unload the truck. This will take a lot of time and physical effort, so I had better pay them."

Int. code #25, 11/4/2000, 19:00, Chisinau, Customs service : "while importing the raw materials, if I do not want my car to wait a long time for the customs procedure and pay for downtime of the car, which is very expensive, I have to pay the customs about \$ 100".

Some of answers testify about the discouragement of businessmen and a great deal of apathy and tolerance to corruption among the population: Int. code #1, 11/9/2000, 11:15, Chisinau. "The Customs takes money always, even when all your documentation if fine, they do this just because you exist..."

Int. code #6, 11/16/2000, 11:450, Chisinau. "Go and see how Customs works at the Moldovan – Ukrainian boarder: not a single paper without a bribe...", or int. code #17, 11/4/2000, 9:30, Taraclia. "About Custom: everyone knows the unofficial "tax", so they prepare the money beforehand (in advance) and give them in silence."

Although it seldom happens, sometimes the poor qualification of customs officers is mentioned: Int. code #47, 11/16/2000, 11:45, Chisinau. "The same man at customs evaluate the cost

of wood, chicken and perfumes – they can not be competent to evaluate right all imports, here the disagreement start”.

Accepting a bribe becomes a norm of behavior, and a person who refuses to pay a bribe has to face problems: Int. code #47, 11/10/2000, 16:00, Chisinau. “I remember the case when I imported my first merchandise into Moldova. All my papers were absolutely perfect, I was quite sure about the legality of my transaction, so, I on principle told the driver not to pay anything additional t the official payments. At the customs six officers in white shirts on the principle unload the ENTIRE truck. Finally, they found something not corresponding to the regulations and they forced me to pay for this. After passing the formal procedure they asked me “Couldn’t you just pay about \$ 150 and avoid all these troubles?...”

Sometimes the tax officers proposes their own modalities of avoiding the payment of taxes to their clients: Int. code #47, 11/10/2000, 16:00, Chisinau. ”Two years ago the interviewee was proposed by the Cahul customs officer to not pass the customs procedures at Chisinau terminal as a legal entity, but to pass it as a physical entity, and, so, “to not pay to the government”.

Tax inspections

Rent seeking in tax audit offices also seems to be a wide spread phenomenon. On one side – low wages, on the other side – large possibilities for gathering additional income, makes bribery an easy, and frequently very essential source of income. When the entrepreneur can easily “save” from 50 to 90% of the money he has to pay to the state, he is interested very much in bribing the tax inspector, so, in order to “lighten” the procedure, both sides easily agree and avoid the formal inspection procedure. Int. code #47, 11/10/2000, 16:00, Chisinau. “I was supposed to pay a fine of about \$12,000, but the inspector still had to work a lot in order to prove it. So we agreed, and I paid him just \$ 400. The inspector is afraid to take bribes directly from an unknown person. Usually he prefers you to give a bribe through the third person, who knows him better.”

Int. code #10, 11/10/2000, 15:00, Chisinau. “The tax inspector found that I have broken a regulation I never even heard about , so he demanded a bribe from me, which was 50% of the official penalty”. The same case Int. code Int. code #10, 11/9/2000, 12:45, Chisinau.

Int. code #6, 11/16/2000, 16:20, Chisinau. “The tax inspector before starting the inspection proposed to establish a fine in the amount of 100,000 Lei, because they supposed that in reality it would be much greater. The logic is the following one: they (tax inspection) establish deliberately lower fines without any control, and I pay them for this”.

Int. code #47, 11/7/2000, 15:46, Chisinau. “Yes, I have paid bribes, starting with \$ 1,000 (to the fiscal inspector, \$ 1,500 to the customs) to \$ 10,000 (to a vice-director of an enterprise)”.

Hospitality among tax inspectors is also remarkable. Int. code #31, 11/11/2000, 12:50, South. “The tax inspector came to my office and demanded a bottle of an expensive cognac, a box of candies and sausage, because he was expecting some important guests from Chisinau”.

Police

Whatever, the responsibilities of various branches of the police, it looks like accepting bribes is the commonest activity in all cases: Int. code #25, 11/4//2000,10:05, “Traffic Police found fault with the number of the car, stopped the car, grabbed as much goods as they could handle and let us go...”

Int. #19, 11/10/2000, 12:50, Leova: “The policeman has drank alcohol costing 70 Lei on account for further fines”, or in the case of int. #19, 11/10/2000, 10:30, Leova : “The police may order some alcoholic drinks and leave without paying anything”.

The low quality of goods or an overdue serviceable life seems to not be an impediment for being sold in the market, as soon as the respective payment was made. Int. code #03, 11/7/2000, 11:00, Chisinau. The economic police fined me with 360 Lei for 3 bottles of “Frigușor” and 6 bottles of “Lemonade” was past the expiration data (use-by date). So, I paid them a bribe of 70 Lei and continued to work”.

Sometimes corruption among police officers is motivated by low wages. However, sometimes bribes reach very big proportions, so when the chances of being significantly punished is low, it is not quite clear how big the wages should be in order to discourage corruption. Int. code #51, 11/9/2000, 10:25, Chisinau. “Yes, I have paid bribes. I had to pay \$9000 to the economic police, so, I paid to them directly \$ 2000 and the question was solved.”

Financial Guard

A technique Financial Guard likes to use is to surprise the businessmen by rushing into the office and scaring the businessmen and then seek for bribes: Int. code #6, 11/8/2000, 18:40, Chisinau. “The Financial Guard, without presenting their documents, rushed into our office in a rude manner, threatening us with their weapons. They forced us to stand with our faces turned to the wall, made a search of our personal things, including handbag and pockets. It seems that they did not find what they were looking for, so, that left, without even not apologizing”.

Int. code #47, 11/10,2000, Chisinau. “The Financial Guard with drawn weapons burst into our shop and started to turn upside down. Their behavior with me as if I were a criminal. They scared me to death. The director of the shop was on a business trip, and I felt completely unprotected. They said that I had to pay them for about 18,000 Lei and, if I did not want the shop to be closed, I had to pay to both of them \$ 400. I paid \$ 800. After this they still wrote a report, so I still had to pay officially 4500 Lei.” When asked why didn’t she install a movie camera to prove that the inspectors extort money, the businessman said: “why should I? If I prove that they extorted money, they will come again and again, but my inspectors even left me their mobile telephone number, and asked me to call them in case someone else would come to inspect me.”

Int. code #04, 11/8/2000, 11:00, Chisinau. “When you deal with the Financial Guard or with the economic Police, if you do everything officially, you pay - 100%, if you pay them unofficially (a bribe), it is enough to pay about 15-20%.”

Local administration

Although we expected the businessmen to remember some certain cases that happened to them in respect to corruption in tax and customs services, some of them preferred to give us some examples about other control inspections, as well as local administration. Local administrators are likely to prefer gifts, at the same time not avoiding acceptance of bribes.

Thus, Int. code #6, 11/8/2000, 11:30, Chisinau. “I gave a gas-stove (gas cooker) to a public officer, so that he reduced the payment for the rent”, or in int. code #6, 11/8/2000, 12:40, Chisinau. “In order to be able to rent a room in a state institution I gave the employee of Primaria a vacuum cleaner”.

