CENTER
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Moldovan and Transnistrian Economies – from Conflict to Prospects of Peaceful Development.

Moldova and Transnistria: Two Models of Economic Development (comparative analysis)

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Introduction

Problem statement. Throughout fifteen years, the development of economy of *whole* Moldova has been slowed down by the presence of the "frozen" conflict. The protracted pause in the negotiation process regarding the Transnistria's status confirms the need for the change of accents in the Transnistrian conflict settlement from political to the economic vector. The economy of both regions can no longer be kept hostage of political settlement. Experience shows that focusing Transnistrian issues only on the political settlement results in the blocking of economic activities, i.e. leads to the losses of positions on the markets, positive dynamics in the economic development, bankruptcy of business and strengthening of social tensity.

Despite of significant differences in the nature and methods of the economic transformations, the tendencies in the changes of main parameters of Moldova and Transnistria are very similar: sharp production decline, adaptation to the market conditions and relative stabilization achieved by 1997; setback as a result of Russia's 1998 financial crisis and new revival of economic activity in 2000. This can be explained both by the latently preserved interdependence of economies of two sub-regions of the formerly integral Moldavian SSR, and by their common export-import orientation to the CIS countries and, primarily, Russia as an important investor and trade partner.

Throughout the years of parallel and oftentimes contradictory development, Moldova and Transnistria have gained their own experiences of transformation and, namely, in their search of ways and methods of general liberalization of society and economy; macroeconomic stabilization and property reform, structural transformation of economy and the extent to which the state should be involved in the economy. The existing non-standard situation demands urgent development of non-standard approaches to its settlement.

Eurointegration, modernization of economy, democratization and assurance of rights and freedoms of citizens is Moldova's development vector on the level of ideology that has been firmly set forth and causes practically no disputes among the authorities and in the society.

If we look upon the issue of consolidation of the state and its reintegration, we can clearly see that the economic policy to be held in the immediate future should correspond to this unification strategy and new realities in the economy of Moldova and Transnistria with the account of their existing and future economic interests.

The goal of the present research is to analyze and estimate specifics, stages and results of transformations in the economies of Moldova and Transnistria during the period of 1991 – 2006, as well as to assess the impact of the country's disintegration on the pace and quality of economic development.

The given paper is based on the data of the National Statistical Bureau of the Republic of Moldova, the RM Ministry of Economy and Trade, as well as the materials provided by the Transnistrian Administration.

Specifics and Stages in the Transformation of Economic Systems of Moldova and Transnistria

The results of fifteen-year-long parallel development and confrontation are not that easy. During a rather short historical period of time, Moldova and Transnistria, having no previous traditions of independence, succeeded in building up the basics of their statehood (recognized and unrecognized) and, to a greater or lesser extent, created market economy that is not yet mature by many qualifications and has a lot of its "own" structural and institutional distortions. Nevertheless, throughout all this time, attempts were undertaken, both successful and unsuccessful, to make transition to the market economy and democracy.

In 1990, the Parliament (the Supreme Soviet of MSSR), at that time yet integral Moldova, adopted a "Concept of Transition to the Market Economy". That was the time when Transnistria expressed its special economic interests making attempts to implement within the Moldavian SSR a popular, at the end of the 1980s, model of "regional self-financing" through creation of the free economic zone. The arguments put forward by Transnistria were rather reasoned: in 1990, the share of this region (12.4% of the territory and 15.2% of the population of the MSSR) accounted for about 40% of the MSSR gross social product. Due to a number of factors – transportation accessibility, availability of water resources, lesser seismic hazard, proximity to the port of Odessa, etc. - this part of Moldova had the largest on the Balkans electric power plant, metallurgical works and about 100 industrial enterprises: machine-building, light, furniture and construction materials industries, etc., including concentrated food production industry, especially canning factories due to the existence of intensive irrigated agriculture.[1]

The quickly changing political and economic situation and the deepening crisis phenomena in the economy resulted in the adoption of the "Program on Transition to the Market Economy in the Moldavian SSR" (1991). The Program said that a "rather complex way of transition to the market economy was supposed to be passed within the shortest time possible – approximately 1.5 – 2 years." Later, the Government issued a Decision on urgent measures aimed for the stabilization of economy and creation of the market infrastructure in the Republic of Moldova.

The reality appeared to be much more complicated. The unrealistic ideas regarding national resources and expectation of new opportunities as a result of the recently acquired statehood – international recognition of the Republic of Moldova and non-recognized status of Transnistria, underestimation of the very high degree of integration into the economy of the former Soviet Union and dependence on it (domination in the economy of the Republic of the agrarian-industrial and military-industrial complexes) created an illusion of feasibility of transformation of economy that would serve as a basis for the economic growth. Weakness of the state institutions and, as a result, limited opportunities to influence the course of economic processes resulted in the fast self-destruction of economies due to hyperinflation, broken production ties and loss of guaranteed markets within the former Soviet Union, as well as outflow of skilled labour force. There were also other, so to say "man-made" factors that played their role. These were: military conflict, slow search "of its own way of development" and almost two-year-long (1991-1992) inertial development, inconsistency and "fragmentary nature" of implemented reforms, as well as their high social and economic costs.

[1] A.A. Gudim and others, Economic Subregions of Moldova, Chisinau, 1973

The real transition to the market economy began in 1992. One of its first visible results was liberalization of prices that became the last reformatory decision affecting the *whole* Moldova that in many ways determined the conditions for the beginning reforms.

Both Moldova and Transnistria have gained their own experiences of transformation throughout these 15 years in the search of their own ways and methods for general liberalization of society and economy; macroeconomic stabilization and property reform, structural transformation of economy and the extent of the state involvement in the economy.

With all the, oftentimes, dramatic differences, during the period of transition to the market economy both in Moldova and in Transnistria one can *see very clearly two coinciding in time but differing in their essence stages:*

		Moldova	**Transnistria**
I	1992-1999	Stage of the market economy system creation	Stage of administrative and economic stabilization
II	2000-2006	Recovering growth stage	

In Moldova of 1992-1996 the efforts were concentrated on the formation of market infrastructure, reforming of the property and macroeconomic stabilization. In the spring of 1992, Moldova began taking coordinated (first of all with the help of the IMF and the World Bank) actions aimed at entering market economy. At the beginning of this way, it tried to offer its hand to Transnistria (the office of the Minister of Finance was proposed to the representative from Tiraspol) but, unfortunately, these intentions never materialized in reality.

The legislative and organizational preparation for the reforms is impressive: the first stabilization program (1993), introduction of the national currency, the first (1993) and the second (1995) state privatization programs, the laws on support of small business (1994), on restructuring of industrial enterprises (1995), free business zones (1996), etc. The overall number of laws is over 400. In July 1994, the Constitution of the Republic of Moldova was approved.

There was created a framework of institutional structures for the market economy – two-level banking system (16 new commercial banks besides 5 reorganized former state banks), stock exchange, privatization and investment funds, as well as auditing and consulting companies. The tax system reform was under way being accompanied with the tax service restructuring. This was the time of holding of the first credit auctions and mass privatization of enterprises and residential spaces; removal of export-import restrictions and liberalization of prices and tariffs (except for the tariffs of natural monopolies' services). Through the referendum of 1994, the law of 1995 and formation of the Territorial Autonomous Unit of Gagauz-Yeri, it became possible to prevent another regional conflict.

It is obvious that *Moldova* was implementing traditional, from the point of view of the liberal and monetary theory, "package" of market reforms. The state, following its canons, practically exited from the economy being engaged only in the development of institutional framework for economy. The state property (making in 1989 86% of the Republic's fixed capital), as well as the property owned by the cooperative and collective farms suddenly became ownerless and in the situation of mass privatization was subject to mass plundering.[2] Recognizing that private property and entrepreneurship[3] are the driving force of development, the state, nevertheless, failed to ensure their protection and stimulation through taxes and credits. Business, in its significant part, became a "shadow economy", while capital was being transferred abroad. The social costs of reforms also became obvious: growth of unemployment, steady decline of real incomes of the population (twofold decrease throughout five years!), property polarization and, as a consequence, appearance of the poverty "zone".

Nevertheless, by the end of 1995, Moldova's "macrostabilization plan" was, practically fulfilled: the dramatic drop of the gross domestic product was suspended, Moldovan "leu" became stable, the country undertook transition to the low-inflationary environment (while at the end of 1992 the inflation rate constituted almost 800%, by the end of 1995 it made only 24%) with the state budget deficit being rather small. Despite of the fact that the IMF, the World Bank and Russia were very generous proposing their credits, the volume of external debts was at the acceptable (not menacing) level. The private sector share increased up to 45-50%. Transformation of economy became irreversible. By the estimations of international organizations (IMF, the World Bank, the European Bank for Reconstruction and Development), in 1992-1995 Moldova was referred to the leader-countries of "correct reforms".

The period of 1992-1996 in Transnistria was characterized, first of all, as the period of extremely difficult and painful self-identification, of making efforts to resolve the issue of "survival" of the region as an independent "unit". The economic transformation coincided with the beginning of the state construction and the "need" to create its own institutional and legal system.

By virtue of some *specific* reasons, at the initial stage of its existence, Transnistria took a decision to make effective in its territory the legislative acts of the USSR and MSSR that did not contradict its Constitution.

In April 1991, the board of directors of the "USSR Agroprombank" took a decision on registration of the Transnistrian Regional Joint-Stock Commercial Bank of "Agroprombank" for settlement of accounts that, until the end of 1992, combined the functions of commercial and central banks in the region.[4] By the end of 1992, the two-level banking system (Transnistrian Republican Bank – TRB, performing the functions of the Central Bank and a network of commercial banks) was formed. In August 1994, Transnistria introduced its own currency – Transnistrian ruble (until that moment the Soviet bank notes were used as payment tools with a special stamp glued onto them at a certain point of time afterwards). Attempts were made to create exchange and credit market.

Transnistrian administration, with the strong support of enterprise directors concluded agreements on cooperation with a number of regions in Russia, Ukraine and Belarus and mended up its relations with former partners in these states.

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[2] Resolution of the Parliament "On the Results of Mass Privatization in the Republic of Moldova in 1993-1994. "Monitorul Oficial" No 17, 24.03, 1995

[3] The Constitution of the Republic of Moldova, article 126. Official Gazette of the RM No 1, 12.08, 1994

[4] V.P. Belchenko, M.P. Burla. Model, Social and Economic Development Concept and Major Directions for the Turnaround of Post-Soviet States in the Transition Period (based on the TMR example). Tiraspol, 2002, p. 143

While there was in effect the Law on Budgetary System (1991), there was no *real* Law on Budget. The budget was drafted aiming to cover expenditures: the budgetary sphere, including rather big state machinery, and expensive, soviet-type system of social security. Financing of these "usual" charges of the state was made without taking into account the existing budgetary restrictions and without so necessary, in such cases, economic pragmatism.

With the lacking strategy of reforms and lengthy discussions in relation to the functions of the state and private property role, Transnistria, unlike the right-bank Moldova, "adhering to the principles of controlled economy and its social orientation, chose a non-liberal way of development".[5] In fact, with just minor changes having taken place, *the administrative command system of economy* remained in its place.

The region experienced bad shocks, which were even more complex and deep than in Moldova and, namely, "not very successful transition to its own currency, hyperinflation, production decline to the level of full stop of enterprises and other destructive processes."[6]

By the end of 1995, Transnistria's economy appeared on the verge of financial crisis. As compared to the level of 1991, the gross domestic product and industrial turnover decline made over 60%. The ruble exchange rate was periodically reviewed and established on the basis of tactical reasons that, in most cases, were not coordinated with the economic situation,[7] The average prices of consumer goods and services increased by 400 times,[8] the average monthly wages in the public sector went down to 3-5 US dollars.

The critical situation in economy made Transnistrian authorities take an extraordinary step, i.e. to change their position both towards Moldova and the economic policy it held.

In July 1995, the heads of the central banks of Moldova and Transnistria signed an Agreement on mutual relationships between the monetary and credit systems of the Republic Moldova and Transnistria at the first stage. The Agreement provided for the use of Moldovan leu for clearing settlements in Transnistria, the Moldovan leu/ruble rate and for the free purchase/sale of lei in the exchange offices. Besides, an agreement was reached on harmonization of the TRB normative documents on supervision and control of commercial banks activities in conformity with international standards.

In February 1996, the Protocol Statement was signed aimed to settle the problems in the field of customs services activities of the Republic of Moldova and Transnistria. This agreement, in particular, provided for the reduction of Transnistrian import tariffs under the norms effective in Moldova and the excises introduced therein. At the same time, the Transnistrian customs received the right to use the customs seals of the Republic of Moldova. This decision was far from being indisputable. However, it seriously affected the dynamics of development both of Transnistria's economy and of its relationships with Moldova.

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[5] Modern Economic Problems and Economic Mechanism Reform. Materials from the International Conference. Tiraspol, 2001, p. 11

[6] V.G. Sinev. Transnistria's Industry: Difficult Way to Stabilization. EKO, No 1, 2000, p. 128

[7] TRB Bulletin No 12, December 2001

[8] TRB Bulletin No 10, October, 2001, p. 3

These and other bilateral arrangements[9] resulted in the signing of the Memorandum on the Principles of Normalization of Relationships between the Republic of Moldova and Transnistria in May 1997. This document demonstrated fundamental approaches to the Transnistria's status within the common state (within the Moldavian SSR borders as of January 1990) and the significant financial autonomy provided to it including the right to independently establish and maintain international contacts in the economic, scientific, technical and cultural spheres.

The first attempt to adjust budget relationships, to improve social protection of the population and to stimulate enterprise activity in Transnistria, which, in fact, was aimed to ensure more effective state regulation of economy, was the "Law on the State Budget for 1996". One can say that it was this particular law that laid the basis for economic transformations in the region.

We should note that the changes fixed by the law referred not only to the "purely budgetary" sphere (reduction of profit tax and lifting of export duties, the size of which was comparable to the size of profit tax, etc.) but also covered the monetary sphere: use of conventional monetary unit (equivalent to 1 US dollar at the rate established by the TRB) for calculation of budget indicators, development of mechanisms for the repatriation of currency proceeds and control over money resources return. Legal persons (irrespective of their ownership form) got an opportunity to independently participate in competitive auctions at the currency stock exchange. TRB's position and influence strengthened, monetary policy became more realistic and pragmatic and creation of money became partly adjusted.

There were undertaken potentially promising attempts on assurance of legal framework for introducing in Transnistria of non-public ownership forms with a package of laws approved. These were the laws on joint-stock companies, leasing, foreign investments, etc. Enterprises were reorganised under the closed scheme with the state shareholding transferred to them for trust management. However, such "downsized" version of privatization failed to yield any noticeable results. Moreover, in April 1997, due to numerous deformations and mistakes, the privatization process in the region was suspended. However, this decision of the Supreme Council only strengthened the uncontrolled redistribution of property making ownership relations even more "confused".

During the same period of 1996-1997, Moldova demonstrated an obvious slowdown of its structural reforms. The laws on the purchase and sale of land, bankruptcy, and pension reform, etc., "got stuck" in the Parliament. *The economy of the Republic of Moldova got "hung up"* – the decline just slowed down but the so-much-expected economic growth recovery never materialized with the social situation also becoming worse. There was published President's Decree "On Urgent Measures on Social and Economic Situation Recovery" setting the goal to resolve the issues of arrears on wages and pensions, low payment discipline by economic agents, imperfect taxation, debts for power resources and numerous infringements of the law.

In 1996, Moldova started negotiations on accession to the World Trade Organization (WTO). Joining the WTO became one of the foreign policy priorities, demanding significant efforts in changing legislation (customs, tariff policy, taxation system and quality control).

[9] Throughout 1992-1997, there were signed over 30 bilateral documents including 12 of them in the sphere of economy

Moldova was extended a loan by the World Bank (SAL-II, 100 million dollars) for the implementation of structural reforms, which made it possible to start liberalization of electric power and heating tariffs, as well as natural gas prices. The process of enterprise restructuring also became more active.

For the first time, by the results of 1997, Moldova and Transnistria registered a gain in the gross domestic product equal to 1.6% and 4 %, respectively, with the inflation being the lowest throughout all these years, and namely 11.2% - in Moldova and 46.5% - in Transnistria. At the same time neither Moldova, nor Transnistria could overcome the budget crisis – the budget deficit was equal to 7.7% and 12.8% of the gross domestic product, respectively. And shortage of financial assets, weakness of corporate management, non-functioning of bankruptcy procedure, slow enterprise restructuring, growth of shadow economy, growing corruption, etc. impeded the full-fledged stabilization.

In the autumn of 1998, *the stable depression* of the middle of 1990s was blown up by the financial crisis in Russia. Both business, and population on both banks of the Dniester river realized the risks of excessive foreign trade concentration of *the whole* Moldova only on one, although very capacious, Russian market.

