ANNEX A. MACROECONOMIC SCENARIOS FOR THE PERIOD 1998-2005

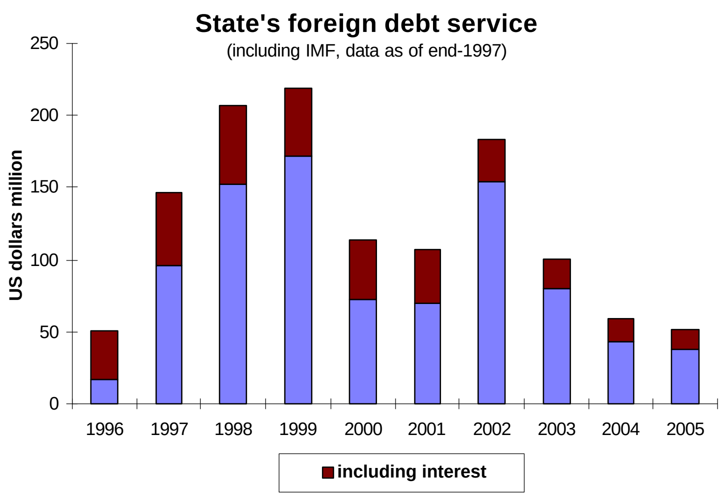
(Scenarios have been elaborated by CISR experts consulted by J. Osiatynski (CASE, Poland), M. Horton (IMF), A. Banerji (World Bank)

Within the analysis made there were elaborated 2 scenarios of the evolution of national economy for the period 1998-2005:

- base scenario, also defined as optimistic, or recommended one, which assumes that the Government of Moldova will continue to advance economic reforms, in compliance with agreements concluded with international financial institutions;
- negative, or pessimistic scenario, which reflects in general aspects the destructive effects, that could emerge if Moldova delays economic reforms and does not manage to honor its external obligations, the country facing a dramatic period of budget and balance of payments crisis, accompanied by high rates of inflation and sharp devaluation of national currency.

Foreign debt

While drawing up the scenarios, estimations have been to a large degree influenced by so called external factor, i.e. the necessity to service external debt, which in the upcoming years will utilize more and more funds in foreign currency. The peak of foreign debt servicing will be in 1999 (mainly due to the entire amortization of the private placement through Merrill Lynch of $30m issued in 1996) and in 2002 (amortization of the $75m Eurobond launched in 1997). This will certainly have a considerable impact on Moldova's economy, the country having to channel an important part of its available funds (that are too small in any case) for servicing its obligations to the foreign creditors. Already in 1997 foreign debt servicing (principal and interest) cost Moldova about $150m, while new external borrowing where about $130m, of which: $20m – represented the third tranche of IMF's EFF loan, $35m – the first tranche of SAL-II from the World Bank, and $75m – Eurobond issue through Merrill Lynch, the latter share being 58% of the total. In the upcoming years, however, the situation could be more critical, because already in 1998 Moldova will have to pay off $215m for external debt servicing, and in the pessimistic scenario it is not clear where these funds would come from, all the more it would be quite complicated for the country to attract for instance another $75m from private capital markets abroad.



In this context, a very important role has the continuation of normal relations of collaboration between Moldova and international financial organizations, that are also country's main creditors. If the Government of Moldova continues to ignore IMF & WB recommendations regarding structural reforms in real sector, they could leave the country on its own (to the satisfaction of some domestic political movements) and cancel further financial assistance. And this step would mean for Moldova a deepening of economic collapse and resignation of decision makers that led the country to such a situation by promoting an evasive and populist economic policy. It could be a repetition of Bulgarian case, but with a more harmful impact on Moldova, whose economic resources are far from those of Bulgaria. Thus, it is very important to avoid the pessimistic scenario, because the price that the country will have to pay (or its population which would finally suffer) could be much too high.

A separate issue is the implication of the Government of Moldova in issuing short term obligations with high interest rates on foreign private capital markets. An example of this are Moldovan Eurobonds (over $100m) placed through Merrill Lynch, that de facto represent for the Government a very easy way of financing its current expenditures. In spite of IMF warnings the Government is firmly convinced to continue such practice in 1998, intending to launch also a Deutschemark issue. This, however, as it appears to be, will be difficult to implement under conditions of worsening of country's credit rating, already publicly announced by Moody's.

Anyway, it should be mentioned, that in the next years the real value of securities issued on private capital markets abroad will be at a certain degree "compensated" by the necessity to pay off those issued before. Generally speaking, private placements should be limited by the following objective restrictions: interest rate acceptable for the country, and the maturity which should not be below 5 years.

Other indicators

Investment

Taking into account budgetary and external constraints, it is obvious that under such conditions internal investments are greatly affected. Country, lacking disposable financial resources, is not able to stop the continuous decline of internal investment, including in production means. In this context the only hope for revitalizing productions and increasing competitiveness remain to be the flow of foreign direct investment. Thus, the existing fiscal, legal etc. barriers for foreign investors should be removed. Especially when internal savings are continuously decreasing, which is one of troublesome tendencies taking place in transition economies. A more detailed analysis on investment policy issues can be read in the respective chapter of the Strategy.

Structure of economy

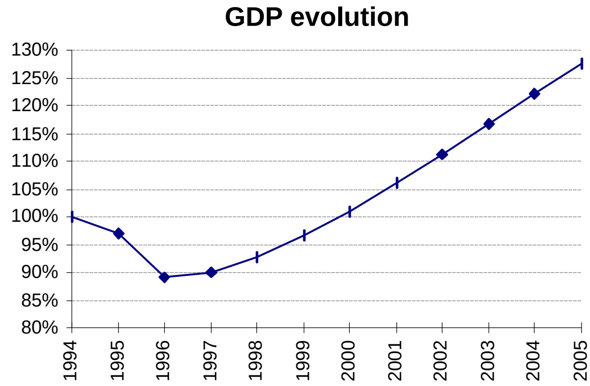
A recommended evolution of Moldova's economy would be a decrease of agriculture's share in GDP, because it is a source of uncertainty due to its seasonal nature. Industry's share will remain in general at the same level, due to not so high level of investments in this sector. Under these circumstances the services sector will grow, and this is a good and recommended thing to happen, because in most developed countries share of services in GDP is at 60-70%. With regards to consumption, it should be mentioned, that private consumption should increase, but at a rate lower than labor productivity, or GDP growth rate, in order to increase investment. Governmental spending should be significantly reduced, and this is examined in details further on.

Optimistic scenario

Main macroeconomic indicators

Gross Domestic Product *(in both scenarios GDP is forecasted without taking into account the shadow economy and excluding Transnistria)*

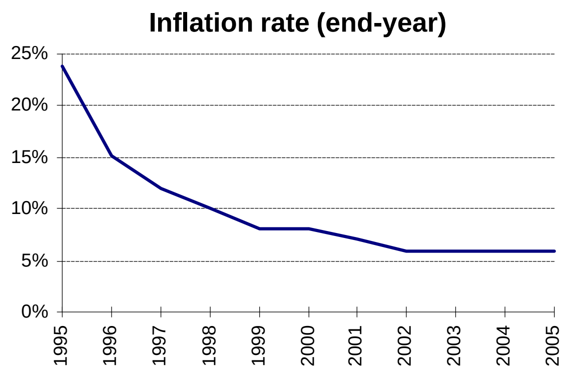
To mention is, that initially the Government projected for 1997 a 7% growth of real GDP, while the actual figure is 1.3%. However, this is a quite poor performance, comparing it with 8% GDP decline in 1996. In this scenario we forecast increasing positive figures for real GDP growth during the period 1998-2005 (with an annual growth of 5% in 2001-2003), counting on channeling of investment into the productive sphere and relaunching of real sector enterprises' production (all calculations do not include shadow economy).



As a result, nominal GDP in US dollars will overpass by end 2005 the level of $3bn, which is a 1.64 times increase comparing to 1997 level. Respectively, GDP per capita will reach in 2005 about $655 per capita.

Inflation

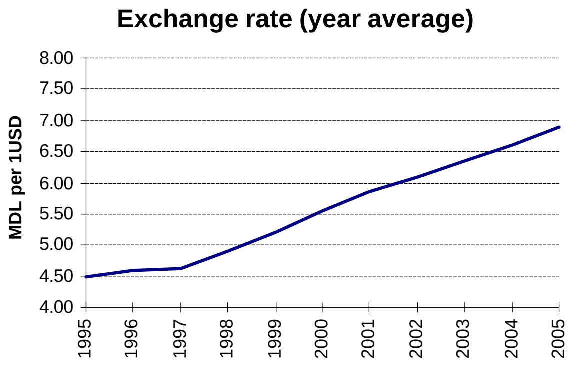
Annual rate of inflation for 1997 was 11.2%, being within the goal set by NBM of 10-13%, while IMF forecasted 10% in the memorandum regarding EFF facility. This represents the lowest level of inflation from the moment of introduction of national currency and starting of implementation of the tight antiinflationary monetary policy. The forecast is that the tendency in reducing inflation rate will be maintained further, being supported by assistance from IMF. For the year 1998 the rate of inflation is forecasted at 10%, NBM's goal being of 7-10%, and IMF provision set in EFF memorandum – 6%. During the period 2002-2005 the annual inflation will not exceed 6%. However, this could happen under conditions when the Ministry of Finance would implement a tight fiscal policy, with a significant reduction of budget expenditures.