Int. code #03, 11/7/2000, 15:50, Chisinau. “In order to extend the authorization for my business I was asked by the Chief of the social-economic Section of the Pretura to “pay” him directly ML 2600”.

Int. code #51 , 11/7/2000, 13:20, “In order to maintain my “good” relations with city hall, sometimes when they call me and say that they are building a villa (dachya), I have to send them a couple of cars of slurry, or a number of floor slabs, or other things...”

Int. code #26, 11/7/2000, 14:20, Chisinau. “Yes, I had to overpay for everything: for the place for my shop, for the opening of the business, for the fence around the shop, again, for everything...”

Sanitation inspections

Int. code #25, 11/11/2000, 10:30, Chisinau: “First, they said that the certificate of quality was wrong, it was a copy, and I was supposed to show the original. After this they said that the chlorine was in solution, but it should be in powder form. Later they said that the pressure of water in the tap was too low, as if it depended on me. When I paid the bribe, suddenly everything became fine”.

Int. code #26, 11/5/2000, 9:30, Chisinau. “When the sanitation inspection comes, they will find something wrong wherever they want. We have to pay in any case. Usually they do not tell us to pay directly, they just do not leave and wait until we pay them”.

Int. code #26, 11/6/2000, 9:25, Chisinau. “...Sanitation Inspection, Tax inspection, Environment Inspection – all of them are paid, so that they leave us for 7-8 months, and then they come again”.

Int. code #2, 1/27/2000, Chisinau. “The Sanitation Inspector proposed that I sign contracts with their collaborators. I refused; I have no money to pay them a wage. So, now I am expecting inevitable problems”.

Other inspections

Int. code #45, 11/7/2000, 14:20, Chisinau. “During the inspection my merchandise was seized. I paid to the inspector a bribe and got back my merchandise”.

Int. code # 6, 11/6/2000, 9:35, Chisinau. “All representatives of the state audit institutions indicated in Q.19 regularly visit me and have their lunches on account of the “further fines”.

Int. code #03, 11/6/2000, 14:00, Chisinau. The director of the bar says that money is extorted by public officials under the pretext of holydays, e.g. International Day of Protection of Children, the Day of Firemen, the Day of Police, etc. he has to pay from ML 50 to 200.

Int. code # 12, 11/4/2000, 13:05, North, “the inspector found that the expiration date for chewing gum had expired and let me know that I had to pay him, if I did not want to have problems. So I did.”

Int. code #31, 11/10/2000, 17:25, South. “This year we were supposed to change our cash register by August, 1. We succeeded in buying such cash register only the last day before the deadline. So, we had to pay a bribe in order to register it quickly”

Int. code #26. 11/4/2000, 15:30, Chisinau. “The cash register did not print the sum. I was supposed to pay a fine of 1800 Lei. I paid 360 Lei in cash to the inspector and he left.”

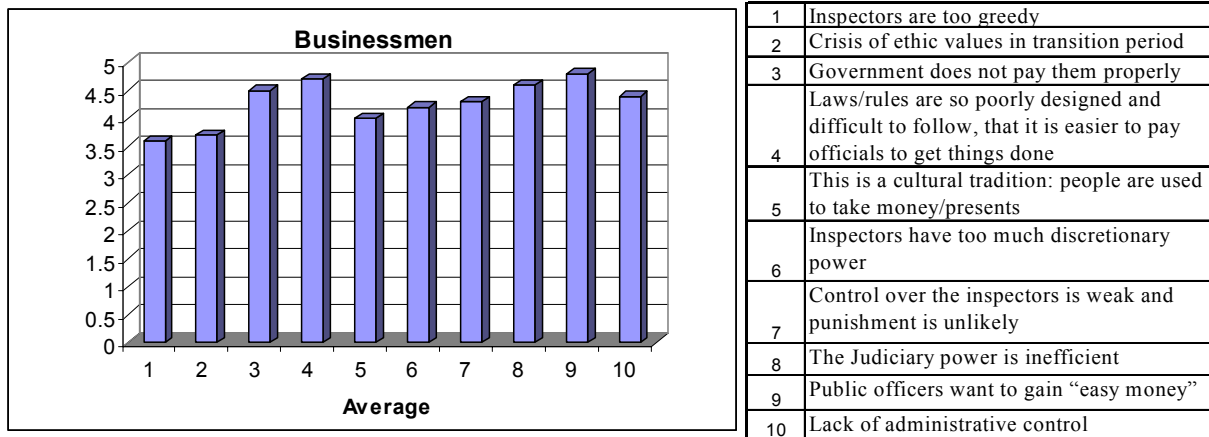
Int. code #6, 11/13/2000, 11:05, Chisinau. “The main accountant of an energy enterprise received a golden chain worth \$ 100 from us.”

Int. code #16, 3/2/2000, 9:15, Chiadâr-Lunga: “I had to pay for the certificate of quality about 1200-1300 ML. I paid in cash directly to the public officer 1000 ML, so I saved 200-300 ML”. So, both sides were satisfied.

Int. code #2, 11/13/2000, 10:20, Chisinau. "When they found some irregularities in our work, they "asked" us to pay for a prosthesis for a former combatant from Afghanistan. So, we paid. I do not know whether the man has received the money, or not".

Causes of corruption in tax and customs sectors

How would you evaluate the following possible reasons of why tax/customs inspectors take money or presents?



The respondents rank the causes of corruption among tax and Customs institutions as follows:

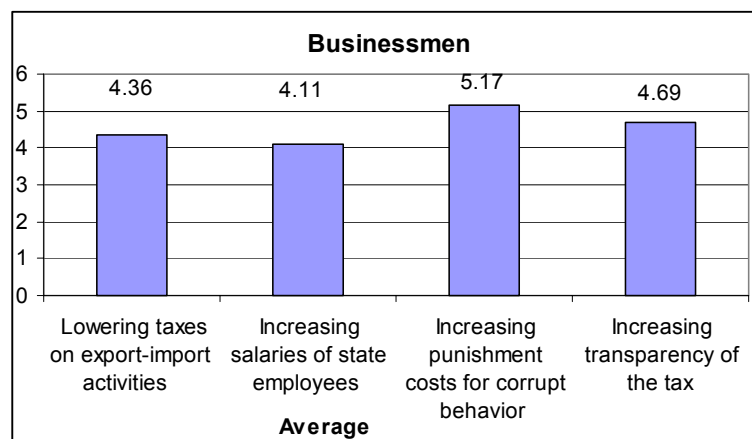
Laws/rules are so poorly designed and difficult to follow. It is easier to pay officials to get things done (the average being 4.8), public officers want to gain "easy money" (4.7). The judiciary power is inefficient (4.6). The government does not pay them properly (4.5). The good side of these results is that population does not consider that corruption is a cultural tradition in the country (4.0). This means that in principle the situation could change.

How effective, in your opinion, could the following measures be in reducing corruption in customs and tax services?

(1 – not efficient, 6 – very efficient)

Fig.

The most effective way to combat corruption in the country, accordingly to public opinion, is increasing punishment costs for corrupt behavior. The average is 5.17 with maximum of 6). After this comes increasing transparency of the tax system (4.69). It is remarkable that such a measure as increasing salaries of state employees is ranked very low. The population realizes that just an increase of wages without law enforcement will not help for tackling corruption in the country.



