Executive summary

Highlights

May 2011

Outlook for 2011-12

- There will be broad political and policymaking continuity under the Alliance for European Integration (AEI) coalition government that was reconstituted in January 2011 following an election in November 2010.
- Uncertainty will remain on the issue of the election of the president. Growing tensions between coalition parties will increase the chances of failing to find a way to elect a new president.
- There is some risk of social unrest, given the continuing fallout from the economic downturn and the internationally sanctioned austerity programme.
- A settlement with Transdniestr is unlikely to be achieved in 2011-12.
- Economic policy will be guided by the country's IMF agreement. The budget deficit will shrink to a forecast 1.5% of GDP by 2012, and the recent release of IMF funds will support the credibility of the government's reform plans.
- After an initial post-recession bounceback in 2010, the Economist Intelligence Unit expects slower—but still relatively robust—GDP growth of 4.5% in 2011, picking up to 4.7% in 2012.
- Rising food and energy prices will keep inflation high in 2011, but completion of the adjustment of gas import prices to European levels and a fall in global food prices should help inflation to drop to 6% by end-2012.
- The current-account deficit is forecast to remain large in 2011-12, albeit smaller than in the pre-crisis period, at an average of 9-10% of GDP.

Monthly review

- A dispute between members of the governing coalition over the date of the local elections in 2011 has highlighted rivalries and conflicts of interest within the coalition government.
- The date for the local elections has been set for June 5th, with the Liberal Democratic Party (LDP) slightly ahead of the opposition Party of Communists of the Republic of Moldova (PCRM) in the polls.
- Consumer price inflation rose to 5.8% year on year in March, pulled up by the rising cost of fuel.
- The budget for 2011 was passed at the end of March, eliciting the release of the second tranche, of US$79m, under the US$590m extended credit facility (ECF)/extended fund facility (EFF) with the IMF.
- The current-account deficit widened moderately in 2010. A widening of the trade gap, linked to Moldova's structural trade imbalance, was partially offset by remittance inflows, which continued to grow in early 2011.

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Outlook for 2011-12

Political outlook

Political stability

Following the parliamentary election in November 2010, a reconstituted Alliance for European Integration (AEI) coalition government was formed, implying broad political and policymaking continuity. Vlad Filat has continued as prime minister, and the new cabinet is little changed. However, uncertainty will remain, owing to the unresolved issue of the election of the president. The reconstituted AEI coalition lacks the three-fifths majority in parliament to vote in a new president. The parliamentary election in November was the third in less than two years, because parliament failed to elect a new president in April and July 2009, throwing the country into a period of political uncertainty. After the election in July 2009 the AEI did not win sufficient parliamentary seats to choose the next president, and the opposition boycotted the presidential vote. According to the constitution, another parliamentary election must be held if parliament fails to elect a president.

The political outlook remains uncertain. Although domestic politics since the election in April 2009 have become polarised, there has been no social unrest since then, and the latest election passed off peacefully. However, the risk of a recurrence of protests will remain. Public-sector job cuts and a scaling back of public services, at a time of rising food and energy prices, could be used by the opposition to foment public discontent. The Party of Communists of the Republic of Moldova (PCRM) recently labelled the 2011 budget "anti-social"—a message that could start to resonate with more Moldovans as austerity measures begin to bite.

Election watch

The PCRM would probably boycott a vote in parliament on the AEI's presidential candidate, the Democratic Party (DP) leader, Marian Lupu. The government may therefore attempt to approve legislation on changing the way in which the president is elected (for example, by reducing the number of seats needed in successive parliamentary votes). Alternatively, the issue could be put to a national referendum. However, the AEI has no common position on the issue, amid rising coalition tensions, and there has been speculation that Mr Filat might enlist the PCRM's support to change the election of the president to a direct vote, in which he would then stand. This would probably break up the AEI, and could even result in a coalition between Mr Filat's Liberal Democratic Party (LDP) and the PCRM.

Impressions of a deterioration in relations between the AEI parties were confirmed in late March, when the Liberal Party (LP), the smallest of the three in the governing coalition, threatened to abstain from a crucial budget vote over the timing of the upcoming local elections, and again by the parties' decision to run separate candidates for the post of mayor of the capital, Chisinau. The risk has therefore increased that they will again fail to elect a president, forcing yet another early parliamentary election. This could usher in a less reformist government. Poor relations also risk damaging the AEI's reform impetus.

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Transdniestr

The so-called 5+2 format of settlement negotiations concerning Moldova's separatist region of Transdniestr involves the US and the EU, along with Russia, Ukraine, the Organisation for Security and Co-operation in Europe (OSCE), Moldova, and Transdniestr. However, progress has been blocked by Russia and Transdniestr since 2006. A breakthrough on Transdniestr remains unlikely during the forecast period, although it is unlikely that violence will flare up.

International relations

The Economist Intelligence Unit envisages further progress on European integration under the AEI. Talks on a new agreement with the EU were launched in January 2010, after Moldova satisfied the EU's conditions over the conduct of the election in July 2009, and following an improvement in relations with Romania, an EU member. Moldova hopes to negotiate an Association Agreement, offering expanded trade preferences and a visa-free regime, to go beyond the current Action Plan, which was extended in 2008.

Relations with Russia have been problematic under the AEI, with controversial actions by the pro-Romanian LP leader, Mihai Ghimpu, in mid-2010 raising fears of Russian retaliation. Relations with Russia will remain delicate, especially given the unresolved situation over Transdniestr. Nevertheless, the other elements of the AEI—especially the DP—will seek to preserve relations with Russia while deepening ties with the EU.

Economic policy outlook

Policy trends

The strength of the economic recovery has allowed the authorities to focus on fiscal retrenchment, as well as on policies, such as infrastructural investment, designed to nurture future growth. It has also allowed them to focus on containing inflation. Global inflationary pressures began to rise again in the later months of 2010, and the government is anxious to prevent inflationary expectations from becoming ingrained. The efforts to foster growth, particularly of exports, should help to constrain the extent of the increase of debt and the external deficit as a share of GDP (although both will remain relatively large).

Multilateral and bilateral assistance has been crucial to the recovery, and to macroeconomic stabilisation. The "Rethink Moldova" medium-term reform programme, unveiled in early 2010, is backed by €1.9bn (US$2.6bn) from international donors, including the IMF, in 2010-13. Continuity between the new and previous governments has reduced the risk of a deterioration in relations with lenders. Thus, the IMF has released a second tranche, of US$79m from the US$590m extended credit facility (ECF)/extended fund facility (EFF), following the successful passage of the budget through parliament at the end of March 2011. This should signal to other lenders the ability and willingness of the government to comply with the conditions of its lending programme, easing borrowing constraints. If commodity prices, particularly for fuel, were to remain above our current forecast for long, this would pose a risk to the stability of all policy variables.