Exchange rate

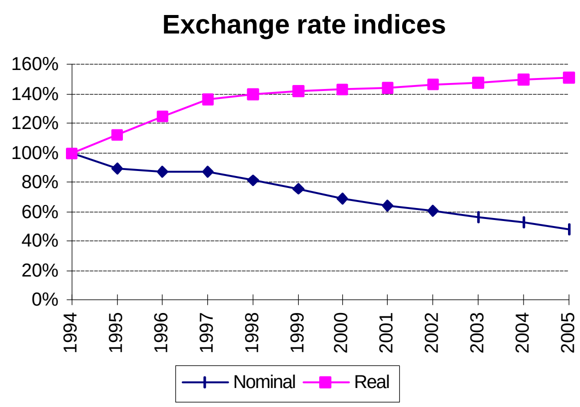
As it was already broached in the chapter on monetary, credit and foreign exchange policy, it is considered right an annual *nominal devaluation* of Moldovan leu against US dollar so that its *real effective* rate be at 99%, or -1%, showing a small real devaluation of leu upon currencies of Moldova's main trading partners (while calculating the real effective exchange rate it is taken into consideration the fluctuation of leu against currencies of countries being the main trading partners, as well as the inflation in these countries).

In 1996 the Moldovan leu had a *real effective* appreciation by 5.5% against currencies of Russia, Ukraine, Belarus, Romania, Bulgaria, Germany and Italy. So, if the *nominal* depreciation of Moldovan leu at the end of1996 was 7.7%, i.e. just 5.5% more than the actual figure of 2.2%, then this would have contributed to the solution of the problem of competitiveness of Moldovan exports.



Due to fact, that the latest available data – for first half of 1997 showed a *real effective* appreciation of leu by 6.9%, it was taken a simple consideration that during 1998-2000 the *nominal* exchange rate will be annually depreciated by 6%. Certainly, this percentage will vary depending on situation of Moldova's foreign trade and macroeconomic evolution in trading partner countries, but we consider that in the upcoming years this figure will not change much and will presumably decrease to 4% in 2005.

Consequently, by year 2005 the annual average of nominal exchange rate of Moldovan leu against US dollar will reach 6.88 lei/1USD. Also, we would like to stress out, that in real terms the leu will continue to appreciate, but at lower pace of about 1.7% per annum. For a comparison reason in the attached tables it is shown also the evolution of Moldovan leu forecast assuming that the crawling peg exchange rate regime is introduced. In this case a real appreciation of national currency against US dollar is not allowed, i.e. the nominal depreciation of currency is always greater than the inflation rate. According to this scenario in the year 2005 we get an exchange rate of 10.1 lei/1USD, i.e. almost 1.5 times bigger.



Balance of Payments

The economic situation of Moldova is at a great extend depending on its foreign trade – on its trade balance evolution. Certainly, as already mentioned in chapter 3.2 and 3.7 the best way out would be an increase of exports, however, attaining this objective depends on a number of factors, including efficiency of structural reforms in real sector of economy, investments etc. Now will describe in more details the model of optimistic scenario targeted at an improvement of state's balance of payments (BOP).

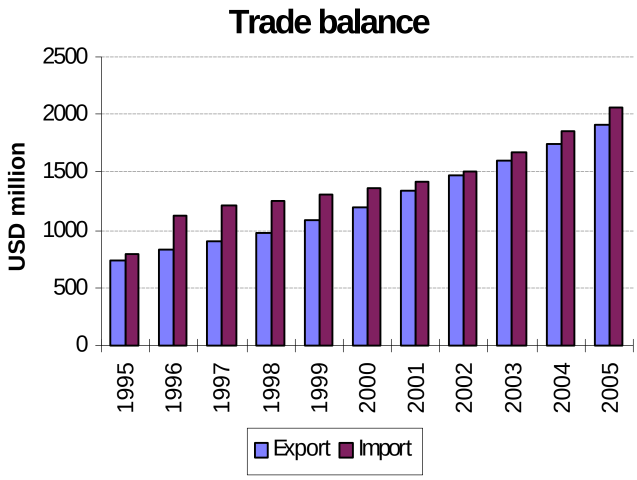
Current account

Trade balance

Export will be growing continuously, within 10-12% (in USD terms) during 1999-2002. However, it should be stressed out, that the forecast of this growth is based upon a success of reforms at the sectors level of the real economy which would give impulse to the country's exports. Also, it is foreseen a canceling of the tax on exports, imposing VAT on imports.

During 1998-2002 in nominal terms ***import*** will grow as well, but at a slower pace comparing to export growth rate. The share of imports in GDP will decrease, owing to the introduction of economical and efficient technologies in the economy in this scenario. The share of equipment and machinery (for technological renovation of the industry) in import will increase. At the same time the imports of consuming goods will be reduced, which alters the competitiveness of local producers on domestic market and does not contribute to the economic growth.

Also, to mention is, that starting with 2001 it is foreseen a continuous growth of foreign direct investments, out of these financial resources, a considerable share would go towards acquiring new technologies etc., which would respectively lead to an increase of imports at that period. As a result, the trade deficit will relatively increase, but under such circumstances this is considered as a positive evolution.



Conclusion: it is forecasted a gradual reduction of the trade balance deficit by about 3.5 times till year 2002, comparing to 1996. This, in its turn, will have a favorable impact on global balance, which starting the year 2000 becomes positive and increasing.

Note: for both scenarios the export/import figures for 1997 include the transaction with MIG planes (total export: $80m, out of which $40m – hard currency inflow, and $40m – import of goods).

Services

Net negative figure of services will gradually increase, reaching -20 million USD in 2005, comparing to -57 million in 1996. This positive evolution is greatly owed to transportation services (including transit), which have a share of more than 50% in total services for 1997. On the other hand, although Moldovan citizens spend more abroad, than foreigners coming to Moldova, with the development of tourism, this situation will gradually improve.

Income

At the end of 1997 NBM decided to include in this entry the remittances from Moldovan citizens working abroad. The BOP for '96 was corrected, and income entry was increased by about US$ 80m. World Bank experts estimate the funds transferred to Moldova by those working abroad at US$ 100m per annum, IMF estimations are at about US$ 75m.

As regards to the income from foreign borrowing and servicing issued state securities, it should be mentioned, that their negative value is growing. This happens because of the increase in Moldova's obligations for foreign debt servicing, and, on the other hand, because the state will continue to issue securities, according to the budget provisions, while commercial banks and non-banking investors will continue to show interest in procuring them, due to attractive interest rates. At the same time, it is unlikely that the state would decide to purchase securities on foreign capital markets.

Transfers

A considerable influence on current account balance will continue to have also transfers – public (which actually have the main part here) and private. There included here grants, humanitarian aid and technical assistance provided.

Conclusion: current account deficit will lower to about US$ 50m in 2002, comparing to the figure of US$ 214m in 1997, that is greatly owing to the diminishing of country's trade balance.

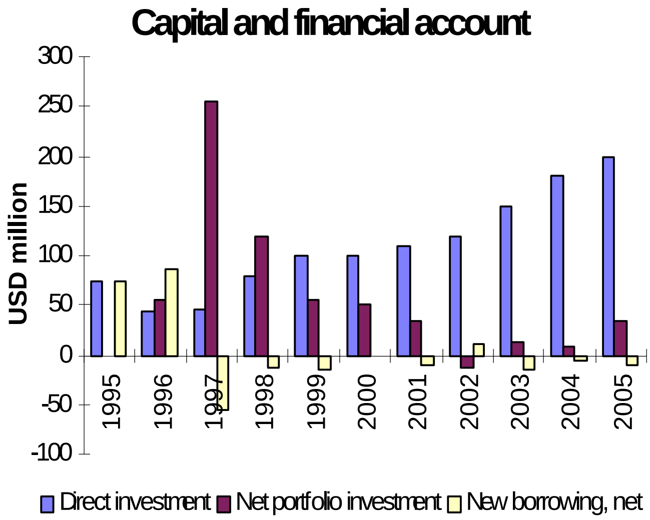
Capital and Financial Account

Direct investments

Direct investments will have in the optimistic scenario a steady growth, which will accelerate after 2002, reaching about US$ 200m in 2005 (BOP figures indicate only annual flows of investments, and not their cumulative value), due to the stable economic situation in the country under this scenario, and sustained actions taken for encouraging these investments.

Portfolio investments

In this entry a major part currently belongs to shares of Moldovan enterprises, acquired by foreign companies, as well as private placements of Moldova's securities on external capital markets (which should not be included here).



In BOP the net figure is indicated, that represents new portfolio investments of the state minus servicing of previously issued securities. Another remark needed in this context is regarding the huge figure of about US$ 240m of portfolio investments for 1997, which actually consists of US$ 75m Eurobond issue through Merrill Lynch (however, as it was already mentioned, such private placements are not portfolio investments, but de facto state's debt rollover, and therefore must be classified accordingly), and the amount of US$ 140m of securities of the Ministry of Finance in favor of Russian company "Gazprom" for gas debt restructuring (due to the specifics and exceptionality of this rescheduling arrangement, in the present scenario such kind of issues and not foreseen in the upcoming years, however they are not excluded).

Consequently, it could be noted, that during 1998-2001 the country has relatively high positive figures for net portfolio investments, which are explained by a larger involvement of foreign investors in the process of privatization of state property, as well as by an increase of portfolio investments in shares of private sector enterprises.