Some respondents asked to add to our list some other measures. We list them below:

Int. #24, 11/7/2000, 11:20, Chisinau: "To punish corrupt people in public";

Int. # 24, 11/7/2000, 11:20, Chisinau: "To deduct a certain per cent of the fine for the inspector in order to rise his interest";

Int. code #6, 11/8/2000, 1:30, Chisinau. "A change of a generation is needed";

Int. code # 6, 11/8/2000, 9:50, Chisinau "Death penalty with public execution is needed";

Int. code #7, 11/10/2000, 11:00, Chisinau "Higher efficacy in the judiciary system";

Int. code #7, 11/7/2000, 11:05, Chisinau. "An independent external control of the inspectors is needed";

Int. code #9, 11/12/2000, 11:35, Chisinau. "Establishing a system in which all people are equal before the law";

Int. code #9, 11/10/2000, 17:00, Chisinau. "We need a law on protection of victims of violence from the public official's side";

Int. code #2, 11/27/2000, 11:20, Chisinau. "Introduce changes in the tax system. Reduce the payments to the social fund from 31 to, let's say, 6%."

So, we see that more and more people demand very severe punishment of corrupt behavior, and even insist on public execution. This might serve as a strong signal to the government, that if no legal measures are undertaken, society threatens violence and spontaneous illegal cases of revenge, or even executions.

Speaking about the reason for the growth of corruption in the public sector, many respondents mentioned fear to expose corruption. A respondent (Int. code #6, 11/14/2000, 20:45, Chisinau) told us a story about when the tax inspector demanded a bribe from him in exchange for not reporting the detected violation. The economic police proposed to mark the money, so that they could prove that the tax inspector had received a bribe. The interviewee refused to do this, being afraid of revenge.

Another opinion expressed says that people do not report corruption because they feel unprotected: Int. code #47, 11/10/2000, 16:00, Chisinau. "One of the causes of the wide spread of corruption is the corporate interest of the inspectors. I may put him behind bars very easily, but his colleagues will do everything they can to destroy my business. I can not report that he demands a bribe. I am unprotected".

The last opinion we would like to present is the statement of a completely desperate person: Int. code #03, 11/8/2000, 15:00, Chisinau. "I have the impression that laws are written in such a manner in order to destroy this state..."

Conclusions

The main conclusions drawn from the answers to the questions for businessmen regarding corruption in tax and customs services are as follows:

1. According to the opinion of the absolute majority of businessmen, corruption is one of the main impediments in the development of the private sector in the Republic of Moldova;
2. Corruption in customs and tax services is mainly caused by two factors. On one hand, low wages and salary arrears force public officers to seek for additional income. On the other hand, a possibility to gain “quick money” and a low risk of being punished makes taking bribes very attractive.
3. There is a high level of public tolerance towards corruption from the side of civil society. This makes fighting corruption less effective.
4. Tax legislation is not widely understood, even by entrepreneurs. Officials can sometimes play on that and fool managers and extract payments. Such cheating more often occurs with small-scale firms.
5. In order to “ease” further inspections, businessmen try “to build good relations” with the inspector by offering money, gifts and services.
6. Inspectors sometimes assist entrepreneurs in reporting smaller amounts of sales or to hide illegal activities, which, again, implies sharing uncollected taxes.
7. When the inspector finds a violation of the rules, usually it is enough to pay an average of 30% of the fine directly to the inspector in order to avoid the reporting of the case. This makes bribes very attractive for both sides: businessmen and public officials. The losing side is the state and socially vulnerable strata.
8. Unlike similar public officers in Asian countries, those from Moldova usually do not demand bribes directly from businessmen before the inspection starts. However, inspectors use all possibilities to let the businessmen know that the fine is going to be high and they should undertake some measures to lower it.
9. According to the evidence, on an average, businessmen are visited more than 30 times per year both, officially or unofficially. If the businessman pays the bribe in advance, sometimes he might not even be inspected.
10. Businessmen are not inclined to report incidents when bribes are extorted by public officers because they feel unprotected by law.
11. Refusal to pay bribes is believed to further complicate business. This makes the businessmen more willing to offer bribes.
12. Very often a bribe exceeds the official wage of the inspector several times over. This makes a simple doubling of the wage an ineffective way of tackling corruption in customs and tax services.
13. There are no clear rules (nor a mechanism for enforcement) that would prohibit inspectors to be simultaneously hired at the enterprises under his control.
14. The so-called “corruption ladder” also seems to work well for the tax authorities. Positions in the tax administration are considered the most profitable in terms of the potential to generate revenue. Thus, many are willing to pay to get this type of job.

Payments are made not only when the employment decision is being made, but also afterwards on a regular basis. Promotion along the service ladder means a higher position on the “corruption ladder”, higher revenues and thus it has its price. There is a pyramid structure of corruption among the tax authorities and higher officials have a full authority over their subordinates. This is probably because of a high potential cost for losing a position in these institutions.

15. Not all of the positions in the tax administration are necessarily bought. Quite frequently social factors influence hiring decisions. Employing friends, relatives, etc. is very widespread, and is caused by social factors and by a need to have reliable assistants to better hide corruption.
16. The most corrupt sectors in the Republic of Moldova are believed to be health services, customs, and police. However, this might mean that these are just the most exposed to corruption sectors.
17. The most effective ways of fighting corruption in tax and customs services are believed to be increasing punishment costs for corrupt behavior. Very often the respondents require public punishment of corrupt persons.
18. Corruption in the customs sector can be dealt with only by carrying out a consistent customs reform. It must include the following measures:
 - Establishing a temporary board with all formal customs procedures along the river Nistru;
 - Examining of the possibility of a temporary introduction of the army in customs service;
 - Examining the possibility to transfer the customs service to the private sector;
 - Construction of customs service buildings, service modernization;
 - Minimizing the discretion in decision making;
 - Applying a competitive system in hiring employees;
 - Training customs officers (expertise techniques, responsibilities, classification of tariffs, using computers);
 - Enhancing fluidity of personnel within the departments for customs service control;
 - Raise the customs collaborator’s interest in good performance by granting as an incentive a certain percent of the value of seized goods.
 - Setting up a modern informational system;
 - Carrying out of cross-checking information with the tax inspectorates;
 - Using X-rays in customs service;
 - Making additional random inspections (5% of total) of documentation and goods by special groups after going through customs;
 - Introducing the principle of rotation of assignment and random allocation of examinations among customs officers and, in certain circumstances, regular relocation of staff;
 - The system of external auditing should be complemented with an internal unit that has the specific task of investigating all cases of suspected malpractice¹¹.