By the end of 1998, *Moldova's* currency reserves went down very sharply (almost threefold decrease), Moldovan leu became by ⅔ cheaper, while the state budget revenues declined. At the same time, *crisis served as a kind of catalyst for the reforms* – restructuring in agriculture became more active ("Pamant" Program), privatization processes (in the energy sector, wine-making and tobacco branches), administrative and territorial reform. The long-prepared (since 1995) pension reform was launched, at last, with the cancelling of privileges and introduction of target compensations); there were continued improvements of taxation and tax administration systems.

The after-effects of the financial crisis impacted the results of 1999. The attempt to revive the real sector of economy and entrepreneurship appeared ineffective with negative trends persisting practically in all the branches of economy: industry, agriculture and services sector. Currency reserves of the National Bank stabilized, but the leu rate, as of the end of the year, went down to USD11.59, the dollarization of deposits in commercial banks, for the first time, exceeded 50%, while inflation with its 43.8% was the highest after 1994. Preservation of inefficient, on the whole, economy resulted in the mass outflow of active population abroad in search of jobs.

The Transnistrian authorities reacted to the crisis of 1998 by making the state regulation of economy stricter with fiscal pressure becoming stronger. With the TRB's independence formally stated, the rules for fixing the Transnistrian ruble exchange rate was changed by *the President's Decree* three times (!) within 1999. With limited money supply, the rigid fixing of the Transnistrian ruble rate versus dollar, as well as the system of numerous exchange rates (for calculations of wages and for foreign trade transactions) not only span up the inflationary spiral, but also made the currency market "withdraw" into the shadow economy (the "shadow" exchange rate was promptly growing up exceeding the "official" values by 2 and more times)[10]. Banks practically had to retire from the currency market, which resulted in the stagnation of the system as a whole. Capital was actively outflowing from the region: in 1999, the outflow made about 32 million US dollars (for comparison, the volume of investments in the fixed capital in the same year constituted 15 million

[10] TRB Bulletin No 12, December 2001

dollars). It became unprofitable for economic agents *to export* and, consequently, *to manufacture* goods.

The crisis *made* the Transnistrian administration return to the issue of property reform, though on the legislative level only. There were approved Laws on Small Assets Privatization (June 1999) and on Denationalization and Privatization (December 1999).

In October 1999, the Transnistrian Parliament adopted the decision "On Primary Measures in the Stabilization of Financial and Economic Situation in Transnistria" with the program on its implementation approved later on – in November. The program included a whole complex of measures on the adjustment of relationships in the budgetary, fiscal, monetary and credit spheres.

In 1999, the economy of the whole Moldova reached the lowest level point – the GDP volume constituted in Moldova – 41%, and in Transnistria – it was hardly more than 20% of the level of 1991.

The recovery of economy in Moldova and Transnistria in the year 2000, which was in many respects unexpected, was due to several reasons. *First*, the reforms and transformations of the 1990s, with an eight-year time lag, started yielding their results. *Secondly*, there were several external factors: the economic growth that had begun a little bit earlier in Russia, promoted an active demand for Moldovan and Transnistrian goods in its market. Besides, there appeared a new source of financial receipts – remittances from labour migrants, which substantially contributed to the increase of internal demand and, as a consequence, growth of imports. *Thirdly*, based on the arrangements reached in 1995-1997, the Moldo-Moldovan trade was rapidly recovering. As a result, Moldova and Transnistria succeeded in renewing their industrial production growth, by 7.7% and 16.5%, respectively, improving taxation, and curbing, within the limits reasonable for each region, inflation and currency exchange rate. Differences in the approaches to transformations also yielded their effects: Moldova registered a small GDP growth of 2.1%, whereas Transnistria failed to show any growth at all; its GDP volume remained practically on the level of the previous year.

In 2000, the economies of Moldova and Transnistria, "having made a start" from the bottom line, reached a turning point in their post-crisis development. However this problem was to be resolved in the presence of, at least, three *general* serious constraints: depopulation including for the reasons of mass labour migration abroad; obsolescence (physical, and, which was even worse, moral) of fixed assets in the situation of low investment activity and the factor having a cumulative-effect – significant external *public debt.*

In 2001, *Moldova* became a full member of the WTO and joined the Stability Pact for the Southeast Europe, which not only provided access to the new markets, but also created new opportunities in the field of investment projects implementation. At the same time, requirements set to the economic policy also increased. *The mentioned constraints predetermined, in fact, the only way of support for the recovery of economy and use of new opportunities for its development, i.e. implementation of dynamic and consistent reforms.*

After alienation from the economy characteristic of the initial stage of reforms, the state, having failed to find a reasonable relationship in the measures of state regulation and freedom of action for market mechanisms, began to interfere with the economy, especially in the sphere of business, doing it sometimes too actively.

The RM Government became a hostage of circumstances and was forced to undertake urgent measures. This fact resulted in the lack of clarity, controversial economic policy and the mechanisms of its implementation.

As a WTO member, Moldova, in conformity with the obligations it had assumed, continued improving the customs system, including the customs regime. This was the reason for cancellation of the old customs documentation and seals and introduction of the new ones. But this time customs documentation and seals were not granted to the Transnistrian side. "Special" rules for holding foreign trade activities were entered for economic agents from Transnistria. Relations between Moldova and Transnistria "unexpectedly" aggravated. Both sides started steadily using economic mechanisms for the resolving of political issues. This resulted in the continuous "frozen nature" of the Transnistrian issue with the economic disagreements growing.[11]

After seven years of development, Moldova adopted a new market-oriented Civil Code (2002), and a year later – the Civil Procedure Code. However, due to the lack of the reformed government machinery, including the judiciary, their practical application remained rather problematic.

The administrative and territorial division of the country was "improved". However, return from 10 judets (counties) to 32 smaller territorial units not only failed to save money on the administrative costs, but also complicated interaction between the central and local public administration bodies; relationships between authorities and business; aggravated the quality of regional statistics, which was far from being irreproachable even without these "reorganizations". The local authorities received no powers (the Law on Local Public Administration, 2003) and no respective financial support (the Law on Local Public Finance, 2003).

The deadline for the implementation of the third privatization program (1997-1999) was postponed twice: first – in 2002, and then – in 2005. The privatization process, the implementation rate of which was affected by the inept administration that complicated relationships with local and foreign investors, was going on in a passive and non-transparent way.

As a result, the international financial organizations (IMF, WB and EBRD) got the feeling of mistrust regarding stability and the consistency of the reforms held in Moldova, as well as the clarity of its orientation towards market economy. Relations with the mentioned organizations became cool enough, and external financing was suspended.

The "crisis" in the relations with the International Monetary Fund and expansion of the European Union (new Neighbourhood Policy) stimulated Moldova's desire to get back the international donors, and to regain the Moldovan business community's belief in the consistency and predictability of the undertaken economic policy. The Government proceeded again to the implementation of structural reforms.

In April 2004, a new Law on Investments (its development began in 2001) was adopted providing equal rights to the local and foreign investors.

[11] See for details "Moldovan and Transnistrian Economies – from Conflict to Peaceful Development Prospects. External Economic Activity: Source of Growth and Contradictions. CISR, 2007 (see www.cisr-md.org)

In December 2004, the RM Parliament approved the Economic Growth and Poverty Reduction Strategy Paper (2004-2006) and signed it into law.[12] The key thesis of the Strategy says, "*To move from the current state of remittance based, consumption- led growth to a more balanced model, emphasizing investment and locally based import substituting and export led growth.*"

The law on revision and optimization of the normative framework for the enterprise activity regulation (the Law on Guillotine) was passed simultaneously. The processes of deregulation started in the economy including decrease of administrative barriers for enterprise activity; improvement of the budgetary process and interbudgetary relations; reduction of opportunities for the arising of conflicts of interests in different departments.

In May 2005, the Action Plan of the Republic of Moldova – European Union, a kind of road map for Moldova on its way to the European integration, was signed.

It became finally clear that the opportunities for consolidation of the economic growth predominantly through improvement of legislation were exhaustible, it was necessary that its norms be fulfilled in practice, which required an effective state machinery, fair court, appropriate law-enforcement and consistent legal systems. The Government started planning a complex of reforms of public administration for 2006-2008.

On the whole, *statistically*, the period of 2001-2005 was successful for the economy and the population of Moldova:

- *The GDP cumulative growth* was over 40%;
- *The state budget revenues* increased more than twofold, which (along with the borrowing from the NBM's reserves) allowed to decrease the Government's external debt by 20% external debts and raise wages of those employed in the budget-supplied sphere and pensions;
- *The growth rate of investments into fixed capital* tended to forestall GDP growth (by 1.5 times);
- *Export* exceeded 1 billion US dollar, which was 1.2 times as high as in the pre-crisis 1997, the pro-EU orientation in export strengthened: 1997 – 13.4%, 2000 – 26.3%, 2005 – 30%;
- *The currency reserves of the National Bank of Moldova* increased by 2.7 times (up to 597.4 million US dollar);
- *The real monthly average wages* of those working in the economy became twice as big, the zone and depth of poverty was reduced;

At the same time, there is a changeable balance of positive and negative circumstances in the Moldovan economy, such as:

- The economy has rebounded mostly due to agriculture and related industries, favourable external market situation and domestic consumption growth, fuelled by the steadily growing of workers' remittances and sizable increases in wage;
- The major part of the GDP growth was provided by agriculture and food industry – sectors of unstable development. Food products made up 60.8% of

[12] Moldova's Government started thinking about the need for the Economic Growth and Poverty Reduction Strategy (upon the IMF and WB advice) in 1999. In 2000, it proceeded to its development. The draft Preliminary Poverty Reduction Strategies were approved twice (in December 2000 and in April 2001).

export, including alcohol – 28.3%, which is more than the share of machinery and light industry products (26.1%);;

- Creation of new jobs failed to neutralize the tendency towards employment decrease (12% over 2001-2005), while more than 40% of the economically active population worked abroad;
- Chronic lack of investments hampered reconstruction of the industrial potential and infrastructure (energy sector, roads and transport, water supply, etc.);
- Growing imbalance of external trade: in 2005, import was more than 2 times as high as export, current account deficit constituted 8.3% of the GDP;
- Starting with 2003, the average annual inflation was expressed in two-digit numbers, 11.6%, 12.4% and 11.9%, respectively.

Paradoxically, but it appears that just because of the additional external shock of 2001 – Moldova’s “withdrawal of customs seals” and changing the customs procedures for the Transnistrian export/import transactions - has forced the *Transnistrian* authorities change their attitude towards the reforms and their contents. Still not mentioning the term “market” – they nevertheless started taking into account the laws of market economy. Besides the development of measures aimed to a certain extent to liberalize enterprise activity decrease the tax burden, simplify the registration procedures, licensing and certification started, they started to be implemented in practice. Since the end of 2002, the new mechanisms to help Transnistrian residents enter foreign markets have been implemented and constantly improved.

In order to improve the management of social and economic processes on the annual basis in Transnistria started development of “Forecast of Social and Economic Development”, “Budgetary and Fiscal Policy”, “Monetary and Foreign Exchange Policy of the TRB”, as well as target programs. The actions of the state in economy became more predictable.

In 2001-2004, Transnistria undertook its tax reform: It approved a package of laws to adjust taxation (6 new laws and 11 amended and/or modified laws). It also approved the Labour and Land Codes and finalized introduction into effect the Civil Code. One can say that the region, on the whole, finalized the development of its own legal basis adjusting both business and activities in the non-market sector of economy.

There new institutes positively influencing the development of economic processes also appeared: Chamber of Accounts, (Law on Chamber of Accounts), Transnistrian Chamber of Commerce and Industry and the Union of Entrepreneurs, Manufacturers and Agrarians of Transnistria. Transnistria got its own stock exchange with professional participants of the securities market, mainly private. At the same time, the essence and mechanisms of economic management are, to a great extent, defined by the *appropriately built up “power vertical”*.

Finally, Transnistria proceeded to the ownership reform. As privatization was recognized as one of the most important priorities of socio-economic policy (including investments), the complete normative basis regulating property relations was fundamentally changed: the new version of the laws on denationalization and privatization (2003) and joint-stock companies (2004); laws on the state program of denationalization and privatization for 2001-2004 (2001), on securities market (2002) and on evaluation activity (2004). To ensure the legal guarantees for future investors, the ministries and departments have undertaken some organizational and preparation activities on registration of all the components of the privatization process – starting with the title documents on the assets under privatization and finishing with the final registration of sale/purchase contracts in the notary offices.

Mass privatization started in 2002 appeared as the main event in the Transnistrian economy.

During 2002-2005, over 70 enterprises were privatized with the privatization revenues making nearby 90 million US dollars. Privatization "played the role of a kind of oxygen pillow that made it possible for the economy to survive."[13]

The funds received from privatization formed a basis for positive changes registered in the Transnistrian economy:

- *GDP cumulative growth* made more than 60%;
- *Republican (state) budget revenues* increased by more than 3 times that made it possible to increase wages in the public sector and pensions with further growth of external debt (by 1.7 times);
- Growth rate of *investments* in the fixed capital was faster than that of the GDP;
- *Export* exceeded 800 million US dollars, which was 1.5 times as much as in the pre-crisis 1997. The pro-EU orientation in export increased: 1997 – 9.9%, 2000 – 14.1%, 2005 – 18.1%;
- *The exchange rate* of the Transnistrian ruble stabilized;
- *The real monthly average wages* of those working in the economy grew up threefold.

Nevertheless, in spite of the fact that by the end of 2005 Transnistria "completely stopped being guided" by the legal framework of the ex-USSR/MSSR, until now, there is no program of reforms that would be formulated as a complex and, which is probably even more important, *there is no certainty regarding the ultimate goal, i.e. what type of economy Transnistria is going to build*. The measures undertaken in relation to the macro-financial stabilization by means of the specific reforms that were, as a rule, of fragmentary nature and were aimed, first of all, at the prevention of inflationary explosion failed to yield the anticipated results.

Generalizing the transformation of the Transnistrian economic system throughout the last few years, one can conclude that after 2000, the region, by analogy with other post-soviet states (although with a time lag of 10 years) undertook attempts to transit from the centralized administration to the market liberalization, privatization of industry, infrastructure assets and the sphere of services. It has undertaken innovations in the financial sector; its social security system is under transformation becoming of a more targeted nature with regard to the beneficiaries needing the state support. Further transformation of the economic system, like before, will be most likely defined by the change of factors and circumstances that are external for the region.

It should be noted that the undertaken general analysis of the changes having taken place during fifteen years in the parallel development of economies in Moldova and Transnistria has revealed the need for holding of the now missing more targeted sectoral researches in relation to the differences in legislation and mechanisms regulating economic activities, as well as the possible ways to eliminate them. It would be expedient to hold such work within the joint expert groups representing non-governmental organizations functioning on both banks of the Dniester River,

[13] Interview with the Chairman of the TMR Supreme Council Ye. Shevchuk. Information Agency of *Novy Region*, 29.12, 2006

inviting whenever possible representatives of respective public authorities from Moldova and Transnistria.

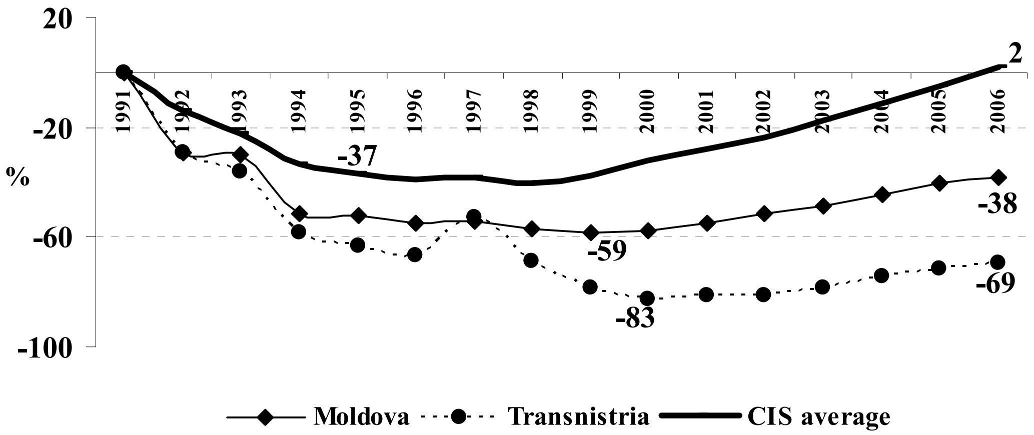
Real Sector of Economy

Macrostructure of Production

In 2006, 15 years after transition to the market economy, the real GDP constituted 62% in Moldova and 31% in Transnistria versus the level of 1991 (*see figure 1*).