Also, state will implement reasonable placing of securities on external private capital markets (Eurobonds in US dollars, Deutschemarks etc.), the largest issues being planned for 1998 (US$ 30m, maturity – 2003), for 1999 (US$ 40m, maturity – 2004), and for 2002 (US$ 40m). However, as it was mentioned before, such placements are expensive, because of the high interest rate specific for private sector and short maturity – 5 years. This is clearly reflected for instance in the net figure for 2002 of -12.5 million USD, when though a new placement is launched in the amount of US$ 40m, the state has to pay off the 1997 placement of US$ 75m (while the first Eurobond of US$ 30m shall be fully repaid already in 1999).

Long and medium term loans

From the very beginning we would like to stress out, that in the 2 entries below IMF loans are not included, because they are reflected in the entry "Financing" of BOP.

New loans

A specific feature of the optimistic scenario is that the country will fully benefit from the support from international financial institutions (however, this support will be conditioned by Moldova's compliance with memorandums concluded with IMF and World Bank).

Thus, especially because there will be needed considerable financial resources for fulfilling the obligations toward foreign creditors, and for overcoming financial problems in the period of active implementation of structural reforms, we forecast for the period 1998-1999 and 2002 a volume of 50-65 millions of USD of new borrowings that the country will benefit from international financial institutions: especially from World Bank (the remaining part of SAL-II and following loans), as well as from EBRD, European Union etc. Also, an important role will have non-governmental loans – of about US$ 40m annually during 1998-2003 with a further increase of these).

Debt service

The peak of external debt, that already started in 1997, will continue in 1998-1999 when there will be necessary over 100 million USD for servicing state's external debt (principal and interest). After year 2000 the situation will improve, although there will be needed to pay significant amounts for external debt servicing, because all these years the country will continue to borrow from its creditors.

Conclusion**:** especially during 1997-1999 the state will face the necessity to repay considerable amounts for servicing external public debt, which is reflected with negative amounts in the BOP entry "Net long and medium term loans". It should be stressed out that the general situation would have been much worse if the country did not benefit so broadly from the support of IMF and World Bank (situation shown in the negative scenario).

Overall balance

This is the sum of current account and capital and financial account, and actually indicates the insufficiency (or surplus) in financing current account. Is it was already mentioned at the trade balance paragraph, starting the year 2000 the overall balance deficit will turn into a surplus of over US$ 10m, which will grow continuously in the next years, reaching more than US$ 110m in the year 2005.

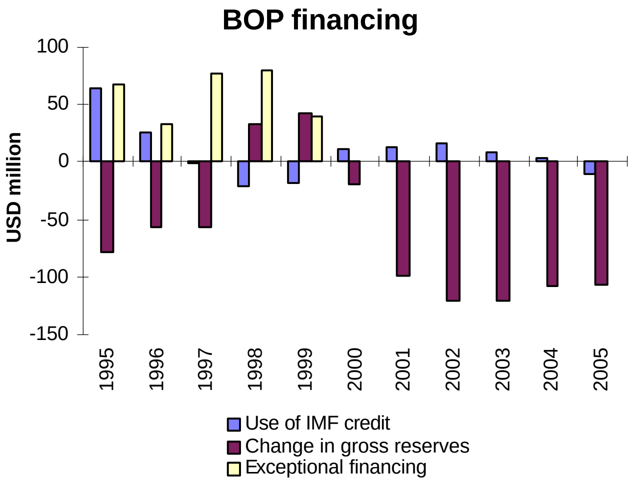
Financing

We want to stress out first, that in the next 2 entries there are net figures, but unlike in other entries, the plus sign here indicates insufficiency in financing, i.e. financial resources that the country had to pay, and the minus sign – indicates surplus, i.e. for instance inflows into the forex reserves of NBM.

Use of IMF credit

As in case of servicing long and medium term loans, described earlier, the period of 1998-1999 represents the peak of IMF debt servicing, when NBM will have to repay almost US$ 80m per year (principal and interest). Thus, forecasting for the upcoming years that IMF will grant Moldova about 40-50 millions of USD per year (including those US$ 144m remaining available under EFF loan, as well as other loans), the country still will have to cover a negative balance of about US$ 20m, and only starting from 2000 it will arrive to a positive balance (i.e. it will receive more than will have to pay back).

And this, under the provisions of the optimistic scenario, does not represent a difficult task, because the overall BOP balance is foreseen to improve considerably.



However, once again we want to stress out, that these assumptions would be realized only in case Moldova is honoring the obligations taken under memorandums concluded with IMF.

Change in gross official reserves

In the positive scenario there will be no problems here, because the amount needed to be paid as an interest for IMF loans (which comes out of NBM official forex reserves) will be continuously diminishing up to some US$ 2m in 2005, comparing to US$ 10m to be paid in 1998.

At the same time, there are no destabilization factors foreseen in the domestic forex market. NBM will continue to build up its net reserves, except for years 1998-1999 when external constraints for the country will be more acute. Under these circumstances a lot will certainly depend on the presence of those flows of exceptional financing, which in 1998-1999 could be 45-55 millions of USD. However, at the very moment when these flows come down – this will have a negative impact on NBM's forex reserves. In case everything goes according to the scenario, by year 2005 gross official reserves would reach almost US$ 770m, showing an increase by 2.1 times comparing to 1997. The value of gross reserves expressed in months of imports will increase respectively to 4.3 months, comparing to 3.6 months at the end of 1997.

On the other hand, the structure of reserves will favorably modify. Share of net reserves will continuously grow, reaching by end-2005 almost 75% of gross reserves (comparing to only 21% in 1996).

Other flows (exceptional financing)

These capital flows are not clearly outlined, because they in fact represent a residual: financing minus IMF credit, minus change in gross official reserves. These flows include some grants received by the country, as well as some flows of hard currency originated from shadow economy, and bought by NBM at the Interbank Foreign Currency Exchange. Also, there are included here so called "holes" in official statistics. In this context, we forecast the trend of continuos decrease of these flows, which in 2000-2005 are equalized to zero.

Monetary aggregates (NBM)

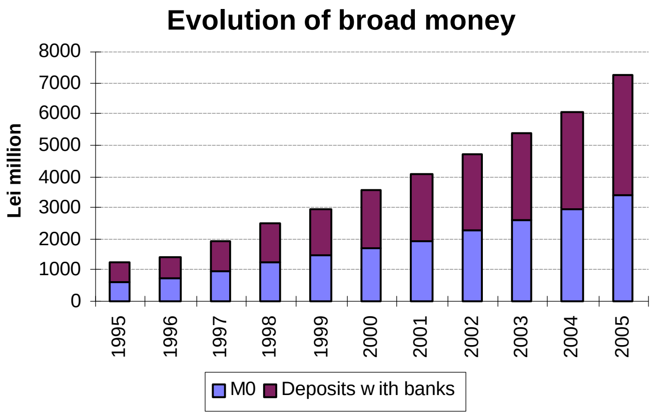
Net Foreign Assets convertible represent state's net foreign exchange reserves, i.e. the difference between gross reserves and obligations to IMF. Evolution of the latter has been examined in the entry of BOP Financing in the chapter above. It should be noted, that NFA are recalculated in lei at a fixed exchange rate as of 1995 for a more precise monitoring of their evolution.

Net Domestic Assets are comprised of net claims to government, net NBM's loans to commercial banks, and other flows. Net claims to government include Govt. deposits with NBM and NBM loans to government granted against state securities for financing budget deficit. As it was already mentioned in the chapter 3.3, NBM's financing of government is regulated by the Law on Budget, and for the next years this type of loans are not foreseen – a condition imposed by IMF. With respect to refinancing loans granted to commercial banks, it should be mentioned, that the evolution of the NBM's refinancing rate will show the same downward trend as of the inflation rate. For the year 1998 it is foreseen to intensify the implementation of new financial instruments of monetary policy: open market operations and Lombard facility, which would substitute credit auctions by 1 January 1999.

Factors that determine the volume of *reserve money*, or base money, are the Net Foreign Assets (NFA) and Net Domestic Assets (NDA). According to the scenario reserve money will increase gradually to over 3600 million lei in 2005, showing a 3.2 times growth comparing to year 1997.

On the other hand, reserve money is comprised of cash in circulation and banks' reserves.

The volume of *lei in circulation* M_0 is gradually increasing in order to satisfy the needs of economy in cash. As the volume of GDP grows, the amount of cash in circulation increases respectively. As regards the volume of reserves of commercial banks at NBM, it will increase (in average by 5% per year), but at a slower pace comparing to the growth of amount of lei in circulation. And this is a positive trend, because the excess of reserves, in conditions of a low and stable inflation rate, represent inert financial resources, which are not channeled in the form of banks' credit investments. Volume of banks' reserves in 2005 will grow only by 1.7 times comparing to 1997.



Broad money M_3 is equal to M_0 plus deposits (sight, time, and foreign currency deposits) with banking system. Ratio of broad money/base money represents the money multiplier, which the greater is, the bigger are deposits with banks, and it is a very important factor for evolution of the economy. It should be mentioned, that in our case the money multiplier grows from 1.7 in 1997 to 2.0 in 2005. Consequently, we see a positive trend in increasing deposits with banks, which in 2005 increase by about 4 times comparing to 1997, and this reflects the confidence of households and economic agents in banking system of the country. The security in banking sector is increasing, the role of commercial banks as depository institutions is growing, and respectively the volume of credit investments in country's economy is expanding.