¹¹ Strategies to Combat Corruption in Ecuador, Customs Service, National Association of Business Owners, 1999

ANNEXES**A. MOLDOVA'S MAIN MACROECONOMIC INDICATORS, 1994-2000**

	1994	1995	1996	1997	1998	1999	2000
Real GDP growth rate	-30.9%	-1.4%	-7.8%	1.6%	-6.5%	-3.4%	1.9%
Nominal GDP (excl. Transnistria), lei million	4737	6480	7658	8917	9122	12322	15980
Nominal GDP, USD million	1164	1443	1665	1933	1689	1171	1285
GDP per capita, USD	322	400	463	538	470	326	358
Annual inflation rate (end period)	104.6%	23.8%	15.1%	11.1%	18.2%	43.8%	18.4%
Average inflation rate	587.0%	30.2%	23.5%	11.8%	7.7%	39.3%	31.2%
Current account, USD million	-92	-115	-188	-275	-322	-35	-152
Current account, as % of GDP	-7.9%	-8.0%	-11.3%	-14.2%	-19.1%	-3.0%	-11.8%
Merchandise exports, USD million	618	739	823	890	644	469	480
Export, yr/yr	156.5%	119.6%	111.4%	108.1%	72.3%	72.9%	102.3%
Merchandise imports, USD million	672	794	1075	1238	1032	597	790
Import, yr/yr	126.8%	118.2%	135.4%	115.1%	83.4%	57.9%	132.3%
Trade balance, USD million	-54	-55	-252	-348	-388	-128	-310
Direct investment, USD million	18	73	23	71	86	34	115
Direct investment, as % of GDP	1.5%	5.1%	1.4%	3.7%	5.1%	2.9%	8.9%
Portfolio investment, net, USD million	0	0	54	237	-55	-140	94
Stock of public external debt (incl. IMF), USD million	506	659	766	1013	971	926	1003
Stock of debt as % of GDP	43.5%	45.7%	46.0%	52.4%	57.5%	79.1%	78.0%
Stock of debt as % of exports of GFS	77.7%	76.2%	81.7%	98.9%	127.3%	153.1%	157.2%
Debt servicing (principal+interest), USD million	38	98	75	179	205	262	153
Debt servicing as % of exports of GFS	5.8%	11.4%	8.0%	17.5%	26.9%	43.3%	24.0%
Consolidated state budget balance (incl. SF)	-500	-438	-582	-692	-300	-380	-258
Consolidated state budget bal. (incl. SF) as % of GDP	-10.6%	-6.8%	-7.6%	-7.8%	-3.3%	-3.1%	-1.6%
Internal debt, million lei	270	477	737	984	1572	1910	2021
Internal debt as % of GDP	5.8%	5.7%	7.4%	9.6%	11.0%	17.2%	15.5%
NBM gross forex reserves, USD million	180	258	316	368	141	182	222
NBM reserves in months of imports of GFS	2.88	3.05	3.03	3.10	1.38	2.89	2.76
NBM net forex reserves, USD million	13.3	29.7	73.1	134.3	-30.2	6.9	62.0
Cash in circulation M0, million lei	345.4	638.8	731.1	972.1	855.3	1122.0	1469.3
Reserve money	552.1	781.5	854.0	1122.6	1059.9	1498.6	1945.7
M2, million lei	675.7	1107.2	1292.2	1738.9	1358.0	1811.1	2514.4
Broad money M3, million lei	753.0	1243.8	1434.1	1922.1	1755.8	2504.3	3511.4
M3 multiplier	1.36	1.59	1.68	1.71	1.66	1.67	1.80
Velocity of M3	6.29	5.21	5.34	4.64	5.20	4.92	4.55
Monetization of the economy	15.9%	19.2%	18.7%	21.6%	19.2%	20.3%	22.0%
Dollarization of commercial banks' deposits	19.0%	22.6%	20.2%	19.3%	44.2%	50.2%	48.8%
End-year exchange rate, lei/1USD	4.27	4.50	4.65	4.66	8.32	11.59	12.38
Average exchange rate, lei/1USD	4.07	4.49	4.60	4.61	5.40	10.52	12.43
Nominal end-year annual appr.(+)/depr.(-), MDL/USD	-17.3%	-5.4%	-3.4%	-0.2%	-78.6%	-39.3%	-6.8%
Nominal end-year annual appr.(+)/depr.(-), USD/MDL	-14.8%	-5.1%	-3.2%	-0.2%	-44.0%	-28.2%	-6.4%
Real end-year annual appreciation(+)/depreciation(-)	+74.4%	+17.5%	+11.4%	+10.8%	-33.8%	+3.3%	+10.8%

Source: Center for Strategic Studies and Reforms.

B. SELECTED INDICATORS RELATED TO HUMAN DEVELOPMENT*Table 1. **Human Development Index (HDI)**

	1993	1994	1995	1996	1997	1998	1999
Gross domestic product (GDP) per capita in:							
- lei, current prices	505	1313	1798	2167	2441	2498	3346
- US dollars at purchasing power parity	2935	2975	2105	2128	2207	2087	2033
Adult population literacy degree (%)	96.4	96.4	96.4	96.4	96.4	96.4	96.4
Education coverage gross degree (%)	71.7	70.2	71.1	71.8	72.9	73.4	71.2
Life expectancy at birth (years)	67.5	66.1	65.8	66.7	66.6	67.8	67.4
Index of							
- gross domestic product	0.564	0.566	0.518	0.510	0.517	0.507	0.507
- education	0.881	0.877	0.880	0.882	0.886	0.887	0.880
- life expectancy	0.708	0.685	0.680	0.695	0.693	0.713	0.707
Human Development Index (HDI)	0.718	0.709	0.689	0.696	0.699	0.702	0.698

Table 2. **Demographic profile**

	1995	1996	1997	1998	1999
Population at 1 January (thou persons)	4347.9	4334.4	4320.0	4304.7	4293.0
Annual birth rate (%)	-0.1	-0.3	-0.3	-0.3	-0.3
Birth-rate (per 1000 inhabitants)	13.0	12.0	12.5	11.3	10.6
Mortality rate (per 1000 inhabitants)	12.2	11.5	11.8	10.9	11.3
Birth rate (per 1000 inhabitants)	0.8	0.5	0.7	0.4	-0.7
Life expectancy at birth (years)	65.8	66.7	66.6	67.8	67.4
Nuptiality rate (per 1000 inhabitants)	7.5	6.0	6.1	6.0	6.5
Divorce rate (per 1000 inhabitants)	3.4	3.1	2.8	2.8	2.4
Infant mortality rate (per 1000 live-born)	21.2	20.2	19.8	17.5	18.2
Mortality:					
- infant (per 1000 live births)	21.2	20.2	19.8	17.5	18.2
- 0-4 years (per 1000 live births)	27.4	26.2	25.9	22.9	23.9
- maternal (per 1000 births)	40.8	40.2	48.3	36.3	28.6
Share of live births (%)	-	-	-	7.9	4.9
Conjunctural fertility rate	1.76	1.60	1.66	1.49	1.37
Abortions rate per one live-born	1.0	0.9	0.7	0.7	0.6
Share of population of 0-15 years (%)	28.6	28.1	27.6	27.4	26.7
Share of population of 65 years and more (%)	9.0	9.0	9.1	9.3	9.3
Demographic dependence correlation (%)	60.1	59.1	57.9	58.0	56.3
Number of emigrants for permanent residence (thou persons)	5.4	4.7	5.5	4.8	6.3

*Source (all tables in this annex):