Fiscal policy

Fiscal tightening and a continuing economic recovery are likely to result in a further narrowing of the budget deficit in 2011-12. The government targets a

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deficit of 1.9% of GDP, with a further contraction planned for 2012. The deficit narrowed to 2.5% of GDP in 2010, which was better than planned. The contraction was the result of rapid domestic and trade growth, affecting revenue from value-added tax (VAT) and excise duties on imports. It represented a substantial consolidation, following the widening of the deficit to 6.3% of GDP in 2009. We forecast that the deficit will narrow to 2% of GDP in 2011 and 1.5% in 2012.

Monetary policy

Inflation has recently resurfaced as a problem, inducing the National Bank of Moldova (NBM, the central bank) to raise its the policy interest rate from 7% to 8% in early 2011, and to increase required bank reserves from 8% to 11%. The central bank's aim is to bring down inflation to 5% (±1.5 percentage points) by the end of 2012. The persistence of inflationary pressure might seem to require further monetary tightening. However, core inflation, which excludes changes in commodity prices, is well below the headline rate and continues on a downward path, which helps to explain why the NBM kept its policy rate on hold at the end of March. The problem is that commodity inflation–countercyclical and potentially damaging to growth–is not amenable to policy manipulation. Rather, the central bank will continue to look for signs that domestic demand and credit growth are rising too quickly, and an acceleration in inflation later in 2011 could yet lead to further monetary tightening.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2009	2010	2011	2012
Real GDP growth				
World	-0.7	4.9	4.3	4.2
Euro area	-4.1	1.7	1.8	1.5
EU27	-4.2	1.8	1.9	1.7
Exchange rates				
Rb:US$	31.74	30.38	28.98	27.98
US$:€	1.393	1.326	1.365	1.295
SDR:US$	0.646	0.652	0.637	0.648
Financial indicators				
€ 3-month interbank rate	1.23	0.84	1.33	1.88
US$ 3-month commercial paper rate	0.26	0.26	0.32	0.70
Commodity prices				
Oil (Brent; US$/b)	61.9	79.6	101.0	85.0
Food, feedstuffs & beverages (% change in US$ terms)	-20.4	11.7	30.3	-12.1
Total non-oil commodities (% change in US$ terms)	-22.5	24.3	29.2	-11.5
Industrial raw materials (% change in US$ terms)	-25.6	44.5	28.0	-10.7

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Economic growth

Real GDP grew by a faster than expected 6.9% in 2010. We forecast that real GDP growth will moderate to 4.5% in 2011, conditioned primarily by a worsening of the external environment. In line with Moldova's IMF lending programme, the growth of government spending will be tightly constrained over the forecast period. In addition, the growth of household spending and

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fixed investment spending are set to slow sharply in 2011 compared with 2010, when recovery from collapse in 2009 accentuated their year-on-year growth. Although household consumption will be supported by growing remittance inflows, the effects of relatively high inflation early on will work in the opposite direction, eroding purchasing power. More pertinently, slow real wage growth, rising unemployment and the prospect of more public-sector job losses will keep consumer confidence depressed.

In 2012 real GDP growth is forecast to rise to 4.7%. Private consumption growth will accelerate, but only modestly, as inflationary and employment conditions begin to improve, and as credit growth picks up more strongly. Fixed investment will continue to be supported by public investment projects in 2011, in large part financed by foreign lenders. However, the resumption of faster rates of expansion of private investment will be inhibited by continuing economic and political uncertainties, affecting perceptions of sales conditions in the near future. We expect economic recovery to boost business confidence in 2012 and so also the pace of investment expansion. In 2011 we forecast that the rate of export growth will dip, but rise steadily in the following year with the recovery of external demand. As import growth will outpace export growth in 2011-12, net exports will not contribute to the expansion of economic activity overall. The possibility that Russia would increase economic pressure on Moldova should political relations deteriorate is one downside risk to the growth outlook. The chance that ongoing problems with sovereign debt could affect the economies of Moldova's trade partners in the EU is another.

Inflation

A further increase in the price of gas imports from Russia, and faster global and local food price inflation, will exert inflationary pressure in 2011, particularly in the first half of the year. However, the impact on headline inflation will be muted by the high base period of comparison. Adjustment of gas import prices to European levels should be completed in 2011, which will be one of the main factors behind the expected trend of disinflation; the fall in global food prices in 2012 will be another. However, a moderate quickening of domestic demand growth in 2012, particularly of investment demand, will put the government's year-end inflation target for that year, of 5% (±1.5 percentage points), only just within reach. We forecast that year-end inflation will remain stubbornly high in 2011, at 7.4%, but will then slow to about 6% in 2012. The main upside risk is that prices in Moldova would be hit by higher and more sustained increases in hydrocarbons prices, should political unrest in the Middle East and North Africa (MENA) spread or intensify, further disrupting oil supplies.

Exchange rates

We forecast that, on average, the leu will be broadly steady against the US dollar in 2011-12. Although the current-account deficit is forecast to widen, potentially harming confidence in the stability of the currency, it will still be much smaller than in 2008, and the currency will be supported by inflows from foreign lenders and donors. Moldova operates a managed float. The credibility of its exchange-rate policy, of intervening only to smooth out currency movements other than sustained depreciation pressure, will be bolstered by the continuing growth of international reserves, which climbed from a low of US$1.1bn in April 2009 to almost US$1.8bn at the end of March

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2011. The nominal appreciation of the leu to the US dollar since the end of March, to around Lei11.6:US$1 in mid-April, appears to be linked to the weakening of the US currency. Domestic political uncertainty and the economy's vulnerability to external shocks will remain sources of potential downward pressure on the leu.

External sector

We expect import growth to outpace the expansion of export sales over the forecast period, as the ongoing recovery in domestic demand continues to pull in imports. Because of Moldova's structural trade imbalance, the main role of exports is likely to be in limiting the pace at which the trade gap widens in 2011-12, so the trade deficit will remain smaller than in the pre-crisis period. The trade deficit will continue to be partly offset by inflows of earnings sent by Moldovans working abroad. Remittances are forecast to grow in 2011-12 as the economies that host Moldovan workers continue to recover. The current-account deficit shrank slightly as a share of GDP in 2010, owing to rapid GDP growth, and is forecast to average about 9-10% of GDP in 2011-12.