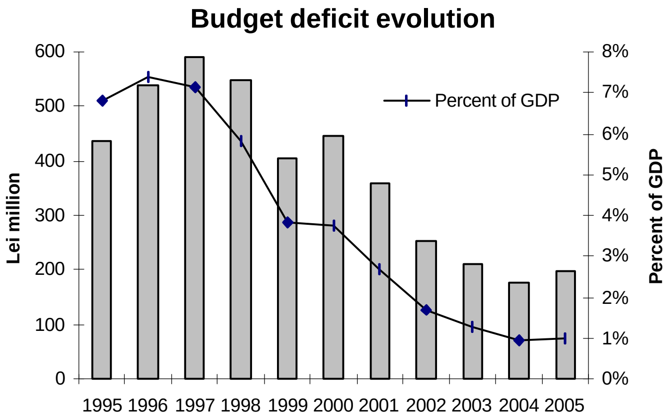
State budget

Under the optimistic scenario of development of economy there were made assumptions that it will be created the legal environment and respective stimulants for development of private sector, of entrepreneurial initiative, free competition, and setting up of prices according to the supply and demand. All these will finally result in a diminishing of the role of state in national economy. Most services for population will be provided by private sector, and share of public financial flows will continuously decrease.

The forecast of sectors development of the economy, GDP forecast, evolution of inflation, integration of national economy in more international economic relations at a wider scale, allow us to forecast a stable evolution of budget and fiscal sector.

Along with optimization and rationalization of public infrastructure the reform of fiscal system will be implemented on basis of the Concept of Fiscal Reform in the Republic of Moldova.

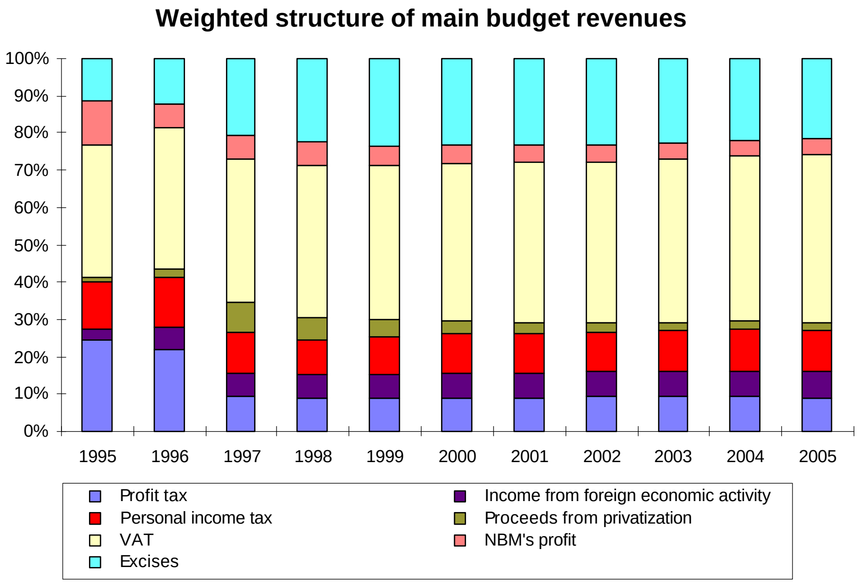
As a result of the implemented actions, the budget deficit will be continuously reduced to about 200 million lei in 2005, and will represent 1% of GDP, comparing to 7.4% in 1996.



Revenue

Profit tax

The forecast of evolution of this type of tax collection proves, that the situation will still remain quite difficult during 1997-1998. First of all, it will be conditioned by the reduction of gross income reported by economic agents in their statements in case they generate losses. Secondly, major share of illegal transactions and growth of the share of shadow economy decrease the economic activity of the official sector of the economy.



In 1998 the reductions will be caused as well as by implementation of Fiscal Code.

Only beginning with 1999 it is forecast a clear growth at this chapter, which is determined by concrete measures aimed at implementation of national accounting standards, as well as fighting shadow economy and corruption. Stable economic growth during 1999-2005 will also generate stable revenue from profit tax into the budget system.

Personal income tax

A reduction of this type of tax is forecast in 1998 along with introduction of Fiscal Code, which initially foresees losses for budget system, being set new tax levels, as well as new methods for calculating taxable income.

However, starting from 1999 an increase is forecasted here, mainly conditioned by the growth of households' income in different forms, due to revitalizing of economic activity in the country. Forecast economic growth will generate new employment opportunities, disposable households being engaged in labor activities with secure income.

Real estate tax

Acceleration of activities for reevaluating real estate and fixed assets will condition already starting with year 1998 a growth of budget collections, which will be maintained each year, also due to the economic growth forecast for the respective period. This will generate formation of new fixed capital, i.e. expansion of taxable base.

Value added tax

VAT is continuously increasing, which is conditioned by (i) transition towards the principle of destination in calculating and collecting VAT (Moldova, being an importer state, will benefit from this); (ii) along with growth of disposable personal income tax the internal demand is growing and respectively internal consumption.

Excises

Tendencies of excises' collection are stable, provided there will be no changes in tax ratios and list of goods subject to excises.

Income from foreign economic activity

A deeper integration of national economy in international trade (both through exports and through imports) will determine obtaining more income from foreign economic activity. Our assumptions were based upon the forecast of trade balance. Also, it is necessary to take into account the standardization of custom duties according to the conditions of World Trade Organization, the WTO membership being a priority for the near future for the Republic of Moldova. WTO membership will allow access to new sales markets, that would stimulate exports and growth of export-oriented branches.

Non-fiscal revenue

There are included here the NBM' profit, proceeds from privatization, revenue of Road Fund.

NBM' profit will have a stable tendency without essential changes during the forecast period.

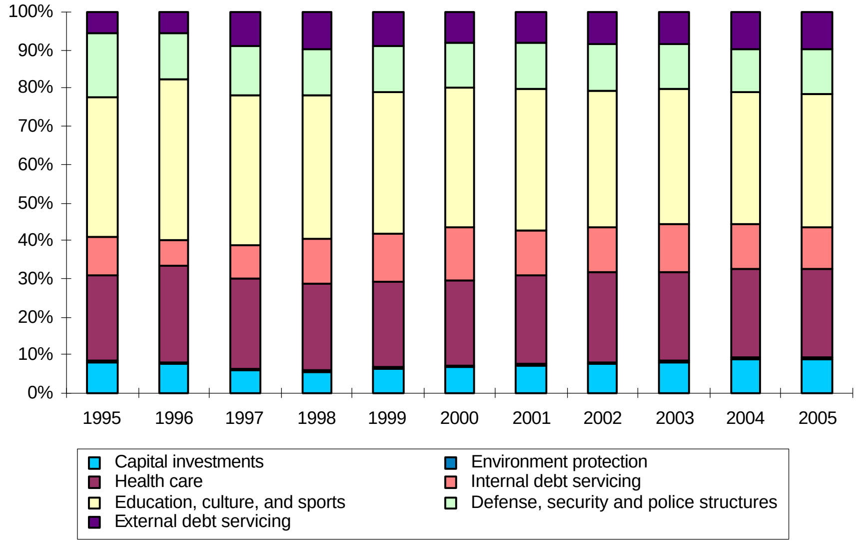
Proceeds from privatization will be mainly obtained during 1998-1999 (privatization of Moldtelecom, selling a part of special equipment, privatization thermal-energetic sector etc.), further on these incomes having a downward trend, determined by a reduction of the number of objects to be privatized.

Road Fund revenue will be determined by the necessity to maintain and create a modern road network, that will in its turn determine the increase of the amount of funds available during 2000-2005.

Expenditures

There are examined here only some expenditure entries, that could have some major changes, determined by economic policies.

Weighted structure of main budget expenditures



Health care expenditures

Evolution of these expenditures will not have major changes in absolute figures, however the structure of these expenditures will be essentially modified. Health care reform in Moldova should be conceptually modified. In this scenario it is foreseen that public expenditures will be partially substituted by private expenditures, and saved public funds will be directed for enhancing the quality of public medical services, as well as for insuring the minimum of medical services with a further transition towards paid medicine.

Expenditures for education, culture and sports

Expenditures for education, culture and sports will be insignificantly modified. During the next 3-5 years it is foreseen a substitution of state financed education by paid education. Creation of private sector in education system will allow a more urgent realization of objectives of education system reform. Saved funds will create better conditions for state education for persons who are not able to pay for education, as well as appropriate remuneration of teachers' staff which will remain in the public sector.

Expenditures for defense, security and police structures

These expenditures will be determined by the reform of force structures which will need an optimization and rationalization of respective expenditures. Creation of flexible and few force structures, which would correspond to modern standards, need additional expenditures for material and technical provisioning, that could be borne by means of personnel reduction, and other organizational measures. The concept of army reform which is presently debated could allow for a revision of undertaken assumptions.

State debt servicing expenditures

These expenditures depend on the evolution of state debt. Due to the fact, that the level of budget deficit in this scenario still has a quite significant value, there will be needed more loans, both external and internal for deficit financing. Respectively, state debt servicing expenditures will have a trend of insignificant diminishing.

Capital investment expenditures

Budget expenditures for capital investments will have a steady non-essential growth during 1998-2005. This will be conditioned by tensioned financial situation in the budget sector, by lack of disposable funds, as well as by diminishing of state's role in market economy after the process of privatization and liberalization of national economy.

Net lending

Here there are included operations of crediting, recrediting, and reimbursement of budget loans.