Republic of Moldova-2000. National Human Development Report. UNDP Moldova/CISR

Table 3. **Health**

	1995	1996	1997	1998	1999
Mortality rate (per 1000 inhabitants) by causes:					
- circulatory system diseases	568.62	576.56	612.43	575.63	623.41
- malignant cancers	131.81	134.0	130.9	131.89	127.36
- respiratory system diseases	78.3	70.37	72.91	65.93	71.17
Infant mortality rate (per 1000 live births)	21.2	20.2	19.8	17.5	18.2
Maternal mortality rate (per 1000 births)	40.8	40.2	48.3	36.3	28.6
New cases of active tuberculosis (per 100 thou inhabitants)	54.5	58.8	58.9	67.9	61.8
AIDS cases (per 100 thou inhabitants)	0.05	0.02	0.2	0.1	0.1
Population per doctor	252	250	261	263	273
Population per sanitary institution	96	100	102	105	119
Hospital beds (per 1000 inhabitants)	12.2	12.1	11.6	11.2	8.2
Public spendings on health and social assistance (% of GDP)	7.4	7.6	6.4	5.0	
Persons placed in hospitals:					
total, thou	939	858	831	786	647
per 100 places	21.6	19.8	19.3	18.3	15.1
Visits to doctor:					
total, mil	35	36	36	36	25
per one inhabitant	8.2	8.3	8.4	8.3	5.9
Number of private sanitary institution: medical institutions of ambulatory or out-patients' clinic type that offer medical help to the population	30	13	11	10	216
- hospitals	-	-	1	4	5
- institutions of medical attendants	1	4	7	12	9
- drug-stores	18	344	371	431	423

Table 4. **Education**

	1995/96	1996/97	1997/98	1998/99	1999/2000
Institutions – total	1674	1696	1706	1737	1746
Population of school age, thou	766.5	778.0	786.5	788.1	770.9
Teachers, thou	57.1	55.3	55.2	53.6	53.1
Schools, gymnasiums, lyceums					
<i>Daily schools, gymnasiums, lyceums</i>	1515	1530	1536	1549	1558
Students, thou	642.8	649.5	652.7	650.7	643.1
Teachers, thou	46.5	44.8	45.0	44.8	43.2
Evening schools	11	10	9	7	7
Students, thou	3.1	2.9	2.7	2.5	2.1
Teachers, thou	0.2	0.2	0.1	0.1	0.1
Secondary professional education institutions					
Number of educational institutions	78	81	80	87	81
Students, thou	34.8	34.0	32.7	32.5	23.0
Teachers, thou	3.5	3.4	3.2	1.6	2.5
Colleges					
Number of colleges	50	51	53	56	57
Students, thou	31.0	33.3	32.8	29.7	25.4
Teachers, thou	2.6	2.5	2.3	2.4	2.2
Higher university education institutions					
Number of higher university education institutions	20	24	28	38	43
Students, thou	54.8	58.3	65.6	72.7	77.3
Teachers, thou	4.3	4.4	4.6	4.7	5.1
Accounted for 10000 inhabitants					
Students in schools	1794	1813	1796	1790	1770
Students in secondary professional education institutions	97	94	89	89	63
Students in colleges	86	93	90	81	70
Students in higher university education institutions	152	162	180	199	212
Education coverage gross rate (%) in:					
- primary education	98	99	99	97	96
- gymnasium education	94	93	90	88	90
- secondary education (cycle II)	46	47	48	49	42
- higher education	37	39	40	42	42
Share of public expenditure for education					
- in GDP	9.3	11.1	10.4	7.8	
- in the general consolidated budget	24.2	28.3	24.7	21.2	16.4

Table 5. **Culture**

	1995	1996	1997	1998	1999
Number of book and brochure titles	1016	921	1104	1200	1174
- per 1000 inhabitants	28.2	25.6	30.2	32.9	32.2
Number of readers registered in libraries, thou	1174.9	1113.1	1104.2	1112.5	1043.6
- per 100000 inhabitants	326.0	309.3	302.2	304.6	286.2
Books and magazines given out, thou	22540.6	21461.5	21740.8	22169.3	21080.8
- per 1000 inhabitants	6254.9	5963.4	5950.4	6070.2	5781.3
Museum visitors, thou	663.7	686.8	752.0	628.1	557.3
- per 1000 inhabitants	184.2	190.8	205.8	172.0	152.8
Cinema-goers	55674	29257	20290	11308	4032
- per 1000 inhabitants	15.5	8.1	5.6	3.1	1.1
Cinema-goers, thou	981.0	576.4	292.9	162.3	57.3
- per 1000 inhabitants	272.2	160.2	80.2	44.4	15.7
Theater or concert goers (theater, philharmonic society, independent collectives)	2301	2236	1985	1823	1438
- per 1000 inhabitants	0.6	0.6	0.5	0.5	0.4
Theater or concert goers (theater, philharmonic society, independent collectives), thou	548.9	559.7	436.1	404.8	279.8
- per 1000 inhabitants	152.3	155.5	119.4	110.8	76.7

Table 6. **Violence and criminality**

	1995	1996	1997	1998	1999
Persons condemned definitively, total	14599	13532	13895	13754	14606
- per 100 000 inhabitants	397	369	380	377	401
Share in total condemned persons (%) of					
- women	10	10	9	9	8
- minors	12	12	11	12	11
- condemned before	24	10	8	10	9
Persons serving sentence in penitentiary institutions					
- total	6693	6790	6398	6743	6421
- per 100 000 inhabitants	182	185	175	185	176
Number of crimes (per 100 000 inhabitants)	999	908	1042	945	1037
Robberies and plunders (per 100 000 inhabitants)	80	72	89	77	88
Larseny (per 100 000 inhabitants)	622	538	594	543	582
Economical crimes (per 100 000 inhabitants)	14	14	35	38	33
Number of rapes (per 100 000 women)	12	14	12	12	13

Table 7. **Employment**

	QIV 1998	QIV 1999	1999
Population employed, thou persons	1450	1489	1495
- of which women	726	744	755
Share of employed in private sector, %	66.0	65.8	66.8
Share of employed (%) in:			
- agriculture, total	45.7	48.9	48.8
of which private sector	89.0	91.1	90.7
- industry, total	12.8	11.4	10.7
of which private sector	49.7	50.6	49.8
- construction, total	3.4	3.0	2.9
of which private sector	57.4	63.1	55.7
- services, total	38.1	36.6	37.6
of which private sector	29.2	36.9	33.8
Share of employed in public services, %			
- health-care	5.7	5.0	5.4
- education	9.0	8.9	9.2
- public administration	3.5	3.3	3.3
Number of employees, thou persons	1043	920	932
Employees' share of employed, %	71.9	61.8	62.3
Share of employees in private sector in population employed in this sector, %	53.4	48.5	48.7
Share of women among employees, %	50.0	48.4	49.8
Correlation of economic dependency, %	1518	1451	1443
Employment rate, %	87.2	90.0	88.9
Labor force renewal rate, %	125.9 ¹⁾	...	120.0 ²⁾

¹⁾ 1 January 1998; ²⁾ 1 January 1999

Table 8. Enrollment in labor force

	QIV 1998	QIV 1999	1999
Active population's share of total population, %	45.6	45.3	46.1
- women	42.8	42.4	43.6
Enrollment rate of population of working age (15-60 years), %	69.2	67.7	69.0
- women	65.9	63.7	65.5
Enrollment rate of the young (15-24 years), %	43.6	38.7	42.2
- women	40.5	33.2	37.8
Enrollment rate of elderly (over 50 years), %	36.7	39.4	39.2
- women	28.4	31.9	32.1
Structure of the active population by professional status ¹ , %			
- total	100.0	100.0	100.0
of which:			
- employees	71.3	66.8	66.8
- patrons	0.7	0.7	0.5
- self-employed	17.7	23.8	22.6
- family workers w/o wage	5.2	5.7	6.0