Forecast summary

(% unless otherwise indicated)

	2009[a]	2010[a]	2011[b]	2012[b]
Real GDP growth	-6.0	6.9	4.5	4.7
Industrial production growth	-22.2	7.0	5.5	6.0
Agricultural production growth	-9.9	7.9	3.3	3.3
Consumer price inflation (av)	-0.1	7.4	7.5	6.1
Consumer price inflation (end-period)	0.5	8.0	7.4	6.0
Lending rate (av)	20.5	16.4	15.0	14.0
Deposit rate (av)	14.9	7.7	7.0	7.0
Consolidated government balance (% of GDP)	-6.3	-2.5	-2.0	-1.5
Exports of goods fob (US$ m)	1,332	1,631	1,910	1,970
Imports of goods fob (US$ m)	-3,276	-3,810	-4,220	-4,520
Current-account balance (US$ m)	-465	-482	-611	-720
Current-account balance (% of GDP)	-8.5	-8.3	-9.4	-10.1
External debt (year-end; US$ m)	3,826[c]	4,210[c]	4,677	5,063
Exchange rate Lei:US$ (av)	11.11	12.37	12.42	12.59
Exchange rate Lei:US$ (end-period)	12.30	12.15	12.48	12.70
Exchange rate Lei:€ (av)	15.48	16.40	16.94	16.31
Exchange rate Lei:Rb (av)	0.350	0.408	0.412	0.420

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.

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Monthly review: May 2011

The political scene

Dispute over election date highlights coalition tensions

A dispute between members of the governing coalition, the Alliance for European Integration (AEI), over the date of the local elections in 2011 has highlighted rivalries and conflicts of interest in the coalition government. In March the Liberal Party (LP) threatened to abstain from a crucial vote on the 2011 budget until its preference for setting an earlier date for the local elections had been finalised. In the end, the budget was passed by parliament at the end of the month (see Economic policy), once the date for the elections had been set for June 5th, rather than June 19th. June 19th had been favoured by both the Liberal Democratic Party (LDP), the largest party in the AEI, and the opposition Party of Communists of the Republic of Moldova (PCRM). One reason for the LP's intransigence is that the party thought that the chances of Dorin Chirtoaca—its candidate for the mayoral election in the capital, Chisinau—would be undermined if the election was held after students (a crucial component in the LP's support base) had already left for the mid-year holiday. Another reason was the party's claim that since the formation of the new government, the LP's interests and policies have been subordinated to those of its larger partners and that it was making a stand.

Effects of austerity could favour the cause of the PCRM

The mayoralty of the capital, the country's economic and population centre, is the main prize of the local elections. There is a small risk, however, that the decision of the constituent members of the governing parties—the LDP, the LP and the Democratic Party (DP)—to run separate candidates could play into the hands of the PCRM, whose candidate, Igor Dodon, appears to be the front-runner in the contest. By splitting the coalition vote, the ruling parties have presented Mr Dodon with the opportunity of winning outright in the first round, as mayors in Moldova are elected on a majority system, with a run-off held between the two candidates with the highest votes if no candidate wins a majority in the first round. Should the contest go to a second round, the chances of the opposition and a government-backed candidate look more evenly balanced.

Opinion polls published at the beginning of April indicate that the position of the PCRM across the country is weaker than in the capital. The party was supported by 26% of respondents nationally, just behind the LDP, on 28%, but this is well down on the share of almost 40% of votes that it received in the parliamentary election in November 2010. The smaller governing parties, the DP and the LP, were on 21% and 6%, respectively. However, the survey showed that around one-quarter of those questioned were undecided about who they would vote for. With aspects of the economic environment, such as inflation and job prospects, worsening in recent months, and with austerity measures under way, the anti-cuts rhetoric of the PCRM could yet find renewed appeal among the electorate, boosting its support and giving the party greater authority in pursuing its anti-reform agenda.

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Economic policy

Parliament approves the 2011 budget

At the end of March parliament approved, on third reading, the draft budget for 2011. Preparations had been delayed by the general election of November 2010 and by subsequent coalition negotiations. Officially, the budget deficit is set to narrow from 2.5% of GDP in 2010 to 1.9% in 2011, based on an assumption of real GDP growth of 4.5%. The government plans for revenue to the consolidated budget—which combines the state and municipal budgets, as well as those of social insurance and compulsory health insurance funds—to rise to Lei31.02bn (US$2.5bn), a year-on-year increase of 13%. Other than a 50% rise in tobacco and alcohol excise duties that came into effect in April, the tax regime remains broadly unchanged. Expenditure is marked to rise less steeply, by 11%, to Lei32.61bn. The government intends to finance the planned deficit of Lei1.59bn through Lei456m (US$37m) in privatisation receipts (up from Lei335m in 2010), and Lei300m in Treasury bill sales, up by Lei100m from 2010. External financing, including funding from the IMF and World Bank, is set to fall to Lei1.93bn, compared with Lei2.62bn in 2010.

The budget deficit continues to contract in early 2011

In the first two months of 2011 revenue to the consolidated budget rose by just over 13% year on year, to Lei3.74bn, whereas expenditure increased by just under 6%, to Lei4.17bn, reflecting respectively economic and trade recovery, and the ongoing policy of fiscal retrenchment. The deficit thus narrowed to Lei425m. Locally generated value-added tax (VAT) dropped by 2%, to Lei476m, whereas VAT levied on imports grew by 37%, to Lei1.03bn, in line with the growth of imports linked to the industrial recovery, and perhaps in part indicating that a greater portion of additions to household income from rising remittance inflows is being channelled into the purchase for foreign consumables.

Main elements of the consolidated budget, Jan-Feb
(Lei m unless otherwise indicated)

	2010	2011	% change, year on year
Revenue	**3,306.0**	**3,743.3**	**13.2**
Personal income tax	207.6	238.6	14.9
Corporate profit tax	85.0	58.3	-31.4
Value-added tax	1,169.0	1,308.5	11.9
Excise duties	221.4	283.3	28.0
External grants	53.3	21.8	-59.1
Expenditure	**3,950.0**	**4,168.2**	**5.5**
General public services	171.6	164.1	-4.4
Public order & safety	198.1	204.2	3.1
Education	924.5	952.7	3.1
Health	529.7	556.1	5.0
Social security	1,515.0	1,612.2	6.4
Agriculture, forestry, fishing & hunting	52.7	39.2	-25.6
Debt service	101.6	91.6	-9.8
Balance	**-644.0**	**-424.9**	**-**

Source: Ministry of Finance.

The IMF approves a further disbursement

The successful passage of the 2011 budget was swiftly followed by approval from the IMF for the release a second tranche, of US$79m, from the SDR370m (US$590m) extended credit facility (ECF)/extended fund facility (EFF) that was

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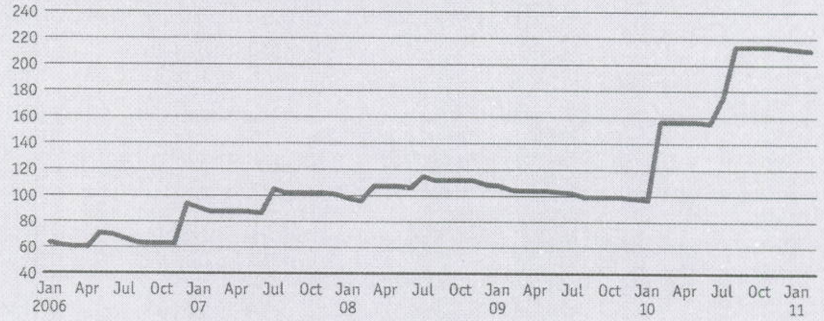
approved in January 2010. Of this latest tranche, US$35m will be used to augment the currency reserves of the National Bank of Moldova (NBM, the central bank), which stood at US$1.79bn at the end of March, almost regaining their peak of September 2008. The remainder will be used for budgetary support. The Fund reached a staff-level agreement in February 2011 following the completion of its second review. The existing ECF/EFF was granted on the understanding that Moldova would reduce the size of its public sector while targeting social assistance. The IMF is broadly supportive of the country's fiscal and monetary policies, although it has cautioned that the NBM may need to resort to further policy tightening if inflation resurges.