During 1993-1996 there were credited and recredited certain economic agents, especially in thermal-energetic sector, which in forthcoming years will gradually reimburse budget loans. There is no crediting and recrediting forecast starting from 1998, according to the concept of budget and fiscal policy applied at elaboration of 1998 budget. Also, it will be diminished to minimum, and afterwards canceled, the risk fund for covering government guarantees, which is reflected in this entry.

Conclusions:

Optimistic scenario foresees, under conditions of consistent and adequate reform, a reduction of tensions in financial sector, especially in budget sector, after year 2000.

Among key moments to be realized, the following ones can be emphasized:

- reduction of shadow economy and corruption in national economy;
- fiscal reform and implementation of Fiscal Code;
- reduction of general fiscal burden through elimination of fiscal exemptions of some branches of the economy, and of individual exemptions; exclusion of populist economic policy of "forgiveness" of liabilities to the budget, that generates non-compliance with fiscal legislation;
- introduction of national accounting standards;
- reform of social protection and medical systems;
- introduction of the "payment" element for some public services;
- optimization of state's infrastructure;
- ensuring the transparency of public purchases.

The diminishing of budget revenue and expenditure as a percentage of GDP reflects the typical situation of a transition economy: (i) fiscal burden on economic agents and individuals should be decreasing for the purpose of stimulating a further economic growth; (ii) reduction of the role of state in economy through applying a function of supervision of compliance with legal framework, and a limited function of redistribution of national assets.

Pessimistic scenario

As it was previously stressed out, the main idea of this scenario is the inability of the country's supreme decision makers to continue and accelerate the implementation of economic reforms. Because of the Government's indecision, inertia, and lack of structural adjustment, the collaboration with international financial institutions is not relaunched (blocked at the end 1997 because of the same reasons). Consequently, all macroeconomic indicators are worsening, and the country looses another valuable years of its development.

The crisis occurs in 1999, when the first US$ 30m placement through Merrill Lynch, issued in 1996, will have to be fully repaid, as well as there will be needed another US$ 185m for servicing (principal and interest) of state's foreign debt (including IMF loans).

Due to the fact, that in this scenario: 1) the programs of financial assistance from IMF and World Bank are stopped because of non-compliance of government with concluded arrangements, and on the other hand, 2) new borrowings from private capital markets abroad will not be possible to get, because of sharp worsening of country's credit rating, – Moldova will have to face a severe deficit of financial resources, accompanied by:

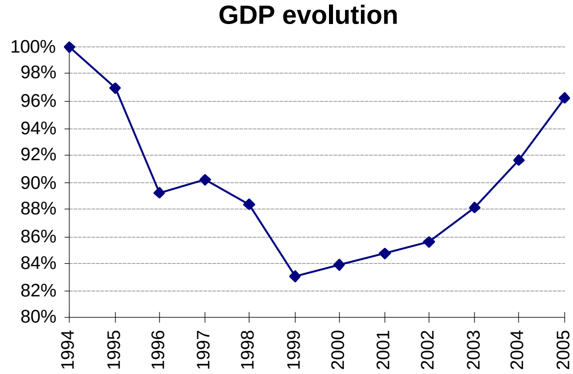
- considerable increase of inflation rate up to 80% annually in 1999, resulted after significant issuance of money in circulation, aimed at crediting the government, imposed to NBM;
- massive devaluation of national currency – by 6.2 times in nominal terms in 1999, that under conditions of lack of external financing, will lead to a sharp increase of the equivalent in lei for the amounts of Government's external debt service;
- state budget deterioration – budget deficit reaches 14.5% of GDP in 2000;
- drastic reduction of foreign exchange reserves of the NBM, which will have, on the one hand, to "contribute" to the financing of budget deficit (with US$ 50m in 1999 and US$ 15m in 2002), and on the other hand to "cover" the BOP overall balance deficit (over US$ 200m in 1999), and finally, besides this, to service the IMF debt (about US$ 80m in 1999).

***Conclusion*:** the year 1999 becomes the year of "big crisis", as well as the year of radical changes in the supreme economic and politic decision making structures of the country. Resignations follow, and then early elections, so that finally the reforms will be resumed. Negotiations will follow with international financial organizations, which will grant the needed assistance, but will certainly impose severe conditions for implementation of the undertaken reforms. After all, the country shrinks its capacity in order to face the expenditures, however at the same time, it will not manage to implement the structural reforms in time, it will not manage to re-equip the enterprises and re-direct them towards generating exports.

Main macroeconomic indicators

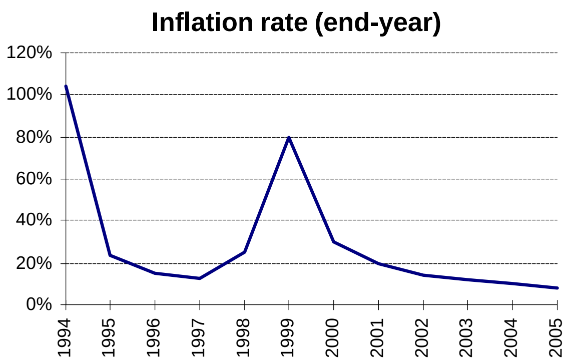
Global Domestic Product

After the "re-launching" in 1997 country's economy enters again a dramatic decline – real GDP growth rate is reducing by 2% in 1998, and in 1999 – by another 6%. Obviously, such an evolution of the economy, accompanied by a sharp diminishing of population's standard of living, can not last. After the 1999 crisis a slow economic recovery is starting in the country, which is shown by +1% real GDP growth during 2000-2002, and only after year 2003 an acceleration is forecast, which reaches +5% in 2005.



Inflation

As it was already mentioned, that the country will undergo an acute lack of financial resources, which will inevitably lead to new issuance of money in circulation, i.e. to an increase of inflation rate. At the end 1998 inflation might grow up to 25% annually, and by end 1999 – it could sharply increase to 80%.

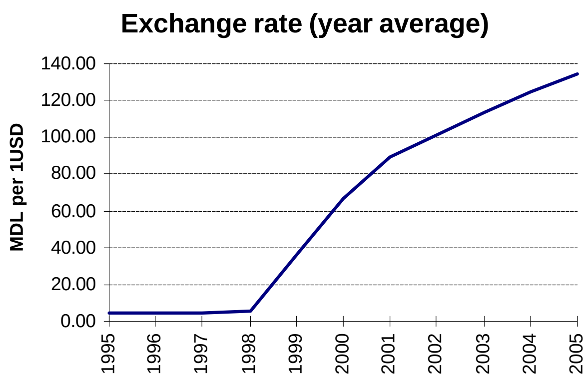


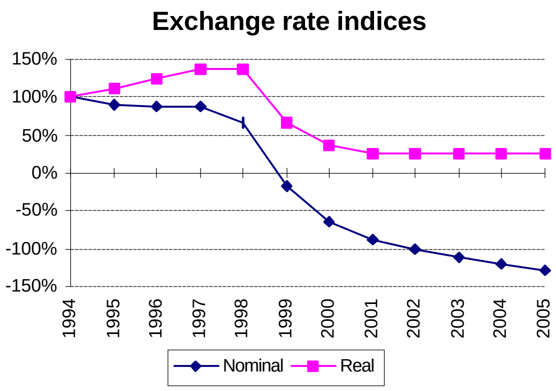
In the forthcoming years, because of the reestablishing of collaboration with IMF and WB, the tendency will arise of gradual reduction of inflation rate up to 14% annually in 2002, further dropping to 8% in 2005, which will prove the success of the Central Bank in implementing an austere monetary policy boosted by IMF.

Exchange rate

One of painful negative aspects of the 1999 crisis is the massive devaluation of the national currency. In fact, as it was already mentioned, the country will undergo the "Bulgarian" way, when the exchange rate is blowing up, causing a big disequilibrium of the country's financial system.

According to this scenario, in 1999 the exchange rate of the national currency blows up, generating a drastic depreciation – by 6.2 times against US dollar, and in real terms, by 3.4 times. Annual average of nominal exchange rate reaches 5.8 lei/1USD, further on exploding to 36 lei/1USD in 1999. Under these conditions nominal GDP per capita could fall dramatically to about US$ 80.





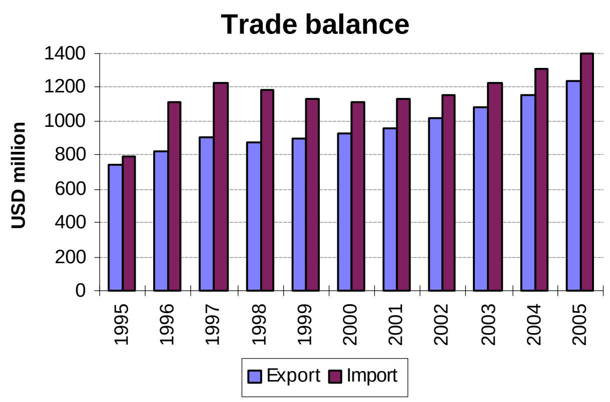
Further on, because of the big BOP deficit, there will be 2 more years of leu's falling, with a gradually reducing pace, so that in 2002 the NBM adopts a policy of crawling peg exchange rate, i.e. Moldovan leu is each year nominally depreciated according to the evolution of inflation rate. Therefore in year 2005 the exchange rate of Moldovan leu against US dollar will stabilize at 135 lei/1USD.