Source: Questionnaire on labor force in households

¹ Classification of the unemployed was done by professional status at the last workplace

Table 9. **Unemployment**

	1995	1996	1997	1998	1999
Registered unemployed¹					
Number of unemployed (persons)	24543	23426	27973	32021	34918
Unemployment rate (%)	1.4	1.5	1.5	1.9	2.1
Share of dole beneficiaries among total registered unemployed (%)	32.5	29.8	26.7	25.2	32.6
Correlation between the average dole and average wage (%)	37.9	34.2	37.3	31.7	33.2
Number of the unemployed inscribed in retraining program	2139	3356	3506	4244	2640

	QIV a.1998	QIV a 1999	1999
ILO unemployed²			
Number of unemployed	213562	164641	187231
Unemployment rate (%)			
- total	12.8	10.0	11.1
- male	14.8	12.0	13.3
- female	10.8	7.9	8.9
Youth unemployment rate (%) (15-24 ani)	24.0	19.7	22.3
Incidence of long-term unemployment (share of total number) (%):			
- 6 months and more	17.3	18.8	17.8
- men	16.6	18.1	17.3
- women	18.3	19.9	18.6
- 12 months and more	23.1	22.4	33.1
- men	23.7	21.0	32.9
- women	22.3	24.6	33.3
- 24 months and more	35.9	32.6	41.1
- men	36.6	34.0	41.9
- women	35.0	30.2	39.9
Share of persons underemployed in active population (%)	0.8	0.4	0.4
- women	1.2	0.5	0.5
Share of discouraged persons in active population (%)	5.2	5.4	5.0
- women	4.8	5.0	4.7

Source: Questionnaire on labor force in households

¹ Unemployed registered at the Labor Force Offices, at the end of the year² Secundum to the criteria of the International Labor Organization

Table 10. **Human potential of women**

	1995	1996	1997	1998	1999
Life expectancy at birth (years)	69.7	70.4	70.3	71.4	71.0
1994 = 100	99.9	100.9	100.7	102.3	101.7
Conjunctural fertility indicator	1.8	1.6	1.7	1.5	1.4
1994 = 100	92.3	82.1	87.2	76.9	71.8
Maternal mortality rate (per 100000 born)	40.8	40.2	48.3	36.3	28.6
Education coverage gross rate (%):					
- primary	97	99	98	97	96
- secondary ¹⁾	77	76	75	73	73
The dynamics of education coverage gross rate, 1994 =100 (%)					
- primar	100	102	101	100	99
- secondary ²⁾	103	101	100	97	97
Female students per 100000 inhabitants ²					
- number	2381	2547	2692	2804	2817
- 1994 =100 %	105	112	119	124	124

¹⁾ General secondary education (gymnasiums, lyceums, general secondary) and professional secondary

²⁾ Short-term (colleges) and universities

Table 11. **Female – male disparity**

	1995	1996	1997	1998	1999
Life expectancy at birth (years),	65.8	66.7	66.6	67.8	67.4
- women	69.7	70.4	70.3	71.4	71.0
- men	61.8	62.9	62.9	64.0	63.7
Secondary education coverage gross rate (cycle II) ¹⁾ (%)					
- women	44	45	47	47	42
- men	48	49	49	50	41
Higher education coverage gross rate ²⁾ (%)					
- women	42	43	46	48	48
- men	33	34	35	36	36

¹⁾ gymnasiums not included

²⁾ short-term (colleges) and universities

Table 12. **Structure of revenue and expenditure of households, %**

		Households, total	Households from	
			urban localities	rural localities
Available revenue	1998	100	100	100
	1999	100	100	100
- Wage revenue	1998	34.7	56.9	16.8
	1999	35.4	57.7	15.3
- Revenue from agricultural activity	1998	39.4	6.7	65.7
	1999	38.5	6.5	67.2
- Revenue from individual activity	1998	3.0	4.9	1.5
	1999	3.3	5.5	1.4
- Public services	1998	10.5	11.8	9.5
	1999	8.7	10.8	6.8
- Other revenues	1998	12.4	19.7	6.5
	1999	14.1	19.5	9.3
Consumer expenditure	1998	100	100	100
	1999	100	100	100
- Food and beverages	1998	69.7	60.4	77.6
	1999	69.0	58.5	78.8
- Clothes and shoes	1998	7.1	8.9	5.6
	1999	6.6	7.8	5.6
- Dwelling	1998	10.0	13.5	6.9
	1999	11.8	15.9	7.9
- Medication and medical care	1998	3.3	4.1	2.7
	1999	3.7	4.7	2.8
- Transport and communications	1998	5.1	5.7	4.6
	1999	4.3	6.4	2.4
- Education	1998	0.5	0.9	0.2
	1999	0.4	0.4	0.4
- Recreational activity	1998	1.6	2.3	0.9
	1999	1.5	2.5	0.5
- Hotels, restaurants, etc.	1998	0.5	0.9	0.1
	1999	0.3	0.7	0.1
- Other expenditures	1998	2.2	3.2	1.4
	1999	2.4	3.1	1.5

Table 13. **Structure of consumer expenditure of households, by quintiles**

		Households situated in quintile:				
		1	2	3	4	5
Consumer expenditure	1998	100	100	100	100	100
	1999	100	100	100	100	100
of which						
- Food and beverages	1998	90.7	85.9	82.2	75.6	56.4
	1999	89.6	86.5	82.5	75.8	54.8
- Clothes and shoes	1998	1.9	2.9	3.8	5.8	10.5
	1999	1.5	2.5	3.7	5.1	9.9
- Dwelling	1998	3.9	5.9	6.9	8.9	13.1
	1999	5.5	5.7	7.1	9.6	16.5
- Medication and medical care	1998	1.0	1.8	2.3	3.1	4.4
	1999	1.0	1.6	2.1	2.9	5.4
- Transportation and communications	1998	1.3	1.7	2.5	3.5	8.0
	1999	1.1	1.9	2.2	3.4	6.5
- Education	1998	0.0	0.1	0.1	0.2	1.0
	1999	0.0	0.0	0.2	0.2	0.7
- Recreational activity	1998	0.4	0.4	0.6	1.0	2.6
	1999	0.4	0.5	0.7	0.8	2.4
- Hotels, restaurants, etc.	1998	0.1	0.2	0.1	0.3	0.8
	1999	0.0	0.1	0.1	0.2	0.6
- Other expenditures	1998	0.8	1.2	1.4	1.7	3.1
	1999	0.9	1.2	1.4	2.0	3.2

Table 14. **Consumer expenditure of households, by location**

	<i>Monthly average per one person, lei</i>		Compared to the national average level (%)	
	1998	1999	1998	1999
National average	125.5	140.5	1.000	1.000
Households from:				
- urban locality	157.4	183.9	1.254	1.309
- rural locality	107.3	114.7	0.855	0.816