Figure 1

Moldova and Transnistria: GDP development in 1991-2006 (1991=100%)[14]



Both economies in Moldova and Transnistria reached their "bottom" of decline almost simultaneously, in 1999 and 2000, respectively. The duration (10 years) and depth of the adaptive decline created the situation that was even more complex than in the developed countries during the period of Great Depression. The GDP volume in 1999, versus the level of the pre-reform 1991, constituted in Moldova – 41% and in Transnistria – only 17%. By our estimation, cumulatively for *the whole* Moldova, the GDP volume in 1999 constituted not more than 30-35% versus the level of 1991. For comparison, the economy decline across the CIS countries lasted for 6.5 years, on the average, and resulted in 40% *reduction* of the GDP volume.

The reasons for such a long crisis in Moldova and Transnistria are as follows:

- *First of all – structural disproportions* (hypertrophied structure of industry and significant agrarian sector aimed for the USSR market was in no way adjusted to the opportunities and demands of the internal Moldovan market);
- High degree of dependence on the extremely unstable, at that time, post-soviet markets;
- Slow adaptation of both economies to the changed conditions;
- Lack of experience in "transition" to the market economy and, as result, lack of the complex-nature reforms in Moldova and their initial neglect in Transnistria;

[14] Transnistria started calculating its GDP in 1996. Calculations for the period of 1991-1995 are based on the assessment made by CISR.

- Institutional vacuum (lack of institutional and legal frameworks to ensure the functioning of market relations);
- Internal disintegration: disintegration of the small, as it was, domestic market, destruction of the common economic and customs space, differing and unadjusted ideology of the transition process.

  According to the World Economic Forum experts' estimations, every year of conflict results in the "under-received" 2% of economic growth.

We believe that the slight rehabilitation of both economies in 1997, in Transnistria ("a little bit exaggerated statistics" showed the alleged +42 %) is connected with the arrangements reached between Moldova and Transnistria on the normalization of relations in the customs and banking spheres. In Transnistria, the normalization of relations reflected itself in a more pragmatic approaches of the Supreme Council to the fixing of parameters for the fiscal policy; improvement of regional statistics (after 1996 the GDP indicator was first calculated with the support of the World Bank and then - independently); decisive attempts by the TRB to identify its own position and to strengthen the impact on economy ensuring strict control of the financial, credit and currency markets, regulation and supervision of commercial banks activity.

However, financial crisis in Russia (1998) that provoked industrial and agricultural production decline, destabilization of financial system, upsurge of inflation in Moldova and hyperinflation in Transnistria, "slowed down" the growth of both economies for two years and displayed their *general problems* – high degree of dependence on *one* foreign market and limited opportunities in export diversification.

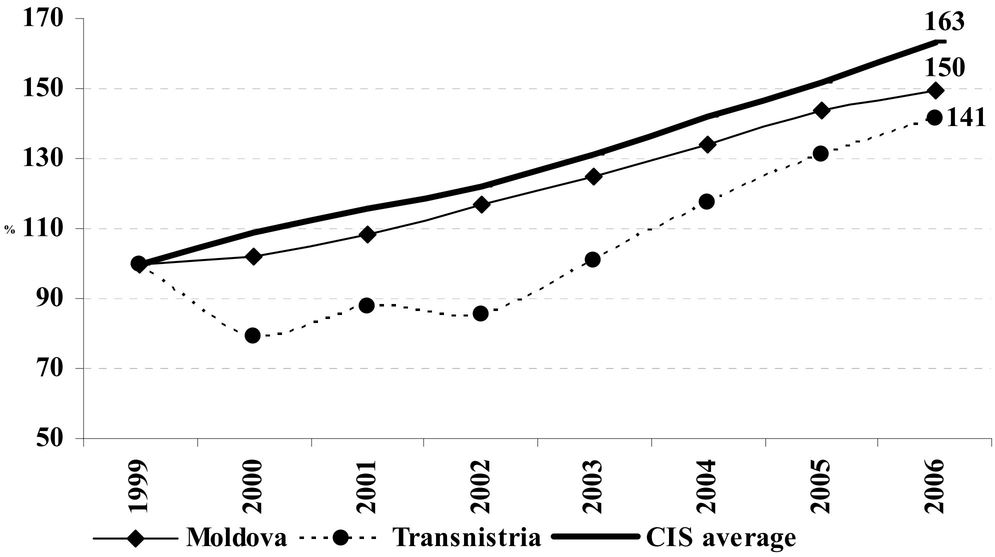
Without running a risk to make a big mistake, we can say that *different depths of decline in the economies of Moldova (59%) and Transnistria (83%) during the first stage of the transition period can be used as an indirect parameter reflecting, first of all, a macroeconomic result of different strategies used during the transition period,* rather than a difference in the starting conditions (recognized and unrecognized statehood). This can also be proven by the example of Armenia (the starting conditions were similar to those of Moldova being complicated by the "frozen" conflict), where structural reforms, first of all in agriculture, started earlier and were held more consistently. Therefore, the period of adaptive decline was shorter (5 years) and less painful by its depth (the GDP went down by 40% versus the level of 1991).

In 2000, the situation started changing: Moldova and Transnistria showed a trend towards growth. Moldova registered GDP growth of 2.1% and industrial growth of 7.7%. Significant growth of industrial production in Transnistria (16.5%) was "compensated" by even bigger reduction of agricultural production volumes (-17.6%) and stagnation in the sphere of services. As a result, the GDP volume in the region in the year 2000 made only 79% versus the level of 1999. As a whole, positive development of both economies continued during the next few years.

Nevertheless, the nature of the achieved level of social and economic development is rather inconsistent. On the one hand, it was preceded by more than five-years of noticeable economic growth (*see figure 2*). During seven years, including 2006, the GDP grew up in Moldova by almost 50%, while in Transnistria – by 41%. On the other hand, the starting point of this growth is the very bottom point down to which the economies had declined during the ten years of crisis. However, despite of the supposedly stabilized development, neither Moldova nor Transnistria have as yet reached the pre-reform 1991 level, even *formally*. However, this formal lagging is not the only problem. Actually, the GDP growth does not necessarily mean strengthening of the economy and the state, as well as growth of the well-being of the population. The major point is that the structure and quality of the gross domestic product, from the point of view of its manufacture and subsequent use, have changed.

Figure 2

Moldova and Transnistria: GDP development in 2000-2006 (1999=100%)



Let's analyze what was actually growing. In *Moldova,* with the cumulative GDP grown during 2000-2006 by 50%, the contribution of agriculture constituted 6%, industry – 10%, spheres of services – 18%, while net taxes from products and import – 14%.

In *Transnistria,* during the same period of time, the GDP volume increased by 41% including growth of industry – 15%, services - 18% and net taxes from products and import – 12%. The contribution of agriculture was negative – minus 3%.

At the same time, industrial production growths in Moldova and Transnistria were mainly due to the export-oriented industries. In Moldova, this included products manufactured by the wine making, food and light industries (about 50%). It is necessary to note that the home market is saturated with these goods (and not only of local manufacture). Foreign markets are highly competitive, which raises the level of requirements set to the quality of exported goods and complicates expansion of penetration of the traditional Moldovan goods abroad.

In Transnistria, about half of the value added created in industry falls upon just *one* enterprise – Moldovan Metal Works whose goods are practically not demanded on the domestic market, which means that the economic situation in the region is substantially defined by the conjuncture on the world metal markets.

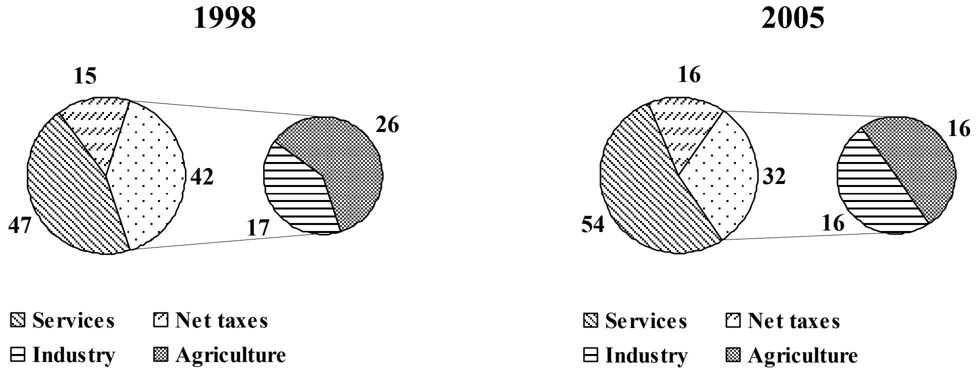
The share of goods in the total GDP volume of Moldova and Transnistria was going down year by year and constituted in 2005, only 32.2% and 33.7%, accordingly versus the indicators of 42.5% and 51.4% registered in 1998, while the share of services was growing (*see the Annex, tables 3 and 4*).

Since 1998, the specific weight of industry in Moldova's GDP averages 17%, while that of agriculture – 20% (in 1993 the ratio was in favour of industrial production –

39% and 31%, accordingly), which means only stabilization and in no way termination of deindustrialization of the country (*see figure* 3).

Figure 3

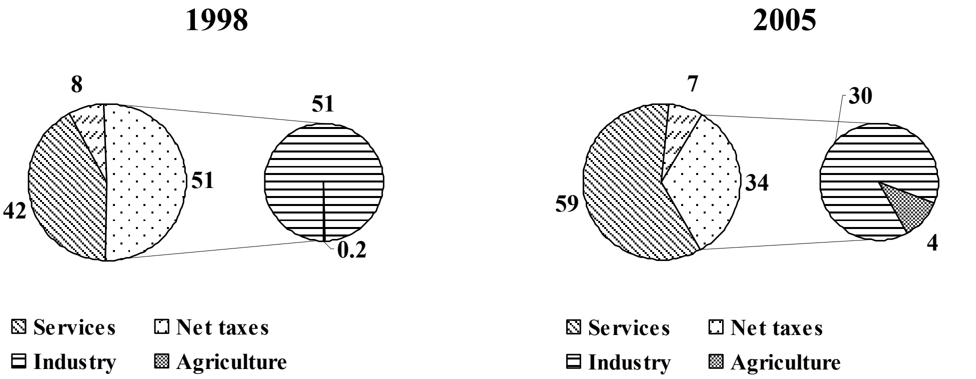
Moldova's GDP structure, %



In Transnistria, agriculture is practically "absent" in its GDP (1998 – 0.2%, 2000 – 1%, 2005 –3.8%), while the share of industry is stably decreasing (1998 – 51.2%, 2000 – 57%, 2005 – 29.8%), which is due both to the changing conjuncture of foreign markets (metal, textile production and electric power) and to the opportunity of access to them, as well as to the depressive nature of industries working for the internal market (*see figure 4*). Nevertheless, industry remains the major and structure-forming branch of economy in the region determining dynamics (growth/decline) of the gross domestic product.

Figure 4

Transnistria's GDP structure, %



Such an extremely dangerous for the sustainable development structure of industry having led to the one-sided orientation *of both* economies was a result not only of the passive structural transformations at the first stage of reforms, but also of the break up of the USSR. During the Soviet times, the major part of goods produced by the *whole* of Moldova was manufactured in cooperation with the enterprises from other union republics and was consumed, mainly, outside of the Moldavian SSR. At present, the most part of these links between the republics and respective fixed capital is unavailable. The remaining fixed assets are worn out and, to a great extent, are unused, with the resource of the technological basis of both economies (machinery and equipment) having been worked out by more than 60%, while the average age of equipment has reached 20 years.

The intellectual capital of the former military and industrial complex has mostly disappeared including the manufacturing complex of machinery and consumer goods of "civil nature". The double-purpose high technologies have been lost.

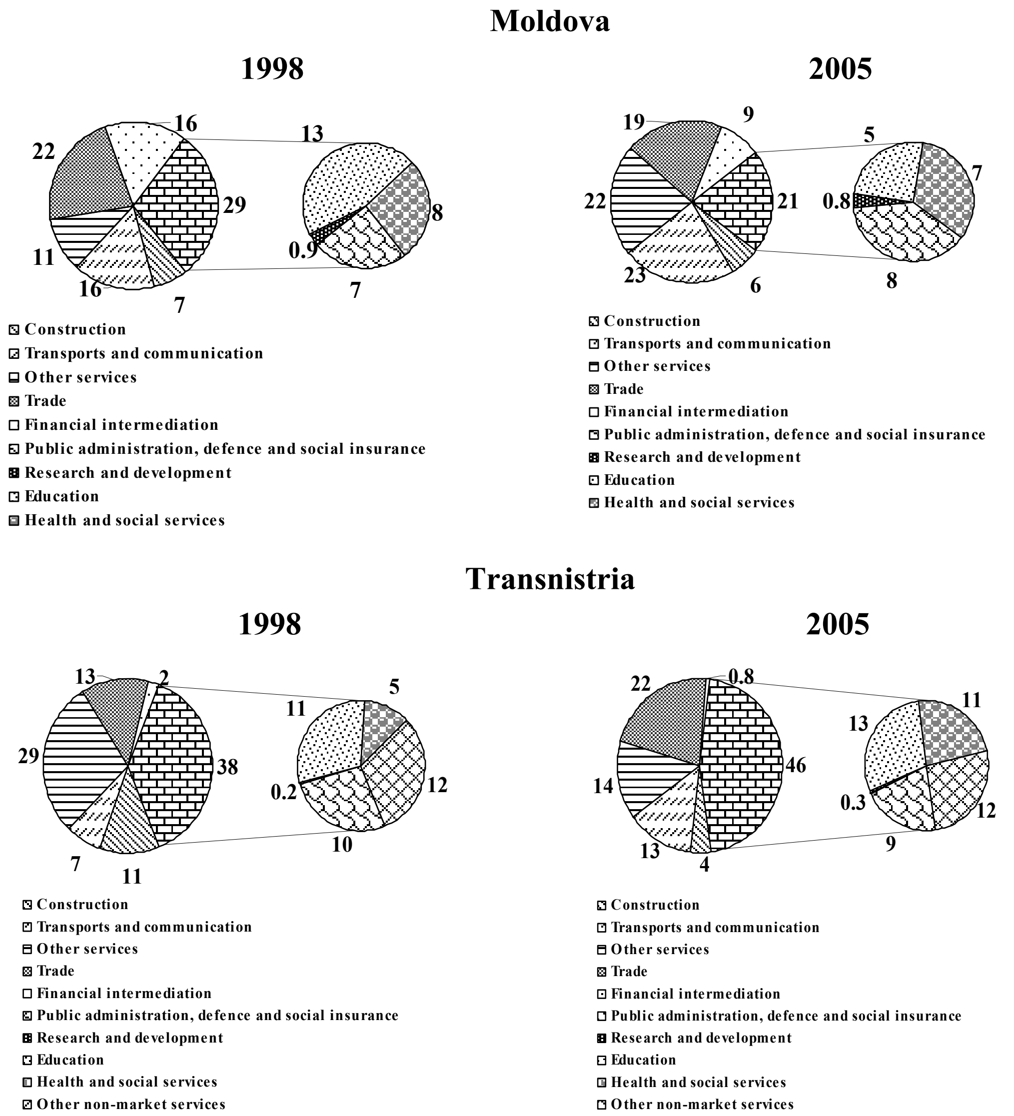
It is necessary to note that the increased share of services in the GDP structure is in no way a proof o high development of this sphere and, in many respects, reflects *the problems of general nature in both economies*: sharp decline in the real sector of economy, priority rates of growing prices of services versus the growth of prices of industrial and agricultural goods and, during the last few years, growth of purchasing capacity of the population, one of the reason for which is labour migrants' remittances. Besides, in the services sphere of Moldova and Transnistria (*see figure 5*), the dominating sectors are trade, financial transactions and the so-called non-market services.[15] All these create the value added only "formally", while its actual increase reflects growth of incomes of those engaged in these spheres and the margins for the services rendered (trading or financial). We should note that the trade network of both regions is used for the sale of imported goods, while in Moldova a significant part of the trade network itself belongs to foreign companies. The volume of provided non-market services (state administration, education and public health services) is in many respects connected with expenditures (revenues) of the budget. At the same time, the share of non-market services in Transnistria is steadily growing with the budget revenues being extremely unstable, whereas in Moldova we can observe an opposite trend.

However, rather similar changes are taking place in the services sphere of both regions: priority growth rates are registered in construction, transportation and, specifically, communication services.

[15] The non-market services usually include those that are rendered completely or partially against extra-budgetary funds and the funds of non-commercial agencies, etc.