Balance of Payments

Current account

Trade balance

Due to the complicated situation on the macro and micro level, lack of foreign direct investments and of business confidence, it is clear that country's export potential will be lowered. In 1998 there is a small decline in ***exports***, while in the following years, although export growth rates are positive, they will be too modest comparing to the evolution foreseen by the optimistic scenario.



More drastic is the reduction of ***imports*** – by about 1% in 1998, and by 2-3% in 1999-2000. The cause is in lack of resources for imports financing. The country simply is not able to finance a bigger level of imports: at the very moment when we tried to forecast an increase of imports just by 2% in 1999, we got a trade deficit which generated an overall BOP balance of US$ 275m, which was impossible to be financed by the country. This will press on leu devaluation, higher prices with all other severe consequences.

Starting the year 2002 we see a significant increase of imports, caused by the flow of direct investments, that generates imports of technical equipment, machinery etc.

Conclusion: trade deficit will be quite high, and in 2002, when it is minimal, it is anyway 1.7 times bigger than in the same period of optimistic scenario.

Services

Transportation, including transit, will continue to account for a significant share of this sphere. Thus, the evolution of services will follow the same trend as in the optimistic scenario, but at a lower pace. On the other hand, due to lack of financial resources in the tourism (which in fact could be an important source of income for Moldova) there are no important investments here.

Income

Similarly to the optimistic scenario, net income of the state will considerably depend on the remittances from Moldovan citizens working abroad. They will have a larger scale than in optimistic scenario, because under conditions of worsening of economic situation, the wages will significantly decrease and the unemployment will rise, which will prompt the people to go abroad looking for jobs.

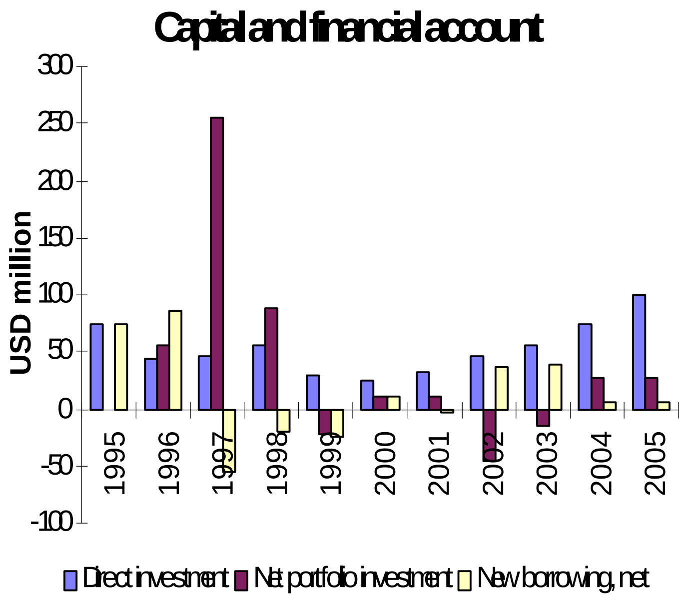
As regards the issuance of state securities, to point out is, that under conditions of worsening of macroeconomic situation of the country and altering of Moldova's image in the world, it is quite improbably that foreign investors will continue to show the same interest in acquiring these securities, because the risk will be considered too high.

Transfers

Public transfer would probably have the same evolution as in the optimistic scenario, because under circumstances, when external financing is reduced, the grants and humanitarian aid will be provided in any case.

Financial and capital account

Direct investment



Due to the crisis in economy, foreign direct investments will initially reduce by 2 times, and afterwards, starting the year 2001 they will have a continuous growth, however in 2005 their share reaches only US$ 100m, comparing to those US$ 200m in the optimistic scenario.

Portfolio investment

Completely different from the optimistic scenario the country will not be able to issue Eurobonds or other private placements abroad (except for the year 2002, when it will be managed to issue a US$ 20m bond).

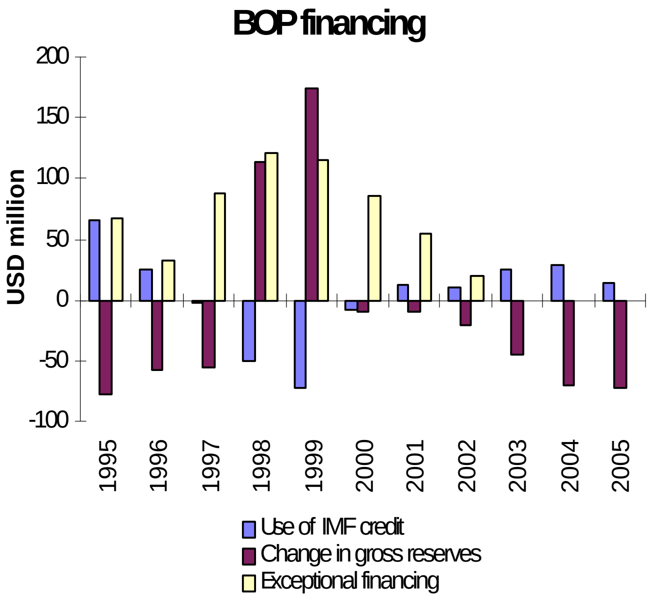
First of all, bad economic situation of the country will drastically reduce its credit rating, which will immediately disperse the potential foreign investors. Secondly, these placements are quite expensive for a country, which does not have any other financial resources, because of the high credit risk, it will have to pay a high interest rate, and also, their maturity is quite short.

However, it should be mentioned, that already under circumstances, when there will be no other private placements, consequences of those previous private placements through Merrill Lynch will be quite painful, because in 1999, and respectively 2002, Moldova will have to pay them back completely, and this under conditions of worsening of situation with foreign debt servicing, plus chronic lack of financial resources.

Long and medium loans
Financing
Use of IMF loans
Change in gross official reserves

At this point the country will have to face very difficult problems. Because of delays and inconsistency in implementing structural reforms advised by international financial institutions, unwillingness of some local decision makers to implement those reforms, as well as non-compliance of country's governing bodies with the memorandum agreed with the World Bank and IMF, the latter reduce drastically the programs of assistance to Moldova. This considerably aggravates the situation on macro level, because it is obvious that without the financial support from international financial institutions granted on quite favorable terms, Moldovan economy will not be able to survive.

Thus, in 1999 new borrowing from international financial institutions (IMF, WB, EBRD and others) are practically blocked. At the same time Moldova has to service its state external debt, that (together with IMF loans) in 1998-1999 will demand over US$ 170m per year – money which at that moment would cost the country very much. This is clearly shown in the scenario: in 1999 Moldova will have a negative balance of capital and financial account, that is extremely dangerous for any country in the world.



Where these funds will be taken from? The scenario gives a pretty clear answer to this question: it is enough to look at the evolution of gross official reserves, which in 1998-1999 show a dramatic reduction by almost US$ 280m (!). Under such circumstances the volume of NBM's gross forex reserves will drop to about US$ 80m in 1999 (equivalent of less than one month of import), i.e. will reduce by about 4.5 times comparing to 1997. But let's not forget that out of foreign exchange gross reserves 36%, or US$ 234m (as of end-1997), are net reserves, i.e. NBM's own funds, that in 1999 will be completely exhausted, reaching a negative value.

Another part of the necessary expenditures will be covered on the account of so-called "Other flows", or exceptional financing. It should be stressed out, that these "Other flows" are just some estimates of what the country would need in order to cover its expenditures, and thus they are not funds 100% available at the respective moment. If, for instance, out of those US$ 100m which are necessary for covering the BOP financing in 1999, one half will not be available, then NBM's forex reserves would drop not by US$ 190m, but by US$ 240m, which will represent a financial crisis, because the NBM's gross reserves would be only US$ 30m. Therefore, sustainability of the monetary policy under this scenario is very seriously questionable.

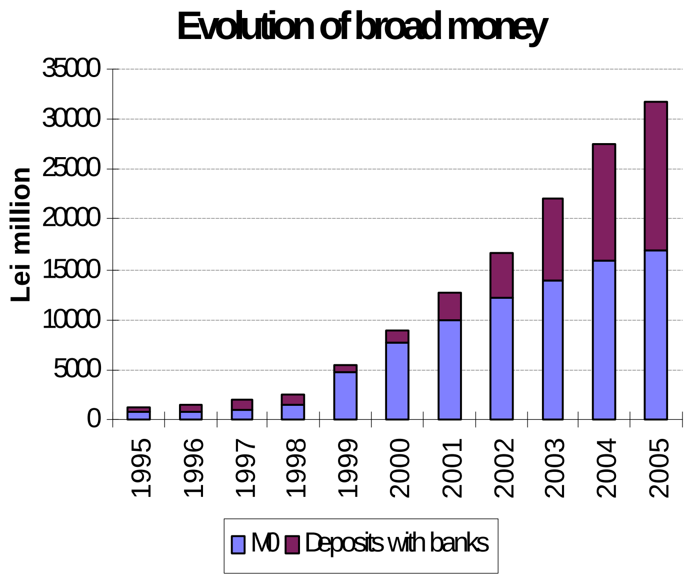
Finally, it should be noted, that if everything goes according to the scenario, than in 2005 the amount of gross foreign exchange reserves of NBM will reach US$ 303m, i.e. approximately the level of year 1996.

Monetary aggregates (NBM)

Net Foreign Assets convertible, consisting of state's net foreign exchange reserves, are in a dramatic decline, below -260 million lei in 1999, afterwards slowly increasing, reaching in 2005 almost 11.5 billion lei.

Net Domestic Assets might also considerably increase in terms of lei, due to massive devaluation of the national currency.