Table 15. **Structure of consumer expenditure of households, by location**

		<i>Urban locality</i>		<i>Rural locality</i>	
		Quintile I	Quintile V	Quintile I	Quintile V
Consumer expenditure	1998	100	100	100	100
	1999	100	100	100	100
of which:					
- Food and beverages	1998	86.9	51.0	91.7	63.9
	1999	86.8	49.1	90.6	65.5
- Clothes and shoes	1998	1.7	12.3	1.9	8.1
	1999	1.0	10.2	1.7	9.3
- Dwelling and	1998	5.1	15.4	3.6	9.9
	1999	7.0	18.6	5.0	12.3
- Medication and medical care	1998	1.9	4.6	0.7	4.2
	1999	1.5	5.7	0.8	4.7
- Transport and communications	1998	2.1	6.9	1.1	9.5
	1999	1.5	7.9	0.9	3.7
- Education	1998	0.1	1.3	0.0	0.5
	1999	0.1	0.4	0.0	1.3
- Recreational activity	1998	0.8	3.2	0.2	1.8
	1999	0.6	3.3	0.3	0.9
- Hotels, restaurants, etc.	1998	0.1	1.3	0.1	0.1
	1999	0.1	0.9	0.0	0.1
- Other revenue	1998	1.3	4.0	0.7	2.0
	1999	1.4	3.9	0.7	2.2

Table 16. **Distribution of population's consumer expenditure, by quintiles**

	<i>Total</i>		Share of food and nonalcoholic beverages in total consumer expenditure	
	1998	1999	1998	1999
Consumer expenditure – total	100	100	65.7	64.7
By quintiles				
- I	5.9	6.2	86.8	85.6
- II	10.6	10.6	81.3	81.5
- III	15.2	14.9	77.4	77.0
- IV	22.1	21.3	71.5	70.8
- V	46.2	46.9	52.8	51.4

Table 17. **Creation and utilization of GDP**

	1995	1996	1997	1998	1999
Gross domestic product (mil lei, current prices)	6480	7798	8917	9122	12204
Share of gross TAV in gross domestic product (%) in:					
- agriculture, forestry, pisciculture	29.3	27.5	26.0	25.8	22.3
- industry and construction	28.5	26.9	25.0	19.9	19.2
- services	30.9	33.2	35.0	39.0	47.4
Share in gross domestic product (%):					
Final consumption – total	82.9	94.3	97.4	100.9	87.8
- of households	55.8	67.2	67.5	75.4	68.8
- of public administration	25.9	26.0	28.8	24.7	19.0
- of private administration	1.2	1.1	1.1	0.8	0.0
Gross formation of fixed capital	16.0	19.7	19.9	22.1	18.8
Export	60.1	55.3	53.2	45.0	40.0
Import	67.9	73.9	74.4	71.8	49.8
Gross savings mil.lei	1206	1031	930	513	
Tax revenue of consolidated budget, mil.lei	2002	2074	2942	2722	3100
State budget expenditure, mil. lei	1409	1472	2725	2322	2853
Share of private sector in gross domestic product	56	58	56	53	53

Table 18. **Revenue, consumption and social expenditure**

	1995	1996	1997	1998	1999
Gross domestic product per inhabitant in:					
- lei, current prices	1798	2167	2441	2498	3347
- US dollars, at the purchasing power parity	2105	2128	2207	2087	2033
Share of available gross revenue of households in GDP (%),	69	70	69	65	...
Average monthly nominal wage, lei	143.2	187.1	219.8	250.4	304.6
Public property	150.3	203.0	234.4	263.9	297.6
Private property	122.4	151.0	174.3	194.4	256.6
Mixed property (public and private)	207.8	280.9	354.8	432.7	525.1
Property of enterprises with foreign investments	238.2	342.7	361.3	572.7	763.4
Minimal wage (lei)	18	18	18	18	18
Share of expenditure of law-enforcement bodies (%)	6.7	5.8	7.0	5.9	...
- in GDP	9.8	13.2	13.6	14.2	15.0
- in general consolidated budget					
Share of public expenditure on education (%)	9.3	11.1	10.4	7.8	...
- in GDP					
- in general consolidated budget	24.2	28.3	24.7	21.2	16.4
Share of public expenditure on health-care and social assistance (%)	7.4	7.6	6.4	5.0	...
- in GDP					
- in general consolidated budget	15.8	18.4	14.9	13.0	10.2
Average annual consumption³ per inhabitant (kg)					
- meat and meat products recomputed in meat (including lard and subproducts in kind)	23.0	25.3	25.0	26.7	24.5
- milk and dairy-products (recomputed in milk)	165.2	161.4	154.5	155.4	145.0
- eggs (units)	107.2	116.0	121.1	121.9	132.3
- sugar	21.0	22.5	21.2	21.0	-
- bakery (bread and flour pastes recomputed in flour, flour, cereals and legumes)	135.0	126.9	134.9	133.9	133.1
- potatoes	67.8	71.0	68.8	65.1	61.5
- vegetables and legumes	86.3	64.8	69.0	112.5	109.0
- fruits, berries and grapes (w/o prelucrare into wine)	59.7	59.3	77.5	47.7	27.2

Table 19. **Evolution of economic results**

	1995	1996	1997	1998	1999
GDP annual rate (%)	98.6	94.1	101.6	93.5	95.6
GDP annual rate per inhabitant (%)	98.8	94.2	100.1	93.5	95.7
Annual average rate of inflation (%)	30	24	12	8	39
Export (%) in GDP	60.1	55.3	53.2	45.0	40.0
Tax revenues (%) in GDP	30.9	26.6	33.0	29.8	25.4
Excess/deficit of the general consolidated budget (%) in GDP	-5.8	-9.7	-7.5	-3.4	-3.2

Table 20. **Revenue and expenditure of consolidated budget**

	1995	1996	1997	1998	1999
Revenue – total (mil. MDL)	2002.0	2074.2	2941.7	2721.9	3100.3
Share of total revenue (%):	100	100	100	100	100
- tax on entrepreneurial activity income	19.9	17.3	8.3	6.6	7.5
- income tax	10.1	10.6	9.6	8.2	7.1
- land tax	4.6	5.6	4.3	3.1	4.5
- real estate tax	0.6	0.7	1.0	0.8	0.8
- added value tax	28.8	29.6	32.3	41.3	30.3
- excise taxes	9.5	9.5	13.6	13.8	14.3
- foreign economic activity income	2.6	4.6	4.3	4.0	7.4
- other taxes, levy and receipt	23.9	22.1	26.6	22.2	28.1
Share of total revenues in GDP (%)	30.9	26.6	33.0	29.8	25.4
Expenditure – total (mil. MDL)	2376.0	2827.0	3608.4	3027.1	3495.3
Share of total expenditure (%)	100	100	100	100	100
Economic expenditure	6.8	8.7	8.1	9.3	8.8
Expenditure on foreign economic activity	4.7	...	1.1	1.2	1.6
Social expenditure – total	47.6	54.9	55.4	8.8	42.5
Of which:					
- education	24.2	28.3	24.7	21.2	16.4
- health-care	15.8	18.4	14.9	13.0	10.2
- social assistance	1.8	1.9	12.6	11.9	13.3
On maintenance of law-enforcement bodies, authorities and state administration	9.6	12.4	13.6	14.2	15.0
Capital investments	5.9	5.3	6.5	6.8	3.2
Other measures	25.4	18.7	15.3	19.7	28.9
Share of total expenditure in GDP, %	36.7	36.2	40.5	33.2	28.6
Excess(+), deficit (-) (mil. MDL)	-374.0	-752.8	-666.7	-305.2	-395.0
- in % compared with GDP	5.8	9.6	7.5	3.3	3.2