Figure 5

Structure of the gross value added created in service' sector, %

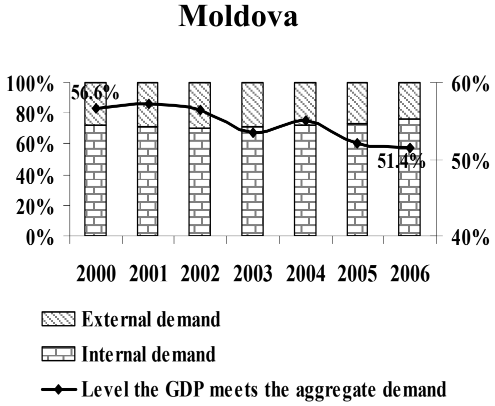


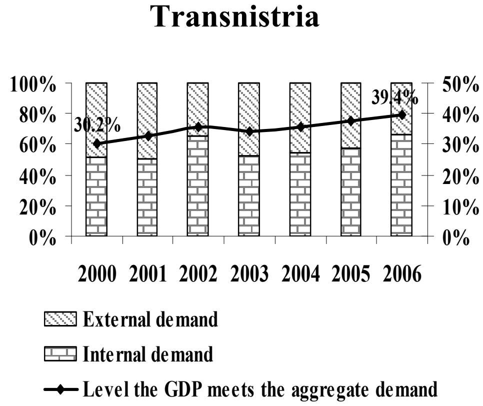
Development of the overall sphere of services, and especially production services (construction, transportation, communication, etc.), as well as steady development of economy as a whole depends, to a great extent, on the growth of its key branches of economy, i.e. industry and agriculture. In Moldova and Transnistria, during 2000-2005, the growth rates in these major, from the point of view of industrial potential, branches lagged behind the growth rates of the gross domestic product by 6 and 15 percentage points, accordingly.

Economic growth in Moldova and Transnistria is, in many respects, defined by the dynamics of the aggregate (external and internal) demand (*see figure* 6).

Figure 6

Structure of aggregate demand in 2000-2006, %





As to the external demand, it is covered by export, whose structure in Moldova and Transnistria steadily includes, by about 70%, three commodity groups with clearly expressed dominants: in Moldova these are *foodstuffs and drinks* (40%), textiles (18%) and plant growing products (12%), and in Transnistria - *steel and rolled steel (*60%), textiles (14%), foodstuffs and drinks (5%). It is obvious that one can hardly expect any prospects of long-term and sustainable growth in the external demand without transformation of its structure. As long as both regions have rather limited financial and technological opportunities of their own, large-scale changes are possible only with the use of foreign sources and, primarily, of direct foreign investments. *At the same time separation and conflict nature of economies essentially slow down the so-badly needed progress in this respect*.

Internal demand substantially depends on the mechanisms that the state can use in order to ensure growth of incomes of the population, development of crediting and so on. In Moldova and Transnistria these tools are practically not functional. The demand of the population in both regions is substantially determined by the remittances from labour migrants, i.e. incomes received not inside but outside of the country.

Considerable *common* "defect" in the internal demand also results from the fact that it mainly depends on the most well-to-do population. In Moldova, more than 40% of all the incomes fall upon 20% of the "rich people" whereas 20% of the poor have only about 5% of incomes. Although in Transnistria no household survey has been undertaken, one can assume that the level of concentration of incomes here is, at least, not lower than that in Moldova. This, respectively, means that the poor do not account in any way for a significant demand in the *whole* of Moldova. It is known, and this is characteristic not only for Moldova, that demand for *domestic* goods is based, as a rule, on the less provided strata of the population.

Import of Moldova and Transnistria is growing at faster rates than industry and the GDP; hence, it ousts domestic goods from the home market. The fact that our manufacturing industry is in many respects non-competitive is well-known. This means that the issue of linking investments with innovations remains outstanding.

Industry: Production structure and growth rates

The economic growth policy actively declared in Moldova and Transnistria cannot be separated from improvement of the situation in the real sector of economy.

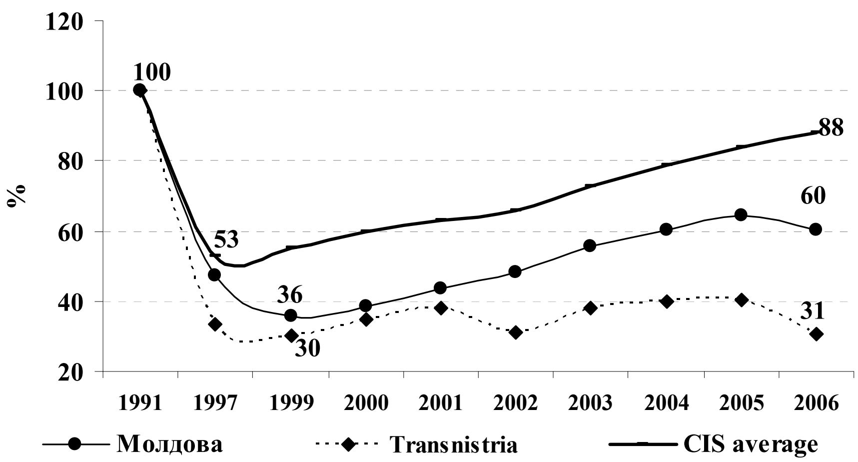
However, this is the sphere where things are developing in a very complicated way. Throughout the years of market reforms, the situation not only did not improve but considerably aggravated – it appeared impossible to retain the inherited from the Soviet times economic potential neither in industry, nor in agriculture.

Despite of the initial differences in the approaches to reforms, as well as the forms and methods of rendering effect on economy: the "shock therapy" in Moldova and the attempts of strict state regulation through control of distribution of the goods produced by the quickly shrinking manufacturing sector in Transnistria, scale and trends of decline in industrial production at the first stage of the transition period were approximately identical (*see Figure* 7). This can be explained by several reasons:

- Unexpected openness of economy, while it was absolutely unprepared for competition;
- Shocking liberalization of prices, sharp decline in both internal and external demands, insolvency of importers and, as a result, non-payments crisis and barter in economy – these are the problems that could be resolved only with the "help" of the crisis of 1998;
- Break up of traditional links on the whole of the post-socialist space most painfully affected the industries focused on external supplies, which meant, practically, all the industry (food, light leather and foot-wear industries, energy, machine-building and metal working);
- Marketing of goods rather quickly and unexpectedly became one of the most difficult problems for the majority of enterprises;
- Internal disintegration of economy, separation of the small, as it was internal market only aggravated the crisis trends development.

Figure 7

Industrial output (1991=100%)



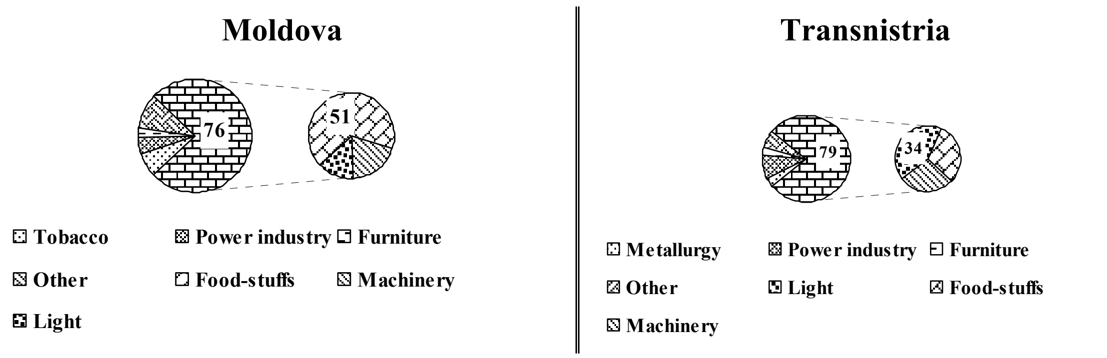
Source: Statistical year-books of the PMR for 1990, 1995-1997, 2005
Statistical year-book of the RM for 1994, 2002, 2005
http://www.cisstat.com/rus/
CISR calculations

Industrial recession in the *whole of* Moldova continued all through the 1990s, which eventually resulted in the practically triple reduction of production volumes.

Agro-industrial complex was the heart of Moldova's economy until 1990 (agriculture, agricultural processing enterprises, branches of economy engaged in the deliveries of equipment and services of industrial nature to agriculture). In the situation of limited mineral and raw resources of its own, as well as lack of fuel and energy and redundancy of hands, there were developing light, mechanical engineering and metal working industries focused on the external (all-union) markets. However, within the joint economic complex of the Moldavian Republic having common dominants (*see figure 8*) the regional industrial proportions differed considerably. *Moldova* was clearly specializing in the production of foodstuffs and drinks (50%) and much less in mechanical engineering (15%) and light industry (8%). The "load" on the key branches of economy in Transnistria was distributed more evenly: the share of light industry made 34%, food – 24% and mechanical engineering – 21%.

Figure 8

Industry structure in 1992, %



With the lack of financial resources (state and private), the crisis phenomena in industry were in many respects accompanied by spontaneous restructuring of industry. These processes were developing on the right and left banks of the Dniester River differently.

In *Moldova,* due to its traditions, the emphasis initially was on the enterprises working on the local raw materials (food-processing and, partly, construction materials industries) or on the non-capital-intensive/non-power-intensive enterprises using cheap labour (manufacture of clothes, footwear, carpets, etc.). As to the large high-technology enterprises (radio electronics, instrument making and automation equipment) that were mainly linked with the ex-USSR military and industrial complex, it was supposed to develop and implement conversion programs. However the programs related both to conversion and restructuring of machine building enterprises working for the agro-industrial complex were never fulfilled. As a result, these industries quickly degraded, which provoked switching of the personnel to other fields of activity both inside and outside of the country. Nevertheless, Moldova succeeded to retain the traditional core of its economy, although in a "smaller" variant.

The factor of non-recognition of Transnistria considerably strengthened the negative effect of the break up of traditional economic relations. At the same time, absence of precise economic priorities at the initial stage, as well as industrial specificity of the Transnistrian region – manufacture of unique goods (and first of all, steel and electric power), the consumption of which is impossible to be avoided, "helped" some enterprises to realize the tactics of regional cooperation, first of all, with the related enterprises of Russia, which made it possible for the industry of the region to survive.

Two leading enterprises of the region that were of specific importance for the Transnistrian economy at the first and most difficult stage: the Moldavian state district power station and the Moldavian Metal Works. The stable work of the former was a factor of reliable power supply not only for the *whole of* Moldova but also for its neighbours: some regions in the Ukraine, as well as Romania and Bulgaria (open energy distribution facilities of the station were an integral part of the ex-power supply system of "*Druzhba*"). The latter rather quickly drew the attention of the Russian gas business, which made it possible to find a reliable investor (the company of "Itera") and to adjust to the new economic conditions. At the same time, the enterprises of the food-processing industry, except for the wine and cognac making ones, have either stopped working (sugar making, vegetable oil, and tobacco fermentation factories) or essentially reduced their production volumes.

It is remarkable that the light industry enterprises on both banks of the Dniester were adjusting to the market conditions in similar ways: search of a foreign partner (most often European) and work using the raw material supplied by the customer based on specific orders, which made it possible to stabilize the situation at the industrial enterprises of the *whole* Moldova.

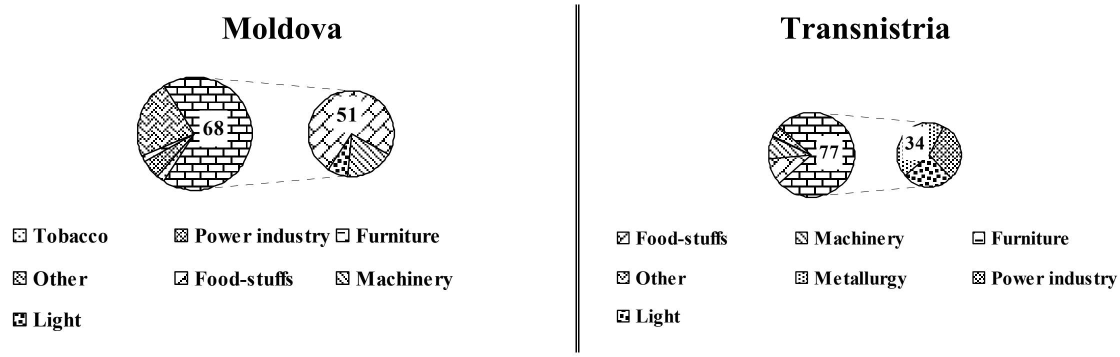
It is essentially important that by 2000 (growth recovery) Moldova's industry was dominated by the private sector (about 90% of the overall volume of production), while in Transnistria, the state remained the proprietor of the majority of enterprises, at least legally. To a certain extent, with the obvious imbalance, the branch structure of industry also "became functional".

In *Moldova,* these changes are less obvious: the dominating branch is manufacture of foodstuffs and drinks (50%), with major investments being also concentrated in this sector. However, the importance of light industry has considerably decreased (4%). Sharp increase of electric power tariffs considerably raised the share of this branch in the overall volume of industrial production (13%). At the same time, the needs of economy in electric power are mainly met by external deliveries.

In *Transnistria*, due to quite obvious reasons, the structure of industry became noticeably "*heavier*"*:* in fact, just two enterprises (Moldavian Metal Works and Moldavian state district power station) account for about 60% of the industrial output. However, this "industrial core" is rather vulnerable. These enterprises perform different "functions" in the economic system of the region: the function of the Moldavian Metal Works is, first of all, the budget-forming one, while the Moldavian power station, until recently, played a "social" role. Being initially focused on export, the power station, because of the break up of the intra-system links, met only intra-Moldovan needs in the electric power. "Superfluous" capacities were suspended. However, availability of its own manufacturer "enabled" the administration of the region to inhibit liberalization of electric power tariffs for a long time with accumulation of significant accounts receivable. Besides, these two enterprises failed to become the structure-forming ones and initiating growth in other branches of economy due to the lack of natural conditions for their development.

Figure 9

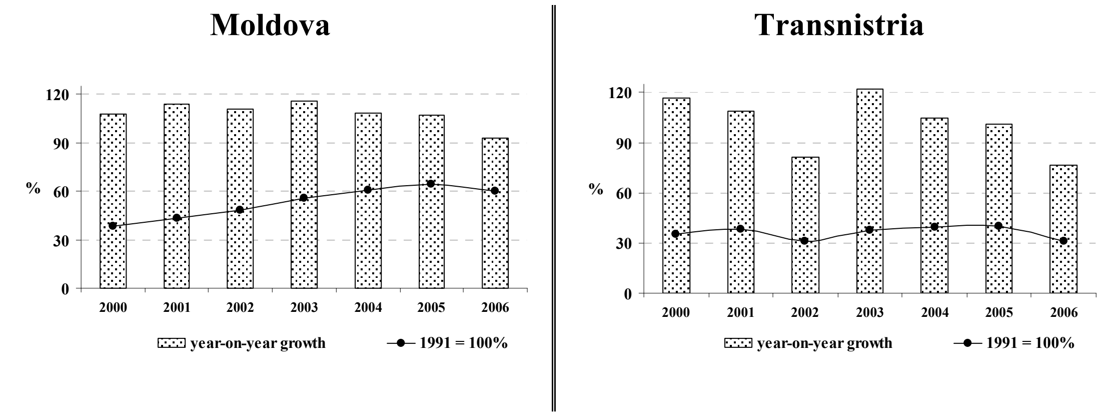
Structure of industry in 2005, %



Despite of the fact that in 2000-2005 Moldova and Transnistria registered growth of industrial production; its rates in view of the low baseline of the previous periods are rather disputable.

Figure 10

Dynamics of industrial production in 2000-2006, %



We should note that due to the more considerable depth of decline, the share of Transnistria in the overall industrial production volume *of the whole* Moldova constitutes today no more than 20%[16] versus the 35-40%[17] in 1990.

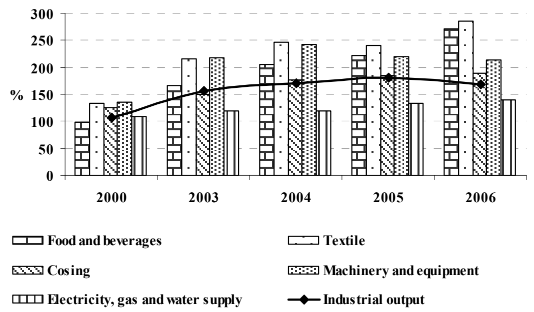
The dynamics of industrial indicators, as one can see from *figure 11*, also causes some fears, as the growth rates are not uniform and are not connected with each other.