Due to acute insufficiency of financial resources for covering budget deficit in 1999 and 2002, the NBM is imposed to lend to the government an equivalent in lei of respectively US$ 50m and US$ 15m, which very much improves the situation because of the exchange rate devaluation (loans are granted in USD, converted into lei). At the same time, the evolution of NBM's refinancing rate is deteriorating dramatically. Because of big inflationary pressures, annual refinancing rate becomes negative in real terms during 1999-2000, and only starting 2002 real refinancing rate could become positive again, along with continuous reduction of the inflation rate.



Reserve money and M_0 could also considerably grow, caused by devaluation of national currency. The amount of money in circulation will be in excess, and on the other hand the process of dollarization of the economy is widening. Population does not trust the devalued leu, thus preferring to convert available money into US dollars, avoiding their placing on bank accounts, for instance because of unfavorable interest rates on deposits – a typically phenomenon in a inflationary environment. Only after 2002 on restarting the non-inflationary monetary policy boosted by IMF, monetary base and cash in circulation will begin to stabilize.

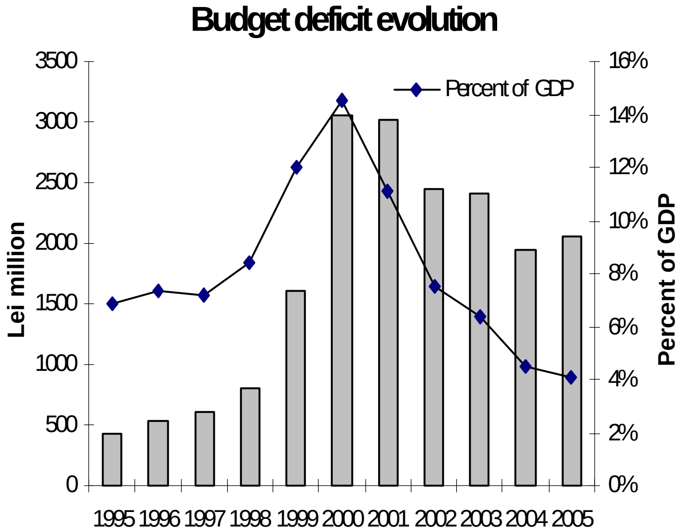
Broad Money M_3 is evolving quite dramatically. Money multiplier is decreasing from 1.7 in 1997 to 1.1 in 1999, which shows a drastic reduction of deposits with commercial banks. Share of deposits in broad money drops to 11% in 1999. In forthcoming years, due to general stabilization of economy, and of the monetary system in particular, the phenomenon of dollarization is diminishing, so that deposits of households and economic agents with banks are gradually increasing, and this leads to a growth of credit investments into the economy. Only in 2005 share of deposits in broad money reaches according to the scenario 47%.

State budget

This scenario describes the situation when the control will be lost on the level of budget deficit under conditions when there will be no measures of acceleration of structural reforms, the process of privatization and liberalization of national economy will be stopped, as well as there will be groundless severe economic protectionism measures undertaken. Moreover, implementation of non-tight monetary and fiscal policies, continuous reduction of real GDP, will generate an aggravation of the situation of state debt (debt rollover can be out of control).

Under such circumstances, the budget and fiscal system will be at a limit of total crisis, budget expenditures being enormous, non-covered by sufficient financial resources. External funds become more and more difficult to get, because of restrictions set by international financial institutions and low credit rating of the Republic of Moldova on international financial markets.

Consolidated budget deficit reaches in 1999 the level of 12% of GDP, and in 2000 – 14.5% of GDP. And this happens under conditions, when due to the lack of funds during 1999-2002 there will not be repaid (will be rescheduled) external payments amounting to more than US$ 80m, of debt to Russia, with regards mainly to paying back the principal to Gazprom.



In conditions of massive devaluation of national currency in 1999 the lei equivalent will considerably increase of USD funds needed for repaying the interest for external loans granted to the country. Also, it should be stressed out, that because of the big reduction of new borrowing, the deficit financing out of external sources is sharply deteriorating. Another specific aspect, during the devaluation of leu, is the continuous increase of the share of NBM's profit in budget revenue. The main sources of NBM's profit are from granting refinancing loans to the commercial banks, and profit which comes from placing official foreign exchange reserves abroad (i.e. performance of investment portfolio managed by NBM's forex dealers), the latter having the biggest share when the currency is depreciating. However, it should be remarked, that because of the reduction of NBM's gross reserves, the profit gained from their placement is decreasing.

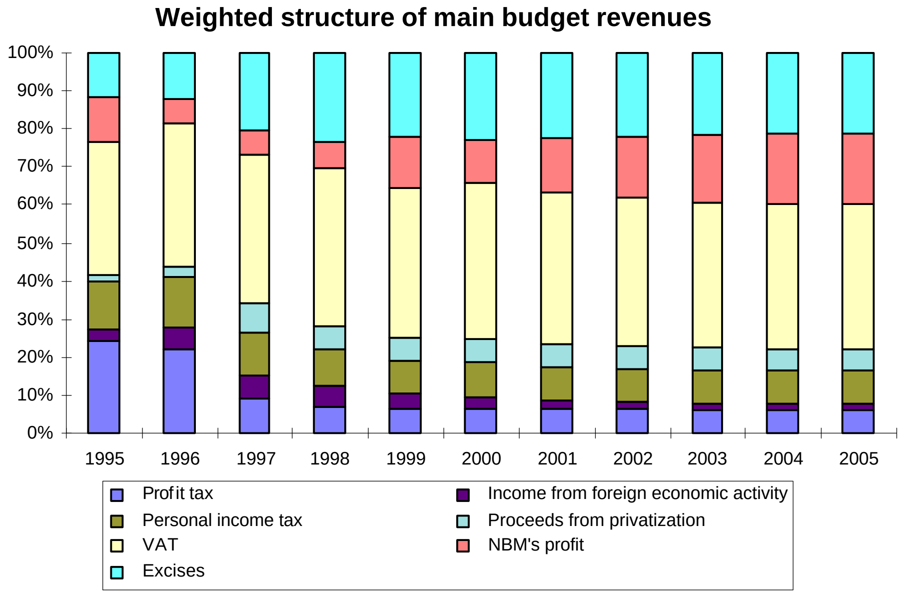
Evolution of budget income and expenditures during 1999-2005 is forecast taking into account the following assumptions:

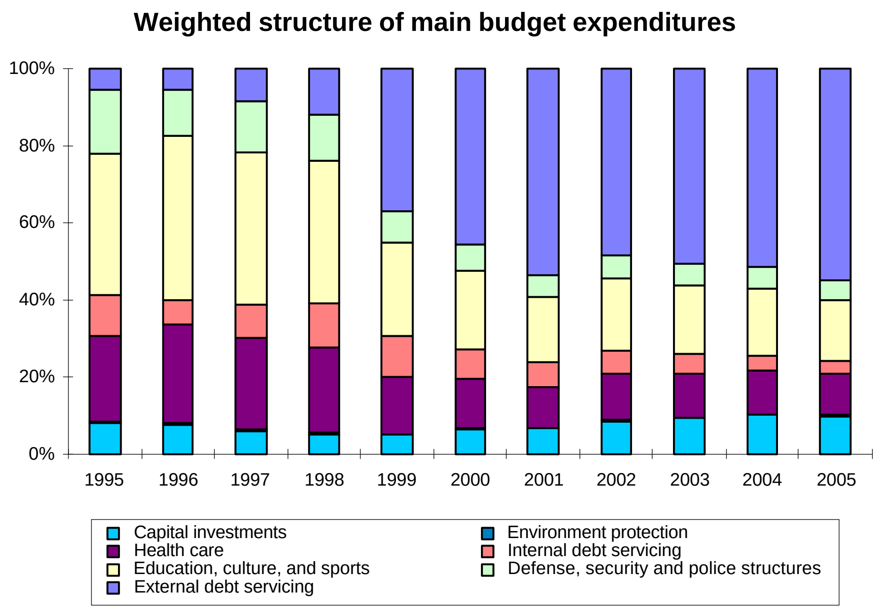
• structural reforms will be stopped, being maintained old social infrastructure, central and local public administration, and reform of force structures will not be implemented;

• taking into account the above mentioned, the main accent was put on the evolution of inflation, i.e. both public income and expenditures will greatly depend on evolution of prices;

• funds for financing budget deficit will be quite expensive, due to the increase of interest rate.