Moldova's Fund position
(IMF credit and loans outstanding; SDR m)



Sources: IMF, *International Financial Statistics*; Haver Analytics.

Economic performance

Rising energy prices boost inflation

Consumer price inflation rose in March to 5.8% year on year, according to the National Bureau of Statistics, after falling to 6.7% in January and 5.6% in February, from a peak of around 8% in December 2010. In contrast, month-on-month inflation decelerated to 0.8% in March, dropping below 1% for the first time since November 2010.

Energy prices are currently the main factor driving up headline consumer prices. The cost of fuel went up by 17.4% year on year in March 2011. Within this category, gas prices increased by 31% year on year, which in turn fed into a massive, 40.8% rise in the cost of central heating. Although electricity prices have remained unchanged since January 2010, they are set to go up once the National Agency for Energy Regulation (ANRE) announces higher tariffs later in 2011. Food price inflation weakened to 4.8% year on year, largely owing to a fall in the prices of vegetables. Nonetheless, the costs of some staples, including cereals, have risen as a result of global price movements. Bread was 6.5% more expensive than in March 2010, and the price of milk and dairy products rose even more sharply, by 10.6% year on year.

For the most part, prices rises are linked to the increase in gas prices at the start of the year, as well as to developments on international commodity markets, especially for food and fuel, which together account for not much less than 50% of the consumer price basket. Global food prices have risen in part because of poor harvests in some grain-growing countries in 2010. Fuel prices have been

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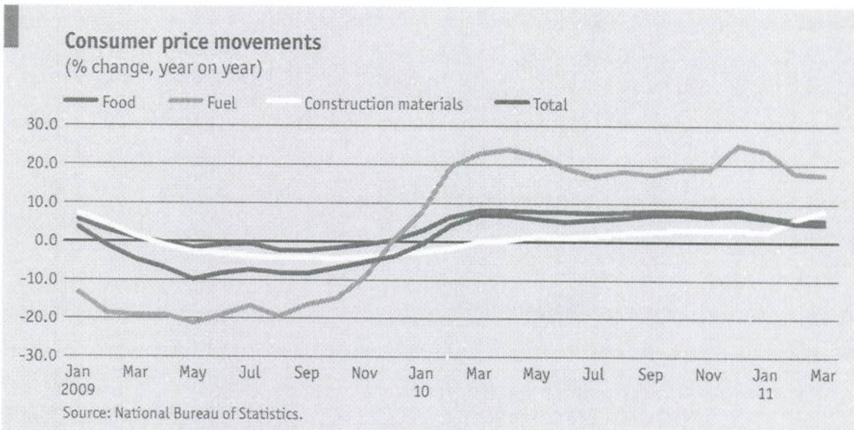
boosted by the political turmoil in the countries of the Middle East and North Africa (MENA), some of which are notable oil exporters. This has contributed to a climb in oil prices of more than 25% since the end of December 2010, to US$120/barrel at the beginning of April. In contrast, demand factors have been weaker. However, prices for building materials have crept up recently, by 2.3% month on month and by 8.1% year on year in March, as the domestic construction industry revives, probably linked to ongoing infrastructural projects. Nevertheless, core inflation, which excludes non-monetary factors such as food, fuel and price-regulated services, fell to 2.8% year on year in March from 3.3% in February.



Current-account deficit widens and trade growth strengthens

The current-account deficit widened a little in 2010, to US$482m, according to data from the NBM, having roughly halved in 2009, to US$465m. Nonetheless, strong annual real GDP growth, of 6.9%, narrowed the deficit as a share of GDP to 8.3%, compared with 8.5% in 2009. The size of the deficit fluctuated throughout 2010. In the fourth quarter it shrank to a low for the year of US$61m, from US$109m in the year-earlier period, as exports grew more rapidly (by 45%) than imports (by 20%). For 2010 as a whole, goods exports grew by 23%, to US$1.63bn, and goods imports rose by just over 16%, to US$3.81bn, and the trade balance widened to US$2.18bn, having shrunk to US$1.94bn in 2009.

The economy recovered more strongly than expected in 2010. The trade figures show that although the revival of external demand played a stimulative role, especially in the industrial recovery, domestic demand, supported by remittances and capital inflows, was more telling. Exports and imports have yet to surpass their pre-crisis levels of 2008. More recent NBS data, for the first two months of 2011, point to a further widening of the trade gap and a strengthening of trade growth (of both foreign sales and domestic purchases of goods from abroad), with exports rising by 56% year on year, to US$296m, and imports increasing by 42%, to US$642m, widening the deficit to US$346m.

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Balance of payments
(US$ m)

	2008	2009					2010				
	Year	1 Qtr	2 Qtr	3 Qtr	4 Qtr	Year	1 Qtr	2 Qtr	3 Qtr	4 Qtr	Year
Exports fob	1,646.0	289.1	311.2	326.7	404.6	1,331.6	322.6	319.1	403.0	586.5	1,631.1
Imports fob	-4,869.1	-743.7	-742.3	-790.1	-999.7	-3,275.8	-749.3	-903.6	-954.9	-1,202.1	-3,810.0
Trade balance	**-3,223.2**	**-454.6**	**-431.1**	**-463.4**	**-595.1**	**-1,944.2**	**-426.8**	**-584.6**	**-552.0**	**-615.6**	**-2,178.9**
Services exports	837.3	149.7	158.5	172.3	188.4	668.9	141.2	164.8	179.5	204.3	689.8
Services imports	-838.6	-162.9	-169.1	-183.0	-197.8	-712.9	-161.9	-180.7	-203.1	-224.4	-770.1
Net services	-1.4	-13.2	-10.6	-10.7	-9.5	-44.0	-20.7	-15.9	-23.6	-20.1	-80.3
Net income	598.6	26.8	76.5	79.0	120.7	302.9	77.3	112.0	145.7	136.1	471.2
Net transfers	1,638.8	215.4	311.4	319.3	374.5	1,220.6	238.0	295.4	333.6	438.8	1,305.8
Current-account balance	**-987.1**	**-225.6**	**-53.8**	**-75.9**	**-109.3**	**-464.6**	**-132.2**	**-193.1**	**-96.3**	**-60.7**	**-482.3**
Capital & financial account	901.0	326.2	54.3	7.0	19.4	406.8	86.6	175.6	61.0	88.3	411.4
Direct investments	696.7	41.2	17.4	40.2	22.3	121.1	43.1	32.2	74.3	45.8	195.4
Portfolio investments	6.4	1.0	-3.5	0.1	-3.4	-5.8	0.0	1.8	1.7	2.2	5.6
Other investments	663.6	-203.8	55.8	45.5	210.7	108.2	83.0	166.3	106.2	178.2	533.7

Note. Data revisions by the National Bank of Moldova mean that its figures no longer match exactly those published by the IMF.