[16] Assessment by CISR
[17] Transnitrian Region of Moldova: Economic Review, World Bank, 1998, p. 21

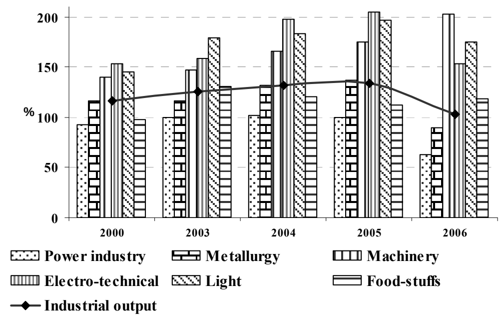
Figure 11

Industrial output: structure and real changes, (1999 = 100 %)

Moldova



Transnistria



Moreover, the typical for Moldova and Transnistria high level of the "use" of a limited number of the export-focused branches of industry caused a slowdown of the growth rate, considerably strengthening dependence of industry and economy as a whole on foreign markets. The opportunities for real diversification are very much limited by technical and economic characteristics: long absence of necessary investments resulted in the significant degradation of fixed assets, the deterioration of which at many enterprises exceeds 80%.

The inflow of the so-badly needed investments to Moldova and Transnistria is slowed down, first of all, by the rather problematic business-environment. It is no secret that wish number one for the majority of investors continues to be stability and predictability of the regulatory and legal field, transparency of law enforcement and independence of the judiciary. Secondly, when an investment decision is made, the factors to be considered are quality and availability of the technical infrastructure. The growing conflict nature of economies during the last few years not only slows down the development resulting in the "freezing" of the rather poor quality of infrastructure, but sometimes it also restricts its effective use. Thirdly, disintegration of the small, as it used to be, internal market considerably reduces its investment attractiveness not only for external, but also for domestic investors, which slows down the development of industries focused on the home market and thus strengthens the dependence of economies on import.

Agriculture: Dynamics and structural changes

Stability and economic growth rates in Moldova and Transnistria today, in many respects, although for different reasons, are determined by the situation in the agriculture. Moreover, on both banks of the Dniester, there is an understanding of the need for major changes in this, once very successful branch of the national economy.

Approaches to the issue of land-ownership right that is radical not only for the development of agriculture, but also for the economy as a whole in Moldova and Transnistria, are also different. On the right bank, over 90% of agricultural lands are in private ownership, while on the left bank today “land … is an object of exclusive ownership by the state. Land parcels can be in life-long ownership of citizens with the right of succession, while the sizes and procedure of these land parcels use is defined by the law."[18]

However, with such different approaches to the land relations reform, reorganizations in the agrarian sphere on both banks of the Dniester are similar in their inconsistency.

With the adoption in January 1992 of the Land Code and the Law on Peasant Farms *Moldova* created a legal basis for the transfer of land into private ownership. However, due to the lack of uniform approaches towards the reorganizations, the reforming of the land ownership relations at the first stage was rather formal. In 1994, the reorganization of ownership relations was suspended,[19] which just slowed down and prolonged the agony of the collective and state farms.

At last, the first attempt of reorganization of 70 collective farms was made in 1997 with the subsequent transition in 1998 to the National Land Program of "Pamant" carried out with a significant financial support of donors. With its finalization, by the end of 2000, the number of persons having received land parcels exceeded 500 thousand. They were allocated more than 700 thousand hectares of farmland; about 450 thousand persons received land titles, while owners of over 741 thousand hectares of land did not wish to alienate their land and transferred it to different economic agents, mainly, on the lease-holding basis. Thus, the major task of the agrarian reform at the first stage was to form a class of proprietors capable to make independent decisions regarding the ways of their future development, which had been formally fulfilled.

However, the "egalitarian" privatization became a primary reason for the extremely scattered structure of the landed property and for the formation of its bipolar structure: approximately half of the lands belongs to the large and mid-size enterprises (500-1000 hectares of land) oftentimes belonging to a small number of proprietors; the second half of lands is owned by small peasant farms (1.5 hectares of land), the major part of which have failed to become commodity enterprises specialized in the manufacture of several (2-3) products, to be hi-tech, competitive, etc. Secondly, the attempt to link and make a single whole of the interests of farmers and processors also failed. It was supposed that agricultural inputs suppliers (collective and state farms) would be transferred 50% of shares in the processing enterprises. With the missing stably functioning system, the chain of manufacture – procurement – storage/cold storage enterprises – processors – consumers lost their chances. Today, private (privatized and newly created) enterprises in the processing industry "have to" recreate their own raw-material basis. Besides, it is necessary to strengthen the efficiency of economic mechanisms stimulating consolidation of agricultural lands and their concentration in the hands of the most effective users. For this purpose, it is necessary to simplify, as much as possible, the procedures related to the sale and purchase of land, to study the experience of Hungary on payment of special compensations to the pensioners who decide to sell their land.

In *Transnistria* the attempts to reform the agrarian sector and adjust it to the market conditions were undertaken in the middle of 1990s.[20] The collective (collective-farm) ownership started being transformed into the participatory share ownership by allocation of property and land to collective farmers and collective-farm pensioners

[18] TMR Constitution, art. 5
[19] Law on Suspension of Effect of Some Articles of the Land Code, MO, No 105
[20] Concept of reforming of the agrarian and industrial complex in the TMR, Decree on further reorganization of agricultural and processing enterprises in the TMR agrarian and industrial complex.

with issuance of respective land and property titles and formation, on the "voluntary basis" of cooperative agricultural enterprises.

The Land Code, after two years of discussions, was approved in June 2002. Its major concept is state ownership of land. However, citizens having ownership rights over their land shares (land parcels) have the right to sell, donate or bequeath their land shares.[21]

The decision on the holding of a referendum regarding private ownership on land became a logical continuation of the launched processes of privatization of industrial enterprises. However, the April (2003) referendum on land was recognized as "not having taken place" due to the low participation of population in it. In 2004, the State Program for the reforming and developing of the agrarian and industrial complex was approved. In February 2005, the Concept of private ownership over land was proposed for national discussions. However, by virtue of the well-known reasons, the further discussion process was discontinued, while the issue of introduction of private ownership on land remained unresolved.

At the same time, due to the depression in the agriculture, in the opinion of the majority of Transnistrian farmers, their activity is of low profit and this is one of the reasons for the refusal to lease in land and its return to the state.

It should be noted that the persisting differences in the approaches to the land ownership materialized in the "Dorotskoye issue". The villages of Dorotscoye, Cosnita, Pogrebnea, Parata, Cocieri, Vasilievca and Novaia Molovata are under the jurisdiction of Moldova but their land plots are on Transnistria territory whereas ownership of land based on the land titles issued by Moldovan authorities. Transnistria's authorities do not recognized these "moldovan" documents and have insisted on pared-down registration of this plots in official bodies of Transnistria. In Moldova turn do not agree with such position. In October 2004 this situation resulted in conflict between Moldovan and Transnistrian "power structures". And in April 2006 only the parties could reach the compromise: farmers will receive Transnistrian documents free of charge with the validity till January 1, 2009.

Since ancient times Moldova was famous for the fertility of its soils; by the specific weight of chernozems Moldova is holding one of the first places in the world, which became a historical factor predetermining the importance of agriculture not only for the national economy, but also for its well-being. In 1970-1980s, Moldova's agriculture was characterized by exclusively high concentration and production intensity. By the agricultural production volume Moldova used to hold the 6th place among the republics of the Soviet Union after Russia, Ukraine, Belarus, Kazakhstan and Uzbekistan.[22] The majority of the inter-branch structures in the Republic's agriculture (vine growing and winemaking, fruits and vegetables (fresh and canned), sugar, vegetable oil, tobacco, etc.) was focused, primarily, on the Soviet Union market. Internal manufacture of foodstuffs was twice as high as the internal needs of the Republic. Significant financial and technical support of the Center supported this large scale production.

Besides the reasons of general nature that caused decline in the real sector of economy in Moldova and Transnistria, the agrarian sector of both regions also faced with the following difficulties:

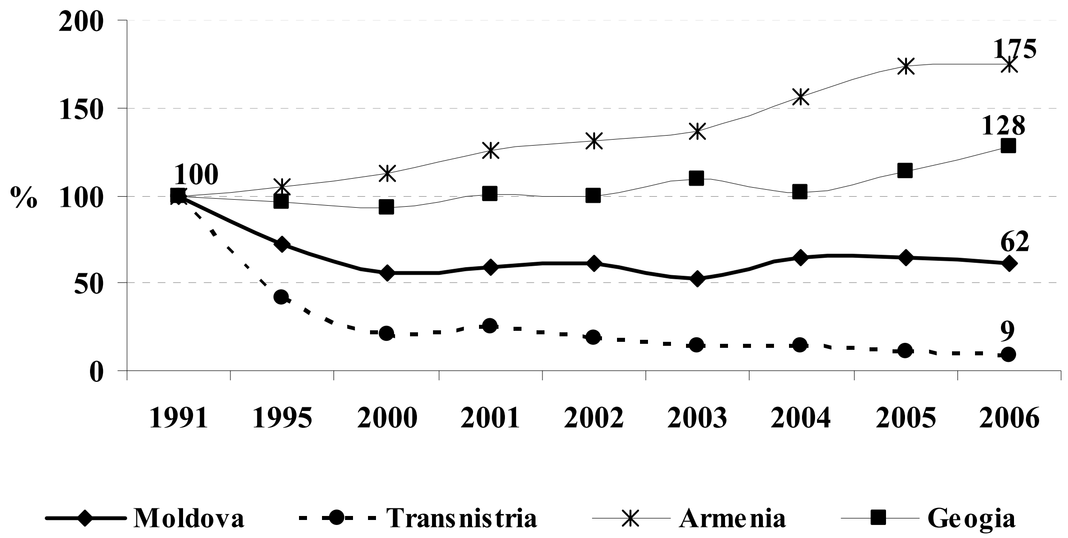
[21] TMR Land Code, p. 36
[22] Statistical year book of the Republic of Moldova – 1994, Chisinau, 1995

- Agriculture was treated as having an equal position with other sectors of economy, which, in itself, considerably aggravated position of agricultural enterprises (the share of agriculture in the total amount of state subsidies decreased from 35% in 1990 to 3.4% in 1992 and made no more than 3% during the following years);
- Imbalance between procurement prices and the prices forming production costs;
- Lack of own facilities for the manufacture of mineral fertilizers, chemical weed and pest killers, mineral and vitamin additives to fodders and veterinary preparations;
- Sharp shortage of funds resulting in the mass reorientation of farms to the least capital-intensive production, which has become the reason for the existing today structural disproportions.

All this led to the deep production and efficiency decline making it impossible for the agriculture of both Moldova and Transnistria to recover until now. According to the statistic data, agricultural production volumes in Moldova constitute hardly more than 60%, and in Transnistria – only 9% of the level of 1991. It should be noted that before the "independence" Transnistria, on its 10% of farmlands, used to produce over 30% of fruits and over 40% of commodity vegetables. At the same time, having similar problems of transition period aggravated by the "frozen" conflicts, Armenia’s recession in agricultural production was stopped by 1995 and in Georgia – by 2000. Besides, by the results of 2006, the level of agricultural production exceeded the level of 1991by 75% and 28%, accordingly.

Figure 12

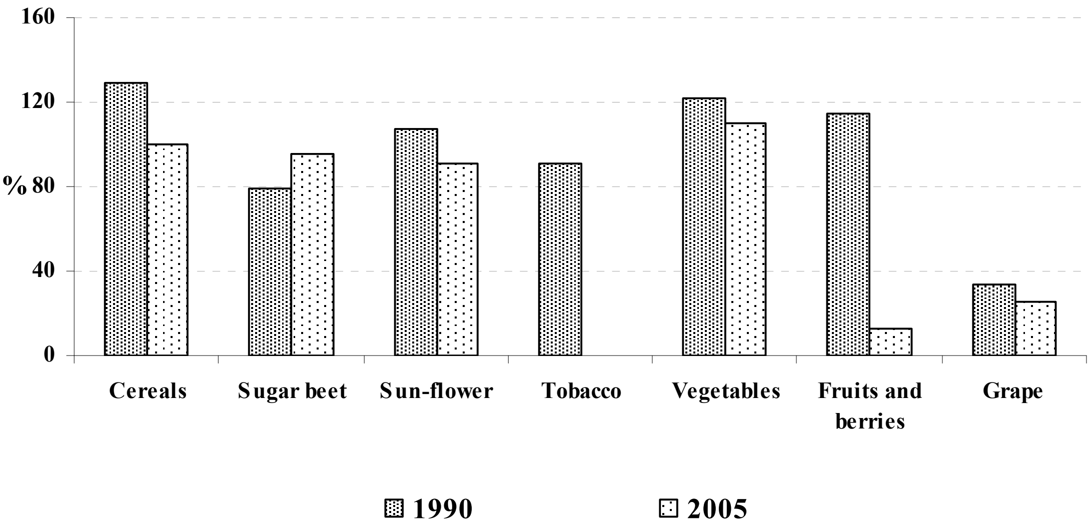
Agricultural output (1991 = 100 %)



In Moldova, production decline in plant growing mainly resulted from significant decrease of the crop-producing power, although the size of areas under crops did not change essentially. The situation in Transnistria is much more complex: both the areas under crops and the crop-producing power reduced essentially. The "traditionally” typical for Transnistria advantage of higher crop-producing capacity of grain, sunflower, vegetables and other crops has been lost.

Figure 13

Transnistria: yield of main agricultural crops
(*versus the respective parameter of the Republic of Moldova, %)*

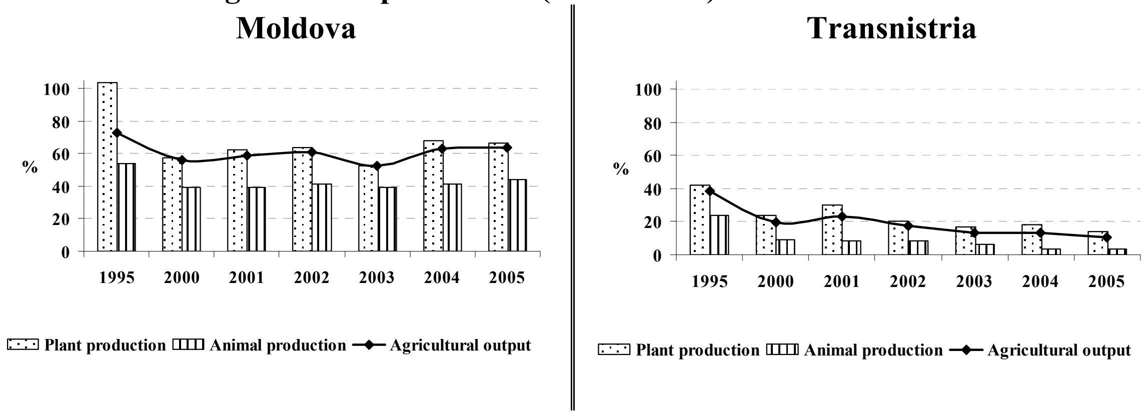


At the same time, both Moldova and Transnistria have formed poorly diversified structure of areas under crops. In fact, grain and industrial crops in Moldova and Transnistria occupy more than 80% of all the areas under crops making the agriculture *of the whole* Moldova similar to the one that was characteristic for the beginning of the 1950s.

The process of adaptation of the livestock sector to the new economic conditions in Moldova and Transnistria was going more painfully. The major part of animals was transferred from large commodity farms to individual households and peasant farms, where extensive technologies of cattle-breeding and poultry resulted in the sharp decrease of efficiency. Quality-wise, the overwhelming majority of cattle-breeding production does not meet not only internationally recognized, but also domestic standards. In this connection, decline in this branch of economy was more essential than in the plant growing.

Figure 14

Structure of agricultural production (1991=100%)



It is paradoxical that despite of differences in the reorganization of the sector, the lack of legal and institutional framework for private land ownership, which is the main production tool in agriculture, as well as the lack of external financial support in Transnistria, the problems existing in its agrarian sector are, in many respects, similar:

- Considerable share of loss-making farms;
- Stably low, versus the average parameter in economy, value added per person engaged in agriculture;
- Significant discrepancy between the levels of average wages in the agricultural sector and in the economy in general;
- Decreasing with time efficiency of agriculture.

The consolidated data provided in the table below regarding the dynamics of the agrarian sector development in Moldova and Transnistria gives a general idea about the parameters in this sector.