Table 21. **Revenue and expenditure of Social Insurance State Budget**

	1995	1996	1997	1998	1999
Revenues total (mil.MDL)	662.2	764.7	1323.2	920.5	907.8
Share of the following revenue in total revenue,%:					
- social insurance	81.0	92.1	27.0	84.7	86.1
- budget allocations	6.7	3.1	23.1	14.9	13.7
Share of total revenue in GDP (%)	10.2	9.8	14.8	10.1	7.4
Expenditure total(mil.MDL)	651.1	766.2	1317.3	911.9	888.6
Share of the following expenditure in total expenditure (%):					
- payment of pensions	78.7	77.0	64.1	71.7	81.2
Including					
- for pension age	75.3	59.6	40.3	31.6	54.3
- payment of rewards and compensations	15.9	13.9	9.4	19.8	13.7
Including					
- for temporary work incapacity	7.7	7.3	4.4	6.3	6.3
- payment of dole	0.8	0.5	0.4	0.5	0.9
Share of total expenditure in GDP (%)	10.0	9.8	14.8	10.0	7.3
Excess(+),deficit (-),mil.MDL	+11.1	-1.5	+5.9	+8.6	+19.2
Exess / deficit of budget (%) in GDP	0.17	-0.02	0.07	0.09	0.16

Table 22. **Foreign trade activity¹⁾**

	1995	1996	1997	1998	1999
Rate of coverage of imports by exports (%)	88.7	74.1	74.6	61.7	80.7
Share of exports in GDP (%)	51.7	46.9	45.3	36.6	40.4
Share of commercial balance deficit in GDP (%)	6.7	16.3	15.3	22.3	9.7
Commercial balance. mil. US dollars	-95.2	-277.3	-297.1	-391.8	-110.8

	1995-1999
Average annual rate of export increase (%)	-1.2
Average annual rate of import increase (%)	1.5

¹⁾ merchandise

Table 23. **Urbanization**

	1995	1996	1997	1998	1999	2000
Share of urban population (%)	46.4	46.2	46.2	46.2	46.0	46.0
Urban population growth rate (%)	-0.2	-0.6	-0.4	-0.4	-0.5	-0.4
The largest city: Chişinău						
- number of population (thou persons)	661.5	661.9	664.7	663.2	663.6	663.4
- growth rate (%)	0	+0.1	+0.4	-0.2	+0.1	0

	1960	1995	2000
Share of urban population (%)	23.2	46.4	46.0

	1960-1995	1995-2000
Urban population's average annual growth rate (%)	3.0	-0.48

	1970-1995	1995-2000
Population's average annual growth rate (%) Municipality Chişinău	2.5	0.05

Table 24. **Rural – urban disparity**

	1995	1996	1997	1998	1999
Share of rural population (%)	53.6	53.8	53.8	53.8	54.0
Life expectancy at birth (years) – total	65.8	66.7	66.6	67.8	67.4
- rural locality	64.6	66.0	65.9	67.3	66.8
- urban locality	67.3	67.5	67.6	68.4	68.4
Share of population of 0-15 years age (%)					
- rural locality	30.5	30.1	29.6	29.4	28.7
- urban locality	26.3	25.7	25.1	24.7	23.9
Share of population over 65 years (%)					
- rural locality	10.7	10.7	10.8	10.9	10.9
- urban locality	7.0	7.0	7.1	7.0	7.0
Correlation of demographic dependence (%)					
- rural locality	70.1	69.1	68.0	67.6	65.5
- urban locality	49.9	48.7	47.4	46.4	44.9
Natality rate – total (‰)	13.0	12.0	12.5	11.3	10.6
- rural locality	14.9	13.8	14.2	12.8	11.9
- urban locality	10.8	9.8	10.1	9.3	8.7
Fertility rate – total (‰)	1.8	1.6	1.7	1.5	1.4
- rural locality	2.2	2.0	2.1	1.8	1.6
- urban locality	1.3	1.2	1.2	1.1	1.0
Infant mortality rate – total (‰)	21.2	20.2	19.8	17.5	18.2
- rural locality	22.3	21.1	21.3	16.0	16.9
- urban locality	19.5	18.7	16.8	20.5	20.7
Total average area per inhabitant (m ²) – total	19.9	20.1	20.0	20.4	20.7
- rural locality	16.9	17.0	17.3	17.7	18.2
- urban locality	22.2	22.4	22.0	22.4	22.4
Average total area per inhabitant (m ²) – total – at 31 st December	14.0	14.1	14.0	14.3	14.5
- rural locality	10.9	11.0	11.2	11.4	11.8
- urban locality	16.4	16.5	16.1	16.3	16.3

	QIV 1998	QIV1999	1999
Unemployment rate, total	12.8	10.0	11.1
- rural locality	19.9	17.5	19.1
- urban locality	7.5	4.4	5.4

Table 25. **Energy consumption**

	1995	1996	1997	1998	1999
Primary resources de energie hidroelectrică thou tons c.c.)	28	28	28	27	30
Energy consumption (thou tons c.c.)	5085	5045	4725	4218	3320
Of which: consumption of population	528	713	808	697	610
Annual average consumption of energy per inhabitant (kg c.c.)	1411	1402	1314	1155	910
GDP (MDL. current prices) per one kg c.c. consumed	1274	1546	1887	2163	3676
Share of import in energy consumption (%)	100.5	93.6	100.7	93.3	93.1
Annual average consumption of electric energy per inhabitant (KWh)	579	652	516	307	178
GDP (MDL. current prices) per one KWh consumed	3.10	3.32	4.81	8.13	18.81

Table 26. **Natural resources at 1st January**

	1995	1996	1997	1998	1999	2000
Total area (thou ha)	3385.1	3385.3	3384.5	3384.4	3384.4	3384.4
Share of forest area ¹ (%)	12.6	12.6	12.5	12.5	12.5	12.5
Share of arable area (%)	52.0	52.4	52.7	53.1	53.5	53.6
Share of arable area arranged for irrigation in arable area (%)	15.3	15.3	15.2	15.1	15.0	14.9
Share of public owned area (%)	43.1	32.1	32.8	33.3	33.5	34.4

¹ forests, plantations of bushes, protective forest plantations

Table 27. **Environment**

	1995	1996	1997	1998	1999
Pesticides by agricultural grounds (kg/ha)	1.8	1.3	1.4	1.3	1.1
Total expenditure on environment protection (mil.lei. current prices)	...	92	103	94	112

Table 28. **Impact of the economic activity on environment and natural resources**

	1995	1996	1997	1998	1999
Volume of water received from water resources (mil.m ³)	2005	1891	1513	1263	999
Water consumption (mil.m ³)	1889	1766	1412	1176	920
Consumption of water in systems of closed and consecutive circuit (mil.m ³)	558	502	510	453	396
Volume of evcuarii of residual polluted water (mil.m ³)	15	12	11	12	10
Including into Nister (mil.m ³)	10	8	8	10	3
Emissions of harmful substances into air – total (thou tons)	279	137	250	205	130
<i>Of which</i>					
- by stationary purification sources	41	37	34	31	20
- by auto transport	238	100	216	174	110
<i>Forest cutting (principal cuts and regarding forests renewal) (mil.m³)</i>	128	117	189	197	198