Source: National Bank of Moldova.

Remittances help to offset the deficit

Part of the explanation for rising import growth is likely to be the ongoing recovery in remittances from Moldovans working abroad. In 2010 remittance inflows, which were behind growth of the income and current transfers surpluses, helped to offset the combined deficit on the goods and services accounts of US$2.26bn. The income surplus grew by 56% in 2010, to US$471m, with net compensation of employees (inflows from seasonal, temporary and other workers on short-term assignments abroad) rising by 34%, to US$663m. Offsetting this on the incomes account to some extent was the outflow of investment income, which declined slightly year on year, US$192m. Of this, dividends paid to foreign investors totalled US$124m. The current transfers surplus rose more sedately, by 7%, to US$1.31bn. Within this category, net inflows of grants, assistance, humanitarian aid, and education and staff training went up more rapidly, from US$297m in 2009 to US$359m in 2010, an increase of around one-fifth. Net remittances from Moldovans working abroad over the longer term—although substantial, at US$619m—fell by 1% compared with 2009.

This pattern, in which remittance inflows from Moldovans working abroad temporarily are higher than remittances from those working abroad on a more permanent basis, has been in place since the second quarter of 2010, according to the NBM. It could suggest that permanent migration has peaked, or that overseas workers had more incentive to return to invest some of their earnings in the light of Moldova's robust economic recovery in 2010. Although considerably down on the figures of the recent past, total remittances remain large in relation to the size of the economy overall, at around 22% of GDP in 2010. Moreover, inflows are still increasing. According to recent NBM data, in the first two months of 2011 remittances came to US$161m, compared with around US$135m in the same period of 2009 and 2010.

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Data and charts

Annual data and forecast

	2006[a]	2007[a]	2008[a]	2009[a]	2010[a]	2011[b]	2012[b]
GDP							
Nominal GDP (US$ m)	3,408.3	4,401.2	6,054.8	5,439.4	5,808.7	6,500.5	7,119.5
Nominal GDP (Lei m)	44,754	53,430	62,922	60,430	71,849	80,708	89,656
Real GDP growth (%)	4.8	3.0	7.8	-6.0	6.9	4.5	4.7
Expenditure on GDP (% real change)							
Private consumption	7.8	3.6	5.8	-8.1	9.0	4.5	4.8
Government consumption	9.1	5.3	5.0	-2.0	0.3	0.5	0.5
Gross fixed investment	21.3	25.5	2.2	-30.9	17.2	7.5	10.0
Exports of goods & services	1.1	10.5	3.4	-12.1	12.8	4.5	4.8
Imports of goods & services	9.1	14.6	2.9	-23.6	13.7	4.7	5.5
Origin of GDP (% real change)							
Agriculture	-2.8	-35.0	41.1	-9.9	7.2	3.0	3.0
Industry	-2.3	-0.8	0.7	-19.9	8.1	5.5	6.0
Services	7.8	14.0	3.3	-3.6	6.2	4.5	4.8
Population and income							
Population (m)	3.6	3.6	3.6	3.6	3.6	3.6	3.6
GDP per head (US$ at PPP)	2,563	2,724	3,009	2,859	3,078[c]	3,090	3,233
Recorded unemployment (av; %)	7.6	5.1	4.0	6.4	7.5	7.7	7.4
Fiscal indicators (% of GDP)							
Consolidated budget revenue	39.9	41.7	40.6	38.9	38.3	38.5	39.0
Consolidated budget expenditure	40.2	42.0	41.6	45.3	40.8	40.5	40.5
Consolidated budget balance	-0.3	-0.2	-1.0	-6.3	-2.5	-2.0	-1.5
Public debt	29.8	23.5	18.7	25.2[c]	24.4[c]	25.7	25.3
Prices and financial indicators							
Exchange rate Lei:US$ (av)	13.13	12.14	10.39	11.11	12.37	12.42	12.59
Exchange rate Lei:€ (av)	16.49	16.62	15.28	15.48	16.40	16.94	16.31
Consumer prices (end-period; %)	14.0	13.3	7.2	0.5	8.0	7.4	6.0
Stock of money M1 (% change)	12.8	32.1	6.3	13.8	19.0	15.0	16.0
Stock of money M2 (% change)	23.6	39.8	15.9	3.2	13.4	17.0	18.0
Lending interest rate (av; %)	18.1	18.8	21.1	20.5	16.4	15.0	14.0
Current account (US$ m)							
Trade balance	-1,583	-2,298	-3,223	-1,944	-2,179	-2,310	-2,550
Goods: exports fob	1,061	1,373	1,646	1,332	1,631	1,910	1,970
Goods: imports fob	-2,644	-3,671	-4,869	-3,276	-3,810	-4,220	-4,520
Services balance	-22	-25	-1	-44	-80	-86	-95
Income balance	403	416	599	303	471	516	560
Current transfers balance	814	1,232	1,639	1,221	1,306	1,269	1,365
Current-account balance	-388	-674	-987	-465	-482	-611	-720
External debt (US$ m)							
Debt stock	2,437	3,182	3,787	3,826[c]	4,210[c]	4,677	5,063
Debt service paid	334	339	501	477[c]	467[c]	468	506
Principal repayments	258	239	414	415[c]	403[c]	403	412
International reserves (US$ m)							
Total international reserves	775	1,334	1,672	1,480	1,718	1,900	2,000

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.

Source: IMF, *International Financial Statistics*.