Table 1

Agriculture: main economic indicators

	1995		2000		2001		2002		2003		2004		2005	
	RM	TMR	RM	TMR	RM	TMR	RM	TMR	RM	TMR	RM	TMR	RM	TMR
Number of households, end-year	1037	107	873	115	1034	147	1239	144	1348	117	1459	117	1524	119
share of loss-making households, %	*28.1*	*1.9*	*55.9*	*60.0*	*57.6*	*55.8*	*52.4*	*61.1*	*57.3*	*81.2*	*45.1*	*70.1*	*48.5*	*68.9*
Value added per one employee, USD	648*	0.01**	427	54	977	122	468	414	623	361	857	1219	913	1129
as % to average in economy	*73.3**	*1.3***	*57.4*	*5.8*	*50.0*	*11.0*	*48.5*	*35.0*	*50.1*	*23.8*	*50.5*	*56.1*	*48.0*	*40.7*
Employment, annual average, thousand persons	710	53	766	38	764	34	747	30	583	25	533	21	537	17
as %to total employment	*42.8*	*21.7*	*50.6*	*18.8*	*51.0*	*16.8*	*49.6*	*15.5*	*43.0*	*13.8*	*40.5*	*11.7*	*40.7*	*10.1*
Level of profitableness of household activity, %	11.2	72.4	-9.7	-31.3	-3.6	-33.8	-5.4	-61.9	-1.7	-79.3	2.7	-34.9	0.7	-36.8
Average monthly wage, USD	20.2	12.0	16.2	11.0	18.8	18.0	21.5	25.7	26.0	28.5	38.9	47.2	42.4	61.7
as % to average in economy	*65.6*	*46.2*	*49.5*	*34.4*	*44.5*	*40.7*	*42.2*	*51.3*	*40.7*	*44.8*	*43.5*	*52.5*	*40.5*	*52.1*

Notes: * - the indicator is calculated for 1996
** - the indicator is calculated for 1998

Nevertheless, we should admit that agriculture in Moldova and Transnistria have gone through the most difficult period of crisis. ***However, much more is still to be done. First, it is necessary to ensure the proprietors with a full guarantee of their ownership right over land, as well as the right to choose the form and type of farming. Secondly, it is necessary to strengthen the efficiency of economic mechanisms stimulating consolidation of agricultural lands, their concentration in the hands of the most effective agricultural goods manufacturers. Thirdly – to ensure the inflow of financial resources in agriculture and full guarantees of normal work to investors. Fourthly - to develop the structure of the agrarian sector.***

Property reform and privatization

The roots of Moldovan and Transnistrian privatizations, for understandable reasons, go down to the 1990s, when the Supreme Council of the MSSR took the decision on transition to the market economy and, hence, the need to change property relations and management. In 1991, Moldova (in June 1991) and Transnistria (in November 1991) approved in a parallel way the laws on property and, after that, on privatization (in July and December, respectively). Privatization processes on both banks of the Dniester were going on differently and at different periods of time.

Mass privatization in *Moldova* started in 1993. It started as privatization for national patrimonial bonds with subsequent transition to the privatization for money, transforming Moldova into the country of shareholders. At the same time, the problem of efficient administration of property has not yet been resolved until now.

In *Transnistria*, mass privatization started with more than ten-year delay, i.e. only in 2003. Privatization was initially planned and carried out only for money, with a clearly expressed investment component ("method of effective investor selection" with its subsequent assessment as an effective proprietor).

The largest enterprise of the region, the Moldavian Metal Works, as an exception, was privatized in 1998 (the company of "Itera International Energy Group L.L.G." became the owner of 70% of shares, while 15.6% of shareholding remained with the state; 14.4% was owned by physical persons). At that time, Moldova's government looked upon this event in a calm way, without any protests. However, its reaction to the new process of privatization in Transnistria (2002-2003) and its first results was rather inconsistent. Today official Chisinau supports "legal privatization" (?), at the same time speaking about probable consequences for the investors who have already privatized some property in Transnistria the Moldovan government doesn't exclude that some problems may arise if the buyers had not consulted the Moldovan authorities beforehand.[23] At the same time, The Protocol on Guarantees for Attraction and Protection of Foreign Investments and Cooperation in the Field of Investments Activity (2001) says, "the activity of foreign investors and entrepreneurs on the territory of Transnistria is guaranteed by the laws of the Republic of Moldova, Transnistria and international laws" [24]

It should be noted that the issue of recognition of the "legal nature" of privatization was raised by Transnistria as far back as 2003. The proposal was to sign the Act on Ownership, which will legally guarantee the absence of pretensions of Chisinau to Transnistrian ownership. Even today, Moldova supports the only type of privatization that is lawful from the point of view of the rules and procedures effective in the country.

The RM Law on Privatization of Enterprises in Settlements from the Left Bank of Dniester River and Municipality Bender (October 2004) practically ignored the fact of privatization in Transnistria. It sets up the new privatization procedures and declares as illegal (starting with signing the privatization agreement) privatization of an enterprise realized with infringements of provisions of the mentioned Law or other legal acts of the Republic of Moldova. At the same time the official documents issued in 2005 recognize privatization realized before the Law on Main Provisions of Transnistria Status came into force. More over, in March 2006 the Government declared that the all ownership of Transnistria's population, its productive potential is not and could not be a subject of claims on behalf of official authorities of the Republic of Moldova. But the Government provides the guaranties to respect the right of ownership to those legal and physical persons who registered in corresponding public body of the Republic of Moldova. At the same time, registration on the permanent basis *is closely related* to the privatization and is possible only if the property titles were issued by the respective Transnistrian bodies before July 29, 2005 (when the Law on Main Provisions of Transnistria Status became effective) and re-registered in the cadastral bodies of the Republic of Moldova within 90 days from the date this law came into force. Otherwise, under the lists of the Registration Chamber, the enterprises are treated as the property of the state (RM) and their alienation is not recognized. In view of the fact the all the post-Soviet business experience confirms that the officials establishing the rules are the very people who repeatedly violate and

[23] "There are no reasons for opposition", *Nezavisimaya Moldova*, 02.07, 2003
[24] Protocol on Guarantees for Attraction and Protection of Foreign Investments and Cooperation in the Field of Investments Activity, 16.05.2001, Tiraspol

review them, the existing and moreover potential investors can hardly be very optimistic regarding this situation.

The decision on the beginning of the privatization process *in Moldova*, on the political level, was made in 1991. It was supposed that the first stage would be finalized within the shortest time possible and the property would be *"distributed"* between the citizens of Moldova on gratuitous basis, i.e. for the national patrimonial bonds (NPBs). However, the procedures on the assessment of the state-owned property to be privatized and drawing up of the lists of citizens entitled to receiving the NPBs slowed down so that, actually, the privatization process started with almost three-year delay, i.e. in 1993

The rather "long preparation" for the start *of the first* (1993-1994) privatization program, unfortunately, negatively affected the efficiency of its implementation. During this time a significant part of enterprises was practically ruined, their floating assets, included in the estimated cost, had almost completely depreciated and, as a result, there appeared an imbalance between the value of the state-owned property that was to be privatized and the value of the issued NPBs. At the same time, the industrial enterprises and, in particular, machine-building ones that, according to the liberal and romantic intentions, were supposed to be privatized for hundreds of millions dollars were not included in the privatization program for national patrimonial bonds. The majority of them degraded later on. Foreign investors, for quite understandable reasons, did not express any interest to the first stage of privatization. Nevertheless, by the beginning of 1995 about 800 thousand citizens of Moldova participated in privatization, the total (estimated) valued of the privatized enterprises constituted *138 billion conventional monetary units*.

At the same time, to completely finalize the first privatization program was impossible, one of the reasons being disintegration of the country. The list of the enterprises subject to privatization included 176 enterprises of the left-bank region of the Republic.[25] Due to understandable reasons, they were never privatized.

The second privatization program was again intended for two years and started in 1995. It was supposed that privatization for national patrimonial bonds would be finalized during this period of time (to liquidate the arisen imbalance, it also included additional enterprises), and privatization for money would start in a parallel way. It was planned to create securities market and respective infrastructure, which was supposed to entail conditions necessary for stabilization, restructuring and growth of the national economy. Unfortunately, implementation of the second privatization program again was not accompanied by the timely introduction of mechanisms necessary for the creation of securities market, development of modern methods in corporate management and change of the role and functions of the state bodies responsible for sectoral management.

Anyway, by the end of 1996, implementation of this stage was finalized as it had been intended, although with unavoidable losses. The state property with its estimated value of nearly 2.7 billion lei in the prices as of 01.01,1994 (average annual rate of inflation throughout the year under estimation constituted 586%) was transferred to 3.1 million owners of the state patrimonial bonds. The state and local budgets received 86 million lei (nearly 19 million US dollars); private enterprises started dominating practically in all the sectors of economy.

[25] Decision of the RM Parliament on the implementation results of the State Program of Privatization in the Republic of Moldova for 1993-1994, MO No 017, 24.03, 1995

The third privatization program (1997-1998) unexpectedly protracted for nearly 10 years. It was prolonged three times. First time, it was in December 1998, before the Law on Privatization Program for 1999-2000 came into force. As long as, due to different reasons, this law was never approved, in March 2003 there was another prolongation, this time – until the end of 2005 and the last time the prolongation took place in December of the same 2005, with its effect until December 31, 2006

During the last five years of privatization in Moldova it was carried out sporadically. With certain efforts, Moldova privatized three electro-distributive companies, winemaking enterprises, etc. The state shareholdings were transferred for management (2001) to the line ministries. At the same time, lack of well-adjusted mechanisms for state property administration and, oftentimes, lack of realistic information on the composition and structure of the state assets and their realistic evaluation in many ways predetermined preservation of non-competitive manufactures generating losses, which resulted in further privatization. As it often happens, the state has nothing left except for its liabilities.

Table 2

Public property in Moldova
(Evaluation as of *01.07, 2005)*

Legal and organizational form	**Number of enterprises (organizations)**	**Value of net asets , mln lei**
Public value of state assets		
Commercial societies	363	6044
State enterprises	359	8865
Public sector entities	820	6680
Total	*1542*	*21589*
Public value of local-level assets		
Commercial societies	25	68
Public sector entities	1068	14538
Municipal enterprises	301	5967
Total	*1394*	*20573*
Public value of assets in TAU Gagauzia		
Commercial societies	45	112
State enterprises	15	79
Public sector entities	60	615
Municipal enterprises	21	418
Total	*141*	*1223*
Total	**3077**	**43386**

Thus, lack of clear ownership rights including those of the state in Moldova today, is more and more often turning the legal problem into one of the main macroeconomic issues. The draft of the new Law on Administration and Denationalization of State Property has already been developed and approved by the government.

In *Transnistria*, the decision “On Priority Measures Ensuring Implementation of the USSR Law on Fundamental Principles of Denationalization and Privatization of Enterprises” was approved by the Supreme Council on July 17, 1991. To execute this decision, it was decided to create the State Property Fund of Transnistria. Transnistria approved a package of fundamental laws and bylaws, and by the end of 1992 it approved the “State Privatization Program”.

However, during the first few years of "independent" development, in the absence *of mechanisms* for reorganization of property relations, there were used different schemes, including informal ones, for changing property relations. “There appeared "overlapping" and "vague” ownership forms characterized by uncertainty of delimitation between the state, corporate and private ownership forms, as well as numerous and diverse owners.”[26] This situation resulted in the "*freezing*" of the privatization process in the region,[27] aimed to eliminate the violations, to approve the privatization program and to attempt, as it had appeared unsuccessful, to build up "market" economy based on the state ownership. The reason for the failure was lack of a complex model and respective infrastructure (real estate market, stock market, etc.), incorporation of enterprises under a closed scheme with transfer of the state shareholding into the trust management of the same enterprises.

The development of a new package of documents on further reorganization of property relations in Transnistria took another 5 years. Nevertheless, privatization of the Moldavian Metal Works was carried out in 1998, although with a lot of difficulties, "The administration of the metal works required a lot of work with the deputies of the TMR Supreme Council, members of the Government and heads of Ministries and departments, which made it possible to finalize the process of incorporation of the “Transnistrian Metal Works” and to implement the scheme of foreign investments attraction into the region for preservation of the industrial potential of the city-forming enterprise – the "Moldavian Metal Works".[28]

The process of property denationalization started again in 1999, mainly, as "small privatization” – enterprises of the services sphere, unfinished construction, available housing fund and the state owned assets outside of the region. As a result, by the end of 1999 more than 2 thousand small enterprises were privatized, which provided 40% of the retail sales and more than 30% of public catering services.

The first attempts of "big privatization” were undertaken in 2002 – on June 25. The state enterprise of Bendery corn-processing industrial complex of “Tigina” was sold to the Limited Liability Company of “Sherif” against the price of 3.804 million TMR rubles (600 thousand US dollars).[29]

Starting with 2003, intensity of privatization processes increased essentially. This fact can be explained, first, by the wish of the TMR administration to achieve stabilization in the economic situation of large industrial enterprises based on the attraction of funds of investors, primarily, from Russian. Secondly, privatization incomes are considered to be one of the major sources for financing the republican budget deficit and a source of formation of the TMR Economic Development Fund. Thirdly, it is an attempt to ensure the property guarantees before the possible creation of the “single state”. (It was in 2003 that practical implementation of the project of "federative state" began and ended).

[26] V.P. Belchenko, M.P. Burla. Model, Social and Economic Development Concept and Major Directions for the Turnaround of Post-Soviet States in the Transition Period (based on the example of the Transnistrian Moldovan Republic). Tiraspol, 2002, p. 85

[27] Decision of the TMR Supreme Council “On Suspension of the TMR Law “On Denationalization and Privatization” (1991), No 110, 16.04, 1997

[28] http://www.aommz.com/pls/web/web.main.show?main_id=10&m_id=67

[29] Newspaper of *Pridnestrovye*, 03.06, 2005

Taking into account the fact that privatization was one of the main priorities of the social and economic policy in 2003-2004, *the whole normative basis* regulating property relations in Transnistria *changed essentially*. The new laws were passed (in new wordings), such as On Denationalization and Privatization (July 2003), On Securities Market (2003), On the State Privatization Denationalization and Privatization Program in the TMR for 2001-2004 (November 2003), On Joint-Stock Companies (February 2004), as well as the new Law on Appraisal Activity (March 2004) and a large number of amendments and modifications to other normative acts.

The specifics of Transnistrian privatizations can be defined *as follows:*

1. It is held only for money), enterprises are sold by auction or under individual projects with the money resources transferred to the budget or to the respective funds;
2. Labour collectives or leaseholders can take part in privatization with the priority right of purchasing the enterprises against their starting prices, as well as on the instalments plan. In case of successful work of such enterprises, it is theoretically possible that the investor can be returned up to 24% of the funds received from privatization;
3. Purchase conditions are defined for the nearest 3-5 years: Assets are offered for sale with significant debt encumbrance and mandatory investment conditions: obligation to preserve the enterprise structure, use of the "fixed" volume of investments for modernization, technical re-equipment, keeping for, at least, one year after the privatization of the number of employees, assurance of guaranteed markets of raw materials and sale of goods, repayment of accounts payable (first of all on wages and to the budgets of different levels). At the same time, purchase conditions are taken into consideration when fixing the starting sale price, which is, as a rule, rather low.

The first auctions took place already in August 2003 at the Transnistrian stock exchange. New procedures were tested for the first time with the Close Joint-Stock Company of "Moldavian Metal Works"; the state shareholding of this enterprise (15.6%) was offered for sale, the market price of 1 share made 39 US dollars with the par value being 500 US dollars. We should also note that when including the Close Joint-Stock Company of "Moldavian Metal Works" in the Privatization Program, the starting price was defined as 10 million US dollars.[30] The package was purchased by the company registered in Liechtenstein called "EI Energy Investment and Management Corporation" for 2.6 million US dollars.

To increase the level of legal protection for the new proprietors' rights the practice of "resale" (from one new proprietor to another "diligent" purchaser) was tested on two enterprises of the regional "level": The Moldavian Metal Works, city of Ribnitsa (new proprietor – the Austrian-Ukrainian company of Hares Group) and the Moldavian State District Power Station, town of Cucurgan (new proprietor – Russian Joint Stock Company of "Unified Energy Systems of Russia"). The Ministry of the Industry and Infrastructure of the Republic of Moldova received *the bought note* from the Russian company, while the latter had not been granted any permission for this transaction.[31]

[30] Information provided by "*Olvia-Press*" Agency, 19.08, 2003

[31] Temporary registration record in RM, January 26, 2006; registered as Close Joint Stock Company

The former owners (the company of Saint Guidon Invest NV) tried to register the enterprise in Moldova but failed due to a whole number of reasons.[32]
According to the Transnistrian Ministry of Economy, from the beginning of the big privatization process until January 1, 2006, 68 state enterprises were sold with 114.3 million US dollars invested in their development, which is almost twice as much as it had been planned. We should note that 41 state enterprise and 171 objects of municipal property were privatized only during 2005. At the same time, the budget received more than 35 million US dollars. In 2006, one of the oldest winemaking enterprises of Transnistrian and Moldova - *Tiraspol wine and cognac factory of 'KVINT'*[33] was been sold to the "Sheriff" LLC with the sum of transaction being equal to 21.7 million US dollars. According to the Minister of Economy, the application from the "Sheriff" was the only one, there being no other proposals from either local or foreign buyers.[34]

Thus, today foreign companies, their majority being from Russia, own the major part of strategic (budget forming) enterprises in Transnistria, including metal works, mechanical engineering, winemaking, power engineering and light industry facilities. At the same time, the same Russian proprietors also own Moldovan enterprises (the Moscow Trading House of “Aroma”, the State Enterprise of "Salut", etc.). The fact of such "double" interest of proprietors could become a basis for the attempts to find consensus in such a complex and in many respects politically loaded “issue” of Transnistrian privatization.