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Quarterly data

	2009 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2010 1 Qtr	2 Qtr	3 Qtr	4 Qtr
Central government finance (Lei m)								
Revenue	4,975	5,858	5,824	6,587	5,582	6,817	6,712	8,439
Expenditure	6,057	6,854	6,496	7,936	6,451	7,254	6,903	8,721
Balance	-1,083	-995	-672	-1,348	-869	-437	-191	-282
Employment, wages and prices								
Unemployed, registered (end-period; '000)	35.4	35.1	37.0	38.7	54.1	49.5	43.3	40.7
Nominal monthly wages (Lei)	2,569.0	2,779.0	2,758.0	2,886.0	2,740.2	2,960.2	3,026.0	3,160.4
Nominal monthly wages (% change, year on year)	12.4	8.0	9.6	5.1	6.7	6.5	9.7	9.5
Consumer prices (2000=100)	143.5	142.6	140.8	144.4	151.8	154.0	152.0	155.8
Consumer prices (% change, year on year)	3.1	-0.9	-1.7	-0.6	5.8	8.0	7.9	7.9
Financial indicators								
Exchange rate Lei:US$ (av)	10.8	11.2	11.3	11.9	12.6	12.9	12.2	12.2
Exchange rate Lei:US$ (end-period)	11.0	11.2	11.5	12.3	12.4	12.8	12.0	12.2
Deposit rate (av; %)	20.0	16.6	12.9	10.4	9.1	7.2	7.7	6.7
Lending rate (av; %)	23.1	21.2	18.2	19.6	17.4	16.7	16.1	15.3
Money market rate (av; %)	16.5	10.8	n/a	8.0	4.5	10.8	n/a	6.1
Treasury-bill rate (av; %)	15.7	16.6	6.5	6.6	5.8	7.7	7.3	7.3
M1[a] (end-period; Lei m)	8,966	10,168	11,223	13,207	13,145	13,498	14,434	15,720
M1 (% change, year on year)	-12.4	-6.4	-1.6	13.8	46.6	32.8	28.6	19.0
M2[a] (end-period; Lei m)	28,116	29,060	29,579	32,684	32,666	32,951	34,765	37,051
M2 (% change, year on year)	-1.3	-3.6	-8.6	3.2	16.2	13.4	17.5	13.4
Sectoral trends								
Retail sales (Lei m)	4,189	4,808	5,403	5,525	5,090	6,024	6,856	7,115
Foreign trade[b] (US$ m)								
Exports fob	289.1	311.2	326.7	404.6	322.6	319.1	403.0	586.5
CIS[c]	96.6	114.3	116.9	162.7	115.7	122.5	152.7	233.3
Imports fob	-743.7	-742.3	-790.1	-999.7	-749.3	-903.6	-954.9	-1,202.1
CIS[c]	322.8	237.6	251.4	328.6	287.3	250.9	295.8	422.9
Trade balance	-454.6	-431.1	-463.4	-595.1	-426.8	-584.6	-552.0	-615.6
Foreign payments (US$ m)								
Merchandise trade balance	-454.6	-431.1	-463.4	-595.1	-426.8	-584.6	-552.0	-615.6
Services balance	-13.2	-10.6	-10.7	-9.5	-20.7	-15.9	-23.6	-20.1
Income balance	26.8	76.5	79.0	120.7	77.3	112.0	145.7	136.1
Net transfer payments	215.4	311.4	319.3	374.5	238.0	295.4	333.6	438.8
Current-account balance	-225.6	-53.8	-75.9	-109.3	-132.2	-193.1	-96.3	-60.7
Reserves excl gold (end-period)	1,132.3	1,210.1	1,290.6	1,480.3	1,464.1	1,421.8	1,619.3	1,717.7

[a] National Bank of Moldova. [b] Balance-of-payments basis. [c] Commonwealth of Independent States.

Sources: National Bank of Moldova; IMF, *International Financial Statistics*; Interstate Statistical Committee of the CIS; Department of Statistics and Sociology.

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Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Lei:US$ (av)												
2009	10.45	10.56	10.82	11.15	11.26	11.19	11.22	11.21	11.26	11.19	11.07	11.93
2010	12.37	12.75	12.58	12.48	12.67	12.90	12.60	12.13	12.24	11.76	11.80	12.15
2011	12.22	12.01	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate Lei:US$ (end-period)												
2009	10.52	10.66	10.96	11.30	11.22	11.24	11.20	11.21	11.50	11.06	11.11	12.30
2010	12.53	12.80	12.40	12.59	12.83	12.84	12.27	12.20	12.02	11.81	12.12	12.15
2011	11.98	11.99	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (2000=100; CPI-based)												
2009	142.5	144.1	137.9	131.5	126.4	123.9	122.3	119.9	118.5	118.8	120.1	113.8
2010	112.6	114.2	116.2	117.7	121.3	120.9	119.1	121.0	119.4	120.9	122.3	122.2
2011	121.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consolidated budget revenue (Lei m)												
2009	1,437	1,673	1,865	2,041	1,816	2,002	2,002	1,819	2,003	1,972	2,128	2,487
2010	1,521	1,786	2,276	2,344	2,112	2,362	2,198	2,122	2,391	2,340	2,343	3,756
2011	1,841	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consolidated budget expenditure (Lei m)												
2009	1,577	2,174	2,307	2,358	2,056	2,440	2,478	1,834	2,184	2,002	2,422	3,512
2010	1,802	2,148	2,501	2,329	2,242	2,683	2,415	2,081	2,407	2,442	2,765	3,514
2011	1,877	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consolidated budget balance (Lei m)												
2009	-140.1	-500.2	-442.2	-317.3	-240.3	-437.7	-475.6	-15.0	-181.8	-30.0	-293.4	-1,025.0
2010	-281.9	-362.1	-224.8	14.7	-130.3	-320.9	-217.0	41.2	-15.3	-101.3	-421.6	241.3
2011	-35.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (end-period; % change, year on year)												
2009	3.0	-4.0	-12.4	-15.3	-10.2	-6.4	-3.1	-4.5	-1.6	0.1	6.0	13.8
2010	22.3	23.7	46.6	40.4	33.9	32.8	27.8	26.4	28.6	35.7	29.7	19.0
2011	16.5	21.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (end-period; % change, year on year)												
2009	9.2	4.7	-1.3	-4.1	-3.0	-3.6	-6.7	-7.6	-8.6	-6.6	-2.3	3.2
2010	7.9	9.4	16.2	15.9	13.0	13.4	15.7	15.0	17.5	21.4	19.4	13.4
2011	13.1	15.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2009	20.7	19.8	19.4	18.7	16.0	15.0	14.9	13.0	10.8	10.7	10.6	9.8
2010	9.7	8.5	9.1	8.3	6.5	6.7	7.8	8.0	7.4	6.8	6.8	6.5
2011	6.8	7.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2009	23.3	22.9	23.1	22.6	22.2	18.9	18.0	17.7	19.0	19.6	18.9	20.3
2010	17.0	17.8	17.3	16.9	16.8	16.5	16.0	16.4	15.8	15.9	15.2	14.8
2011	15.2	14.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Industrial output (cumulative; % change, year on year)												
2009	-25.1	-26.3	-24.2	-25.7	-25.3	-24.9	-24.7	-24.6	-24.3	-24.1	-23.2	-22.2
2010	5.0	4.1	4.9	5.5	6.1	6.6	5.5	5.2	6.3	7.6	7.6	7.0
2011	9.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2009	5.6	2.9	1.0	-0.3	-1.6	-0.8	-0.5	-2.3	-2.3	-1.6	-0.6	0.5
2010	3.0	6.5	8.1	8.1	8.0	7.8	7.7	7.9	8.1	8.1	7.7	8.0
2011	6.7	5.6	5.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Nominal average wage (cumulative; Lei)												
2009	2,555	2,537	2,569	2,620	2,642	2,674	2,695	2,696	2,702	2,697	2,702	2,748
2010	2,700	2,684	2,740	2,767	2,804	2,850	2,878	2,897	2,909	2,910	2,924	2,972
2011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2009	1,504.4	1,365.0	1,132.3	1,102.0	1,188.8	1,210.1	1,182.6	1,302.9	1,290.6	1,302.6	1,374.5	1,480.3
2010	1,464.2	1,465.3	1,464.1	1,461.9	1,415.0	1,421.8	1,507.5	1,551.4	1,619.3	1,645.5	1,610.9	1,717.7
2011	1,744.5	1,799.0	1,793.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, *International Financial Statistics*; Haver Analytics.