The program of denationalization for 2005-2006 provides for privatization of another 142 enterprises, both those non-privatized within the previous program and the new industrial facilities that are subordinated to the Ministry of Industry.

The process of privatization in Transnistria is planned to be mainly finalized in the nearest future, leaving the state property share on the level of not less than ¾ of the value of assets in the region. The system of monitoring of the privatized enterprises activity is being improved parallel with their privatization; enterprises de-privatization procedures are envisaged in case they fail to fulfil provisions of the agreement and the investment project.

The search of the most effective legal organizational forms resulted in the situation when the leading role in the economy of Transnistria belongs to large corporate structures of the joint-stock type including those with participation of foreign investors, limited liability companies and state unitary enterprises concentrating nearly ⅓ of the employees working in the industrial sector ensuring more than ⅔ of the industrial output and the overall export of the Republic.

[32] “*Nezavisimaya Moldova*”, August 12, 2005
[33] Temporary registration in the RM of May 26, 2006 has it as an LLC
[34] Information Agency of “*Novy Region* ”, 06.07.2006

Table 3

Enterprises and organizations of Transnistria grouped by their legal and organizational forms
(*as of 21.07, 2006)*

Legal and organizational form	Number of enterprises (organizations)
State unitary enterprises	401
Open Joint Stock Companies	87
Close Joint Stock Companies	210
Limited Liability Companies	4706
Branch offices, representative offices	272
State agencies	866
Not-for-profit partnerships	86
Civil society organizations and foundations	662
Professional unions	142
Production and consumer cooperatives	345
Consumer societies	57
Other	1227
Total	**9061**

It is obvious that today the issue of property, or of its recognition, to be more precise, is the most sensitive and painful in the mutual relationships between Moldova and Transnistria. The two reports prepared and published almost simultaneously in May and July 2006 by two different groups of American lawyers can serve as a proof of this statement. Both reports addressed the legitimacy of Transnistrian privatizations from the point of view of international law. The answers provided in them are quite opposite: the first report says it was legitimate, while the second – that it was illegal.

It is obvious that the problem cannot be "postponed until later times". It must be resolved only by means of constructive dialogue between Moldova and Transnistria. Otherwise, one can expect that in the nearest future both parties can get involved in long proceedings, which will be most costly and will not be contributory either to the steady economic development, or attraction of investors that both Chisinau and Tiraspol are discussing so much today.

Conclusion

Process of division of economies of Moldova and Transnistria that has considerably increased during the last few years, created a significant "zone" of mistrust and misunderstanding and, consequently, its overcoming requires both *mutual* desire and serious efforts. It is obvious today that resolving of the Transnistrian issue including on the political level, will be in many ways defined by the actions aimed, for the beginning, at the constructive neighbourhood in order to overcome the disintegration barriers and to restore *the unified economic space.*

The new concept of regional development stated in the Law of the Republic of Moldova "On Regional Development" could "help" with the definition of the economic "status" of Transnistria – the region of development.[35] Thus, there could be formed a lawful basis for the undertaking of adjusted economic reorganizations. *The intra-Moldovan industrial cooperation* between the enterprises of mechanical engineering, light, furniture and food-processing industries could be restored (like it used to be during the pre-reform period, but on the market basis) and they could *jointly enter the foreign markets*.

The "status" of the region of development, that is effectively used in the new member-countries of the European Union, is also clear to foreign investors; it will be possible to implement general investment projects including those within the donor-countries' technical assistance programs.

In order to resolve in a civilized way the issue of property that is one of the most painful ones in the relations between Moldova and Transnistria, it is possible to use provisions of the yet-draft-of-the-Law on Public Property Management and its denationalization.[36] It would be desirable that this draft become a "full-fledged" law in the nearest future. The draft law envisages "delineation of the assets owned by the state and those owned by the administrative and public units".[37]

Besides, when developing the mechanisms on the rapprochement of the two economic systems that have been developing " in parallel way" during 15 years, it is necessary to take into consideration essential *differences* existing between them:

1. The economy of Moldova has *a predominant private sector*, while the economy of Transnistria has a dominating *state* sector (purely state enterprises and mixed ones with a high share of the state participation). This results in the fact that the management mechanisms functioning in the economies are also different.

2. Moldova's *agriculture* is based on private ownership of land that is an object of sale and purchase. In Transnistria, land is state property. "Freezing" of the situation, provokes strengthening of the conflicting nature of economies ("the issue of village Dorotskoye"). Besides, the population and economic agents on the right and left banks of the Dniester appear in "unequal" positions: the former are deprived of the legal opportunity even to lease in land in Transnistria, while the latter, on absolutely legal grounds, can buy land in

[35] Law on Regional Development of the Republic of Moldova, MO No 021, 16.02, 2007. Regions of development are functional territorial rather than administrative units (art.3 (1))

[36] http://www.parlament.md/download/drafts/ru/4659.2006.doc

[37] Ibidem, art. 3, para 2a

Moldova. At the same time, when speaking about conflicts, it is necessary to bear in mind the *psychological perception* of this process. If one can say for certain that the population on the right bank has already adapted to the land sale-purchase transactions and will not look upon the representatives from the left bank as strangers, those living on the left bank will most likely display negative feelings and have apprehensions towards those who may come from the right bank as lessees or even buyers of "their" land.

One of the options to resolve the problem could be a transition period, during which the TMR will privatize its land and reorganize collective and state farms creating production cooperatives or associations of peasant farms (naturally, with all the mistakes made on the right bank taken into account). Peasants from the left bank need to start feeling that they are owners of their land and only after this there can be launched a single mechanism of land turnover on the whole territory of the Republic.

3. There are s*ignificant differences* in the legislative basis including regulation of economic relations. Difficulties with mutual settlements of the economic agents from the right and left banks arise primarily due to this reason (different systems of book keeping, taxation structure, etc.)

Should all these nuances and difficulties be taken into account, the restoration of the single economic space can be realized in practice. All this will mean that there will be a real opportunity to:

- More effectively use the internal potential of economy *of the whole* Moldova;
- Restore economic relations between the economic agents of both banks of the Dniester, which will contribute to the growth of their competitiveness on the internal and foreign markets;
- Speed up and raise the quality of economic reforms, that are absolutely necessary in Moldova and Transnistria;
- Decrease risks and improve investment image *of the whole* Moldova.

Most likely, the different actions aimed at the rapprochement of the "two economies” will be characterized by different rate of their implementation and duration. Nevertheless, they need to be agreed in order to prevent the undesirable aggravations and negative effects.

Annexes:

Table 1. Moldova: Main macroeconomic indicators

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross domestic product, USD million	1928.7	1697.9	1170.8	1288.4	1480.7	1661.8	1980.9	2598.2	2988.2	3355.9
in constant prices, as % to the previous year	1.6	-6.5	-3.4	2.1	6.1	7.8	6.6	7.4	7.5	4.0
GDP per capita, USD	527.8	464.9	321.1	354.1	407.8	458.8	548.4	721.1	831.3	936.0
Industrial output, current prices, (MDL million)	5889.4	7190.8	7190.8	8167.7	10427.6	12624.1	15963.1	17591.1	20770.2	22243.2
Industrial output, current prices, (USD million)	1273.9	1338.4	683.3	656.9	810.4	930.1	1144.9	1426.9	1648.4	1693.8
in constant prices, as % to the previous year	100.0	85.0	88.4	107.7	113.7	110.8	115.6	108.2	107.0	93.1
Agricultural output, current prices, (MDL million)	5100	4775	6396.0	8646.0	9474.0	10354.0	10354.0	11819.0	11937	13695.0
Industrial output, current prices, (USD million)	1103.1	888.8	607.7	695.4	736.3	762.8	742.6	958.7	947.4	1042.9
in constant prices, as % to the previous year	111.4	88.4	91.6	96.7	106.4	103.4	86.4	120.8	101.0	95.4
Investments in fixed capital, current prices (MDL million)	1202.2	1439.8	1592.0	1759.3	2315.1	2804.2	3621.7	5140.0	6548.3	9580.4
Investments in fixed capital, current prices (USD million)	260.0	268.0	151.3	141.5	179.9	206.6	259.8	416.9	519.7	729.6
in constant prices, as % to the previous year	92.0	110.0	78.0	85.0	111.0	111.0	107.0	108.0	109.0	117.0
Volume of retail trade turnover, current prices (MDL million)	3970.5	3679.0	6301.7	6012.0	7612.4	10757.4	14537.0	16575.8	19368.2	23360.8
Volume of retail trade turnover, current prices (USD million)	859	685	598.8	483.5	591.6	792.6	1042.6	1344.5	1537.12	1778.9
in constant prices, as % to the previous year	96.2	87.7	72.6	104.0	114.8	134.2	118.2	105.6	104.7	106.9
Volume of paid services rendered to the population, current prices (MDL million)	1237.3	1299.2	1896.8	2599.6	3404.4	4221.7	5298.9	6970.4	8194.2	9567.0
Volume of paid services rendered to the population, current prices (USD million)	268	242	180.2	209.1	264.6	311.0	380.1	565.4	650.318	728.5
in constant prices, as % to the previous year	110.2	88.3	89.8	100.1	121.2	111.8	113.3	105.3	109.3	101.6
Average monthly wage per employee (MDL)	219.8	250.4	304.6	407.9	543.7	691.5	890.8	1103.1	1318.7	1695.0
Average monthly wage per employee (USD)	47.5	46.6	28.9	32.8	42.3	50.9	63.9	89.5	104.656	129.1
as % to the previous year (nominal, in USD)	117.0	98.0	62.1	113.4	128.8	120.6	125.4	140.0	117.0	123.3
as % to the previous year (real)	104.9	105.5	87.3	102.1	121.6	120.9	115.4	110.2	106.8	114.0
Average size of awarded monthly pension (MDL)	82.8	83.9	82.8	85.1	135.8	161.0	210.5	325.3	383.4	442.3
Average size of awarded monthly pension (USD)	17.9	15.6	7.9	6.8	10.6	11.9	15.1	26.4	30.4	33.7
Population, end-year, million persons	3.7	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Population, annual average, million persons	3.65	3.65	3.65	3.64	3.63	3.62	3.61	3.60	3.59	3.6
Inflation rate, end-year, %	11.2	18.3	43.7	18.4	6.3	4.4	15.7	12.5	10.0	20.1
Inflation rate, annual average, %	12.00	8.00	39.00	31.20	9.60	5.20	11.60	12.40	11.90	14.7
Exchange rate, end-year (1 MDL/1 USD)	4.7	8.3	11.6	12.4	13.1	13.8	13.2	12.5	12.8	12.9
Exchange rate, annual average (1 MDL/1 USD)	4.62	5.37	10.52	12.43	12.87	13.57	13.94	12.33	12.60	13.1

Source: Statistical Yearbooks of Moldova, CISR calculations

Table 2.Transnistria: Main macroeconomic indicators

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross domestic product, USD million	447.6	331.6	281.0	199.6	255.6	250.2	308.6	418.9	517.5	4860.5
in constant prices, as % to the previous year	142.3	65.4	69.9	79.1	111.1	97.3	118.1	116.2	111.8	7.7
GDP per capita, USD	663.2	496.2	423.9	304.3	394.9	392.2	490.8	675.5	844.1	967.5
Industrial output, current prices, (rub. TMR million)	326013	387977	745691	2249	3171.8	2757.8	3518.6	5099.6	5960.3	4432.4
Industrial output, current prices, (USD million)	179.5	174.0	223.5	489.7	554.1	434.2	494.3	648.7	734.6	534.0
in constant prices, as % to the previous year	99.1	93.7	96.2	116.5	109.0	81.5	121.8	104.9	101.1	77.6
Agricultural output, current prices, (rub. TMR million)	44286	47391	67666	111.5	176.8	181.3	173.2	224.7	217.1	…
Industrial output, current prices, (USD million)	24.4	21.3	20.3	24.3	30.9	28.5	24.3	28.6	26.8	…
in constant prices, as % to the previous year	144.0	69.4	72.8	82.4	118.0	74.6	78.5	97.0	80.0	…
Investments in fixed capital, current prices (rub. TMR million)	20043.0	17099.0	51032.0	145.3	210.2	230.8	307.2	566.6	635.9	775.9
Investments in fixed capital, current prices (USD million)	11.0	7.7	15.3	31.6	36.7	36.3	43.2	72.1	78.4	93.5
in constant prices, as % to the previous year	18.1	67.3	134.6	103.8	115.6	90.8	112.8	122.2	106.6	116.6
Volume of retail trade turnover, current prices (rub. TMR million)	65237.0	112208.0	187162.0	430.0	807.7	1144.9	1490.0	2181.3	3073.3	3548.0
Volume of retail trade turnover, current prices (USD million)	36	50	56	93.6	141.1	180.3	209.3	277.5	378.8	427.4
in constant prices, as % to the previous year	83.3	129.9	81.7	111.9	123.1	129.6	110.6	115.2	121.3	103.9
Volume of paid services rendered to the population, current prices (rub. TMR million)	19873.0	33116.0	57798.0	131.4	196.6	238.3	320.6	428.3	551.1	698.4
Volume of paid services rendered to the population, current prices (USD million)	11	15	17	28.6	34.4	37.5	45.0	54.5	67.9	84.1
in constant prices, as % to the previous year	69.4	91.7	92.6	88.1	99.0	88.9	99.8	107.3	99.6	112.0
Average monthly wage per employee (rub. TMR)	32.0	43.0	76.0	147.0	253.0	318.0	453.0	706.0	962.0	1258.0
Average monthly wage per employee (USD)	52.8	57.9	68.3	32.0	44.2	50.1	63.6	89.8	118.6	151.6
as % to the previous year (nominal, in USD)	128.9	109.5	118.1	46.8	138.1	113.3	127.1	141.1	132.0	127.8
as % to the previous year (real)	100.2	86.2	76.1	91.0	115.5	110.2	117.0	119.7	120.2	112.8
Average size of awarded monthly pension (rub. TMR)	13.0	20.0	28.0	61.1	116.0	124.0	160.0	222.0	358.8	…
Average size of awarded monthly pension (USD)	21.5	26.9	25.2	13.3	20.3	19.5	22.5	28.2	44.2	…
Population, end-year, million persons	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.60
Population, annual average, million persons	0.67	0.67	0.66	0.66	0.65	0.64	0.63	0.62	0.61	0.61
Inflation rate, end-year, %	46.5	81.7	141.1	90.1	26.8	10.6	32.7	21.4	10.8	8.9
Inflation rate, annual average, %	112.80	55.90	132.40	112.50	48.94	14.07	21.70	30.20	13.40	10.7
Exchange rate, end-year (1 rub. TMR/1 USD)	1935.0	3360.0	3842.0	5.4	5.9	6.7	7.5	8.0	8.2	8.3
Exchange rate, annual average (1 rub. TMR/1 USD)	1817	2230	3336	4.59	5.72	6.35	7.12	7.86	8.11	8.3

Source: Statistical Yearbooks of Transnistria, CISR calculations

Table 3. Moldova: Nominal GDP structure, %

	1997	1998	1999	2000	2001	2002	2003	2004	2005

1. Gross value added	***86.0***	***84.6***	***89.3***	***87.5***	***88.0***	***87.3***	***85.2***	***85.9***	***84.0***
Agriculture, hunting and forestry	25.9	25.8	24.9	25.4	22.4	21.0	18.3	17.5	16.4
Fishing	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Mining and quarrying	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Manufacturing industry	18.3	14.0	13.1	14.2	15.8	14.9	15.4	14.5	13.3
Electricity and heart, gas and water supply	1.7	2.5	3.7	1.9	2.7	2.2	1.9	2.2	2.0
Construction	4.7	3.2	3.3	2.7	3.1	2.9	2.9	3.4	3.3
Wholesale and retail trade	8.2	10.3	15.3	12.5	12.0	11.0	10.7	10.6	10.4
Hotels and restaurants	0.7	0.7	0.8	0.7	0.9	0.9	0.9	1.0	1.1
Transport and storage	4.1	4.7	5.0	5.3	6.3	5.5	5.9	6.3	5.7
Communication	2.3	2.7	3.2	4.2	4.1	4.5	4.9	5.5	6.5
Financial intermediation	6.0	7.4	8.2	5.3	4.5	4.3	4.5	4.7	4.6
Real estate activities	1.1	1.3	2.2	2.6	2.5	2.6	2.6	2.4	2.5
Renting of machinery and equipment	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0
Computers and related activities	0.1	0.2	0.3	0.4	0.4	0.4	0.4	0.6	0.7
Research and development	0.5	0.4	0.4	0.5	0.4	0.5	0.4	0.4	0.4
Other business activity	0.6	0.9	1.8	1.2	1.6	1.7	1.7	2.8	2.8
Public administration and defence, social security	4.0	3.4	3.1	3.6	3.5	5.6	5.0	4.2	4.3
Education	6.3	6.2	5.2	5.2	5.1	5.5	5.7	5.4	5.6
Health and social work	3.3	3.7	2.6	2.4	2.5	3.7	3.7	4.1	3.7
Sewerage and waste management	0.8	0.8	0.5	0.4	0.5	0.4	0.4	0.5	0.3
Member organizations activity	0.2	0.4	0.2	0.3	0.2	0.3	0.4	0.4	0.5
Organization of leisure, entertainments, cultural and sports activities	0.5	0.6	0.6	0.8	1.1	0.7	0.8	0.9	1.0
Provision of other types of services	0.1	0.1	0.2	0.2	0.3	0.4	0.5	0.3	0.4
Financial intermediation services indirectly measured	-3.8	-4.8	-5.6	-2.4	-2.3	-2.1	-2.3	-2.3	-2.0
2. Net taxes on products and import	***14.0***	***15.4***	***10.7***	***12.5***	***12.0***	***12.7***	***14.8***	***14.1***	***16.0***
Gross Domestic Product	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Bureau of Statistics of Moldova

Table 4. Transnistria: Nominal GDP structure, %

	1998	1999	2000	2001	2002	2003	2004	2005
1. Gross value added	93.7	91.7	93.7	89.1	90.9	90.0	91.3	93.0
Industry	51.2	45.0	57.0	39.9	34.7	37.4	32.4	29.8
Agriculture and forestry	0.3	-0.2	1.0	1.6	4.9	2.9	5.6	3.8
Construction	4.8	3.5	3.4	3.5	3.5	3.3	2.6	2.4
Transport and communication	*3.0*	*3.2*	*8.1*	*8.2*	*7.1*	*6.7*	*6.6*	*7.8*
Trade and catering	5.4	5.2	4.5	7.6	11.0	10.7	11.4	13.0
Real estate activities	0.0	0.0	0.0	0.3	0.5	0.5	0.6	0.6
General business activities	0.2	0.4	0.4	0.4	0.3	0.3	0.2	0.3
Housing and communal services	6.2	7.8	2.1	1.8	2.0	2.4	2.2	2.3
Domestic services	0.4	0.4	1.3	1.4	1.1	1.1	0.7	1.0
Financial intermediation	1.0	1.9	0.8	0.7	0.9	0.8	0.9	0.5
Insurance	0.5	0.5	0.4	0.3	0.3	0.5	0.4	0.7
Health and social work	2.1	4.7	3.0	4.9	11.0	5.3	5.6	6.6
Education, culture, arts	*4.8*	*5.8*	*4.6*	*7.5*	*0.7*	*6.2*	*7.0*	*8.0*
Science and scientific services	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.2
Public administration	3.2	4.6	2.8	3.1	3.2	3.4	3.4	4.2
Defence	1.0	2.3	1.2	1.4	1.2	1.2	1.1	1.2
Other services	8.2	6.2	3.1	6.2	8.3	7.3	10.2	10.6
2. Net taxes on products and import	7.7	8.3	6.3	10.9	9.1	10.0	8.7	7.0
Gross Domestic Product	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: *Statistics Service of Transnistria*

Table 5. Moldova and Transnistria: Main industrial indicators

	1995		2000		2001		2002		2003		2004		2005	
	RM	TMR	RM	TMR	RM	TMR	RM	TMR	RM	TMR	RM	TMR	RM	TMR
Number of enterprises (end-year, unites)	428	144	653	182	764	180	699	176	674	171	638	166	702	126
share of loss making enterprises, %		*5.6*	*37.7*	*17.7*	*37.6*	*13.6*	*41.5*	*17.6*	*44.9*	*19.4*	*45.1*	*18.9*	*44.2*	*19.4*
Value added per one employed person, USD	1984	0.7	1306	1940	1679	1844	1681	1521	2125	2113	2738	2607	2944	3059
as % to average in economy	*224.3*	*174.4*	*175.4*	*208.3*	*193.0*	*166.0*	*174.4*	*128.8*	*170.8*	*139.2*	*161.4*	*120.0*	*154.8*	*110.2*
Employment, average annual, thousand persons	195	76.9	161	58.7	165	55	171	58	164	55	162	52	159	50
as % to total employment	*11.7*	*31.8*	*10.6*	*29.2*	*11.0*	*27.0*	*11.4*	*29.7*	*12.1*	*29.9*	*12.3*	*29.5*	*12.1*	*29.1*
Profit (+), losses(-) before taxation, USD million		0.1	15.4	18.9	41.7	32.0	77.7	36.9	104.9	52.7	62.0	85.5	123.4	92.4
Average monthly wage, USD	48.9	40.4	55.0	49.6	64.2	68.7	73.8	75.6	91.1	103.3	121.8	127.8	140.0	170.3
as % to average in economy	*154*	*155*	*168*	*155*	*152*	*155*	*145*	*151*	*143*	*162*	*136*	*142*	*134*	*144*

Source: Statistical Yearbooks of Moldova and Transnistria, CISR calculations

Table 6. Moldova: Structure of industrial output (%)

	1992	1995	2000	2001	2002	2003	2004	2005
Industry - total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Mining and quarrying	0.5	0.8	0.8	0.7	0.8	0.8	1.2	1.4
Manufacturing industry	94.6	83.6	82.1	80.4	82.9	86.3	86.6	87.5
of which:								
manufacture of food products and beverages	50.5	52.8	48.1	49.3	52.4	53.6	51.7	50.8
manufacture of tobacco products	6.6	3.8	6.1	5.2	3.2	2.8	2.5	2.1
manufacture textiles	4.7	2.3	2.1	2.3	1.4	1.4	1.4	1.8
manufacture of wearing apparel	3.1	1.5	2.1	1.8	2.5	2.4	2.9	2.9
manufacture of leather, leather products and manufacture of footwear	2.8	1.5	1.5	1.2	1.2	1.0	0.9	1.0
chemical industry	1.4	0.8	1.4	1.2	1.2	1.0	1.0	1.1
manufacture of machinery and equipment	14.8	9.0	5.7	3.2	3.0	2.8	2.7	2.2
manufacture of furniture	2.7	2.1	0.9	0.9	0.9	1.2	1.4	1.8
Electricity and heating, gas and water supply	4.9	15.6	17.1	18.9	16.3	12.9	12.2	11.1

Source: Statistical Yearbooks of Moldova

Table 7. Transnistria: Structure of industrial output (%)

	1990	1995	2000	2001	2002	2003	2004	2005
Industry - total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
of which:								
power industry	8.9	14.4	10.6	12.3	27.8	24.2	24.0	23.2
metallurgy	3.4	27.4	35.7	35.5	19.6	31.1	33.4	34.2
chemical industry	0.8	0.1	1.9	1.3	1.2	1.2	1.3	1.3
machinery	21.4	3.5	2.2	2.0	2.1	2.4	1.9	2.0
electrical industry		9.7	6.0	6.0	4.6	5.6	6.2	6.4
wood-working and furniture industry	3.1	1.4	0.6	1.1	1.3	1.2	1.0	0.8
construction materials industry	3.9	5.7	2.1	2.2	2.5	2.8	2.8	2.1
glass industry	0.4	0.6	0.4	0.4	0.4	0.4	0.2	0.2
light industry	33.5	14.8	29.5	29.7	29.8	17.6	18.2	19.4
food industry	23.6	14.9	7.2	6.9	8.5	11.5	9.9	9.0
flour and cereals industry	1.0	4.8	2.0	0.2	1.8	1.4	0.6	0.9
printing industry		2.7	1.8	2.4	0.4	0.6	0.4	0.5

Source: Statistical Yearbooks of Transnistria

Table 8. Moldova and Transnistria: Structure of available land (%)

	1995			2005		
	Moldova*	Republic of Moldova	Transnistria	Moldova*	Republic of Moldova	Transnistria
Lands - total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
of which:						
Agricultural lands	*75.5*	*76.1*	*70.4*	*74.4*	*74.1*	*76.9*
including:						
arable land	52.0	51.5	56.0	54.2	53.0	64.0
perennial plantations	12.7	13.1	9.3	8.8	9.1	6.5
of which:						
orchards	6.2	6.0	7.5	3.9	3.8	4.6
vineyards	6.0	6.5	1.6	4.6	5.0	1.6
pastures	10.8	11.5	5.1	10.9	11.4	6.3
hayfields	0.1	0.1	0.0	0.1	0.1	0.0
Forests and lands covered with forestry vegetation	*12.6*	*13.1*	*7.7*	*13.1*	*13.6*	*9.1*
Rivers, lakes, reservoirs and bogs	*2.7*	*2.7*	*2.9*	*2.8*	*2.8*	*3.6*
Other lands	*9.2*	*8.0*	*19.0*	*9.7*	*9.6*	*10.4*
Informational:						
irrigated lands	*9.1*	*6.6*	*30.9*	*6.7*	*4.5*	*25.4*

Source: *Statistical Yearbooks of Moldova and Transnistria, CISR calculations*

Note: **Data are presented for whole of Moldova*

Table 9. Moldova: Structure of sown areas (%)

	1995	2000	2001	2002	2003	2004	2005
Sown areas - total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cereals and leguminous crops – total	**54.1**	**64.7**	**69.2**	**68.1**	**60.4**	**68.7**	**67.2**
of which:							
winter wheat	22.6	24.2	27.9	28.1	13.6	19.8	26.0
winter barley	4.1	3.3	3.9	4.3	0.6	3.5	3.7
spring barley	3.2	3.6	2.4	2.8	4.7	4.5	4.1
grain maize	20.1	28.9	30.3	28.4	37.3	37.3	29.6
leguminous crops	3.2	3.3	3.3	3.6	3.1	2.1	2.7
Industrial crops - total	**16.7**	**21.6**	**19.4**	**21.0**	**28.1**	**22.0**	**23.2**
of which:							
sugar beet	5.4	4.1	3.8	3.2	2.5	2.2	2.2
sun-flower	9.8	14.9	13.4	16.3	23.7	17.3	17.9
soy	0.2	0.8	0.6	0.6	1.2	1.8	2.4
tobacco	1.3	1.5	1.1	0.6	0.4	0.4	0.3
Potatoes, vegetables and melons and gourds	**8.2**	**8.2**	**7.3**	**6.8**	**6.1**	**5.0**	**5.2**
of which:							
potatoes	3.7	4.3	2.7	2.9	2.6	2.2	2.3
field vegetables	3.9	3.3	4.0	3.5	2.8	2.3	2.4
Forage crops	**21.0**	**5.5**	**4.1**	**4.0**	**5.4**	**4.2**	**4.4**

<u>Source:</u> Statistical Yearbooks of Moldova

Table 10. Transnistria: Structure of sown areas (%)

Sown areas - total	**1995**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Cereals and leguminous crops – total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
of which:	**47.7**	**51.6**	**53.1**	**58.0**	**40.2**	**58.7**	**58.9**
winter wheat							
winter barley	24.3	29.2	30.6	35.4	6.6	24.3	31.5
spring barley	12.1	11.1	10.1	13.1	15.9	13.7	17.3
grain maize	7.3	7.2	7.9	4.9	13.2	17.2	6.0
leguminous crops	0.7	0.6	1.0	0.7	0.8	0.5	0.1
Industrial crops - total	2.6	1.8	0.6	1.8	2.0	0.6	1.4
of which:	**14.6**	**19.8**	**19.8**	**17.0**	**28.5**	**19.6**	**18.7**
sugar beet							
sun-flower	4.2	2.2	2.3	1.4	1.7	0.0	0.2
soy	10.4	16.8	16.4	14.8	26.4	19.5	18.0
tobacco	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Potatoes, vegetables and melons and gourds	**7.5**	**4.3**	**3.5**	**3.0**	**2.4**	**2.0**	**3.2**
of which:							
potatoes	0.5	0.1	0.1	0.1	0.1	0.2	0.8
field vegetables	6.6	3.8	3.2	2.7	1.9	1.6	2.2
Forage crops	**30.3**	**24.3**	**23.5**	**22.0**	**28.9**	**19.7**	**19.2**

<u>Source:</u> Statistical Yearbooks of Transnistria

Table 11. Moldova and Transnistria: Yield per hectare of main agricultural crops (centner)

	1990		1995		2000		2005	
	RM	TMR	RM	TMR	RM	TMR	RM	TMR
Cereals	34.0	43.9	28.8	26.8	19.6	15.9	23.3	23.2
Sugar beet	291.0	230.2	233.0	178.4	164.0	115.1	290.1	277.2
Sun-flower	18.8	20.2	14.2	13.9	13.0	13.5	12.0	10.9
Tobacco	20.6	18.7	13.5	9.4	10.8	4.3	14.2	
Potatoes	72.0	110.3	68.1	31.0	50.6	44.7	105.4	156.9
Vegetables	157.0	191.6	76.8	65.3	69.0	53.0	104.4	114.9
Fruits and berries	59.2	67.8	36.5	39.3	19.7	5.0	36.6	4.7
Grapes	53.8	18.1	49.2	33.0	49.5	35.6	36.2	9.3

Source: *Statistical Yearbooks of Moldova and Transnistria*

Table 12. Moldova: Structure of fixed capital investments
(by main types of economic activities, %)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Fixed capital investments - total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which:											
agriculture	10.8	9.9	9.8	5.7	3.6	3.4	4.9	5.7	5.2	6.0	55.9
industry	30.7	40.3	42.4	36.1	38.2	27.5	44.6	36.4	40.7	33.2	29.3
construction	2.8	2.0	2.6	2.5	2.1	1.8	1.4	1.2	1.3	1.7	2.6
transport and communications	9.9	12.4	10.9	15.4	25.6	43.8	24.3	31.1	24.9	22.6	21.3

Table 13. Moldova: Structure of fixed capital investments
(by sources of financing, %)

	1995	2000	2001	2002	2003	2004	2005
Fixed capital investments - total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which financed from:							
country budget	14.7	3.3	4.1	2.0	2.1	3.0	5.6
local budgets	2.3	4.9	4.5	4.2329	3.5	5.6089	4.4
own funds of enterprises	61.0	81.7	76.5	83.186	85.0	81.883	81.3
other sources	22.0	10.1	15.0	10.6	9.5	9.5	8.6

Table 14. Moldova: Technological structure of fixed capital investments
(as % to total investments)

	1995	2000	2001	2002	2003	2004	2005
Fixed capital investments - total	100	100	100	100	100	100	100
of which:							
construction-assembly works	64	43	45.7	39.3	42.1	49.6	47.4
equipment, tools, inventory	27.7	50.6	51	58	54.6	46.6	48.4
other capital works and expenditures	8.3	6.4	3.3	2.7	3.3	3.8	4.2

Source: Statistical Yearbooks of Moldova

Table 15. Transnistria: Structure of fixed capital investments
(by main branches of economy, %)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Fixed capital investments - total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
of which:											
agriculture	18.4	8.6	8.9	7.7	2.9	1.2	1.7	1.7	4.0	3.4	3.3
industry	20.9	32.7	54.7	48.0	75.4	81.3	75.0	67.0	59.8	44.6	51.4
construction	45.3	27.4	22.8	23.1	13.1	6.5	8.9	12.3	7.2	5.2	6.1
transport and communications	0.5	0.0	0.6	0.1	0.3	0.6	2.6	13.7	13.5	18.2	24.0

Table 16. Structure of investments in the fixed capital in Transnistria
(by the sources of funding, %)

	1995	2000	2001	2002	2003	2004	20
Total of investments in the fixed capital	100,0	100,0	100,0	100,0	100,0	100,0	10
including those funded at the expense of:							
republican budget	16,0	3,5	8,2	3,7	0,6	0,3	
local budgets	15,4	11,7	3,3	4,2	3,4	2,6	
equity capital of enterprises	66,8	49,1	88,2	90,5	94,7	92,9	9
other sources	1,8	35,7	0,3	1,6	1,3	4,2	

Table 17. Technological structure of investments in the fixed capital in Transnistria
(structure, as percentage to the total)

	1996	2000	2001	2002	2003	2004	20
Total of investments in the fixed capital	100,0	100,0	100,0	100,0	100,0	100,0	10
including:							
construction-assembly works	34,3	34,1	36,6	34,8	32,7	36,4	3
equipment, tools, stock	26,7	59,8	58	55,6	60,5	52,7	5
other capital works and expenditures	39,0	6,1	5,4	9,6	6,8	10,9	