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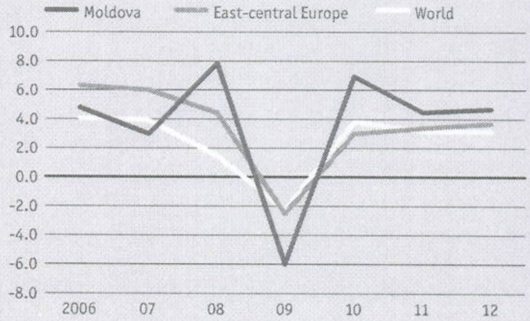
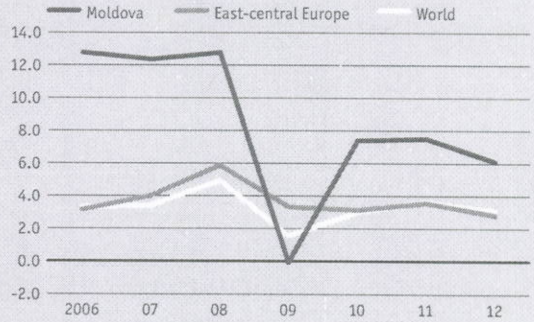
Annual trends charts

Real GDP growth
(% change)



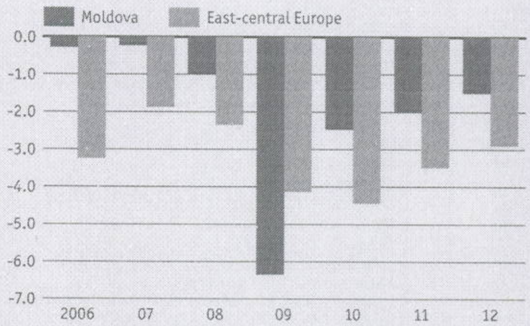
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



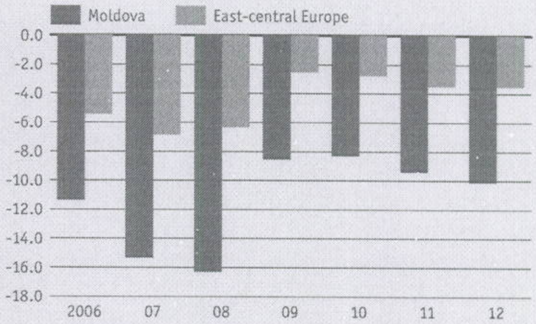
Source: Economist Intelligence Unit.

Budget balance
(% of GDP)



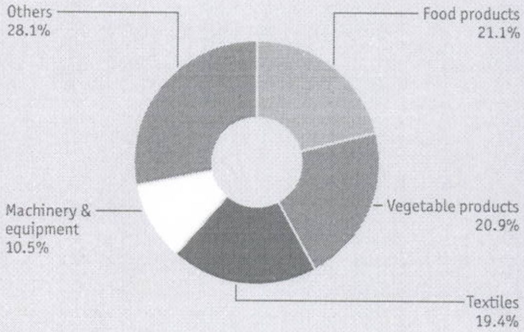
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



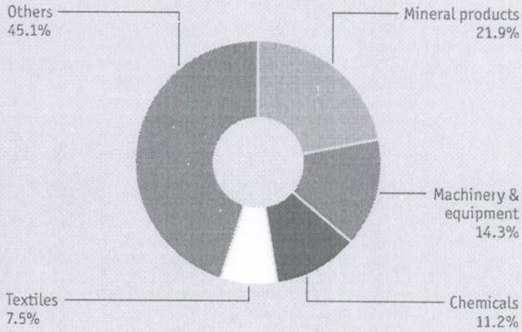
Source: Economist Intelligence Unit.

Principal exports, 2009
(share of total)



Source: Economist Intelligence Unit.

Principal imports, 2009
(share of total)



Source: Economist Intelligence Unit.

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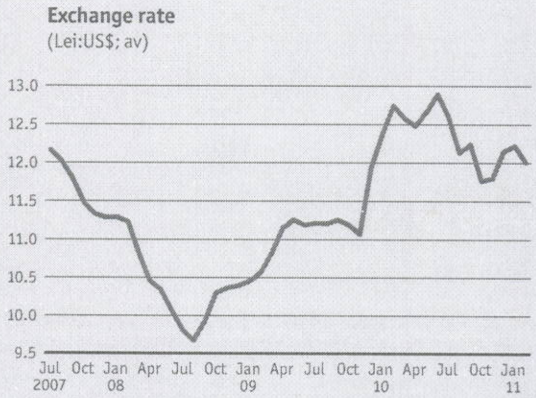
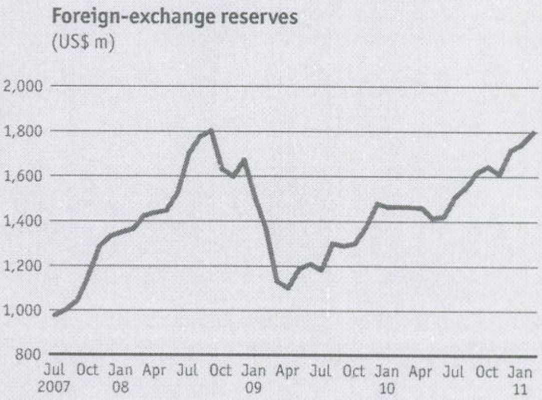
Monthly trends charts



Source: Economist Intelligence Unit.



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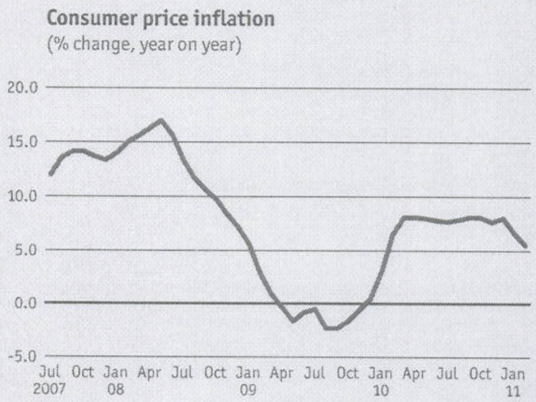

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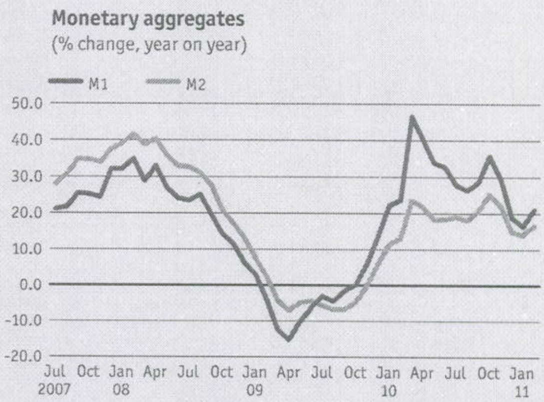

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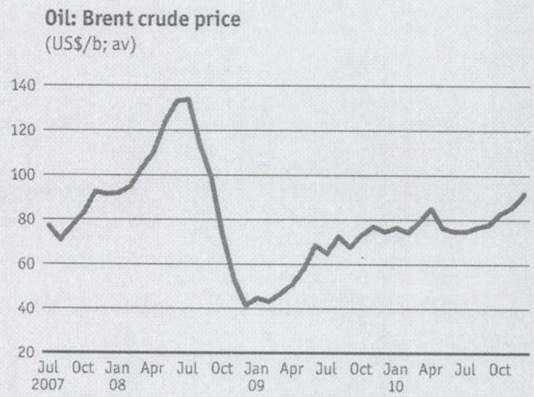
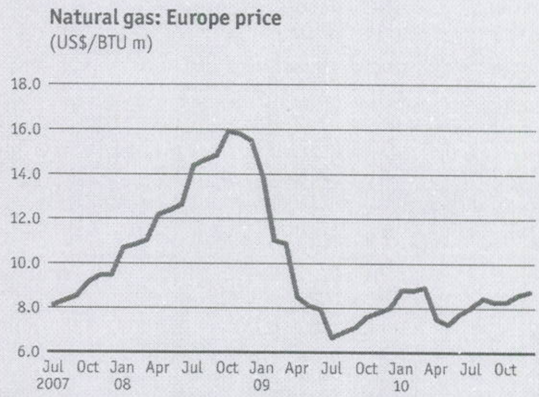


Source: Economist Intelligence Unit.



Source: Economist Intelligence Unit.

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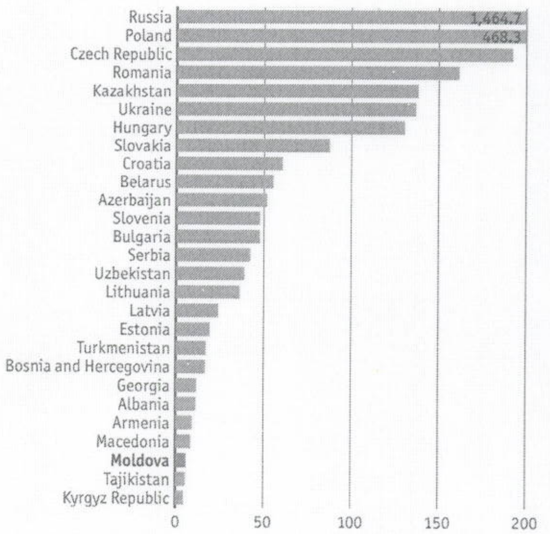
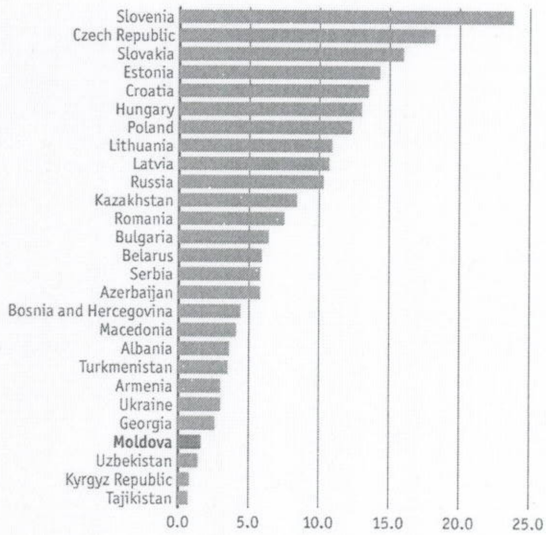
Comparative economic indicators, 2010

Gross domestic product
(US$ bn; market exchange rates)



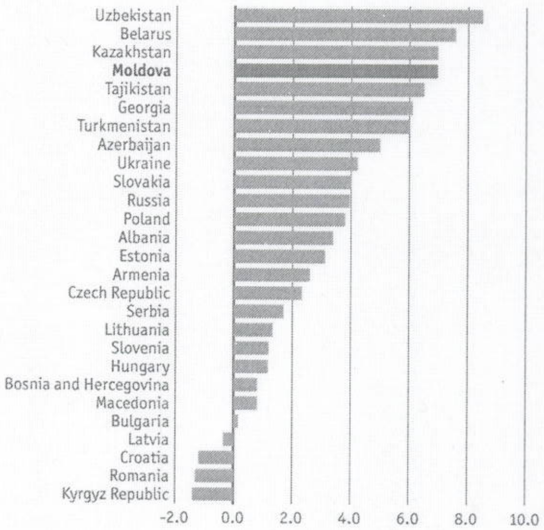
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US$ '000; market exchange rates)



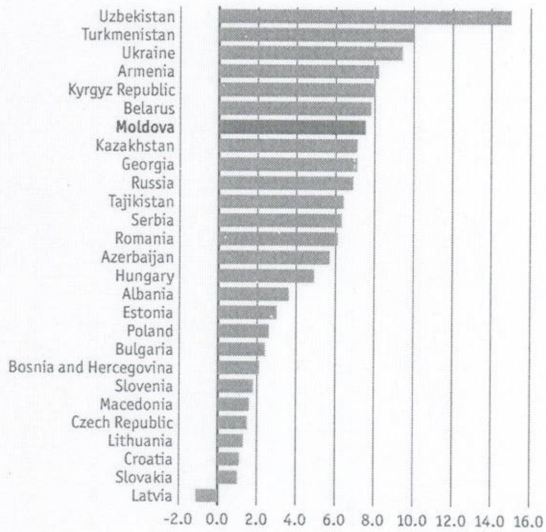
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

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