The structure of budget revenues and expenditures is presented in charts below:



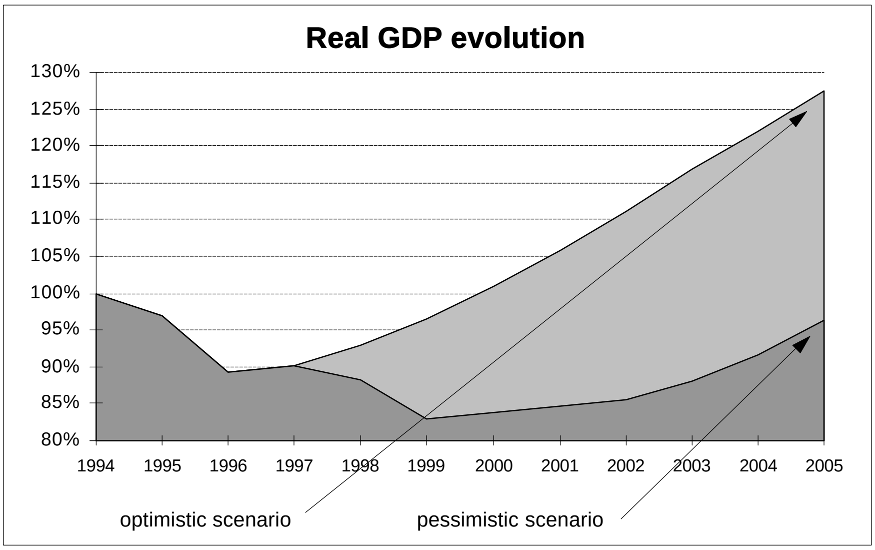


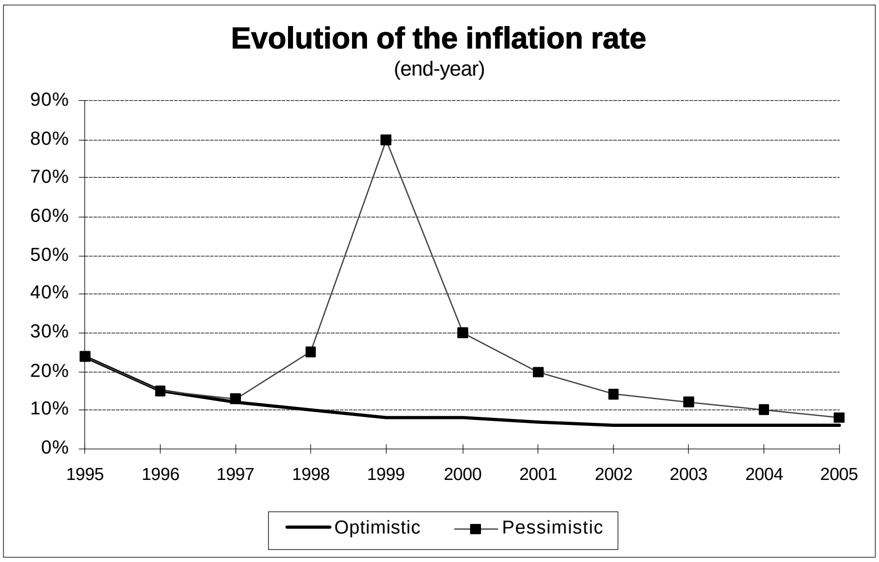
Under such circumstances, tensions on budget are inevitable, therefore determining the change in social infrastructure, and consequently slow structural reforms starting year 2002. The result of such actions can be reduction of budget deficit down to 4.1% of GDP in 2005.

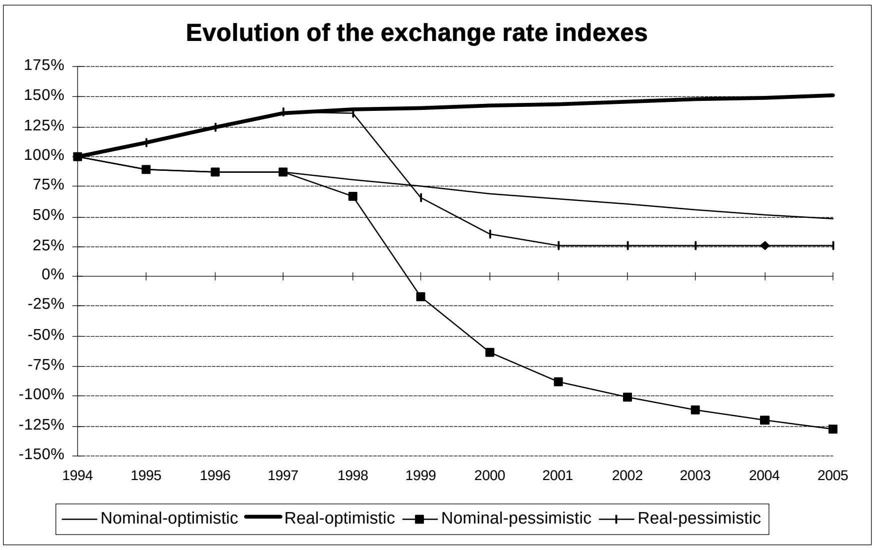
However, it should be mentioned, that the situation in budget-fiscal sector could be even more difficult taking into account the insignificant forecast economic growth, as well as other structural factors.

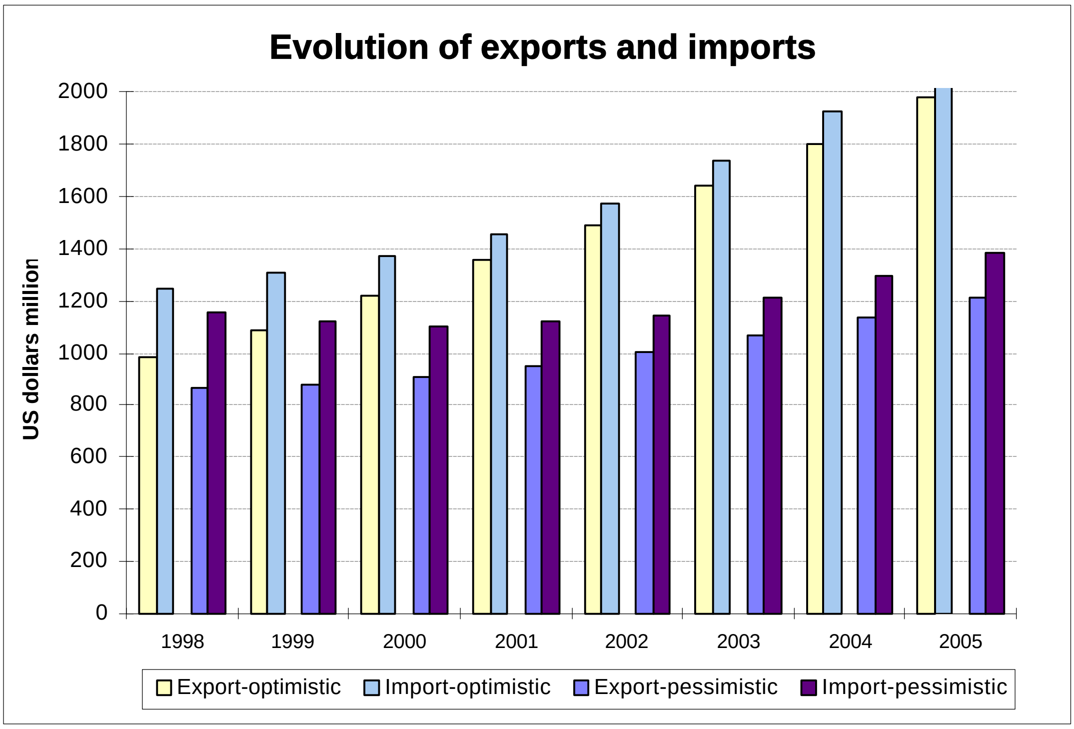
Conclusion: unlike in the optimistic scenario, in the present one the problems of the entire economy will be drawn upon the budget-fiscal sector, and the success in improving the situation will greatly depend on the reforms implemented in this sector.

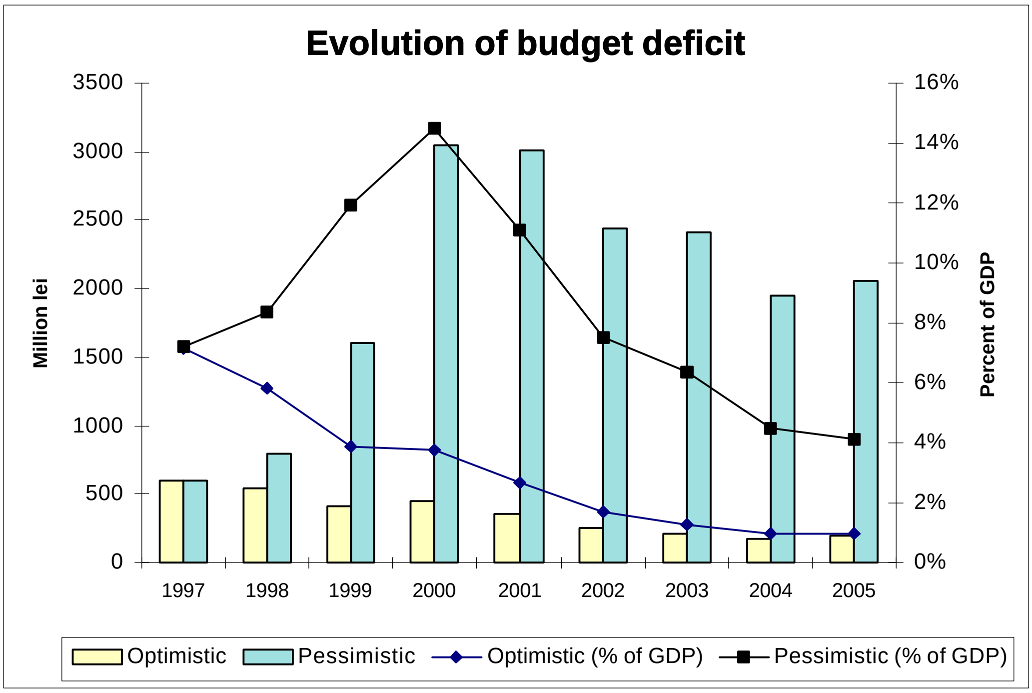
Optimistic and pessimistic scenarios: comparative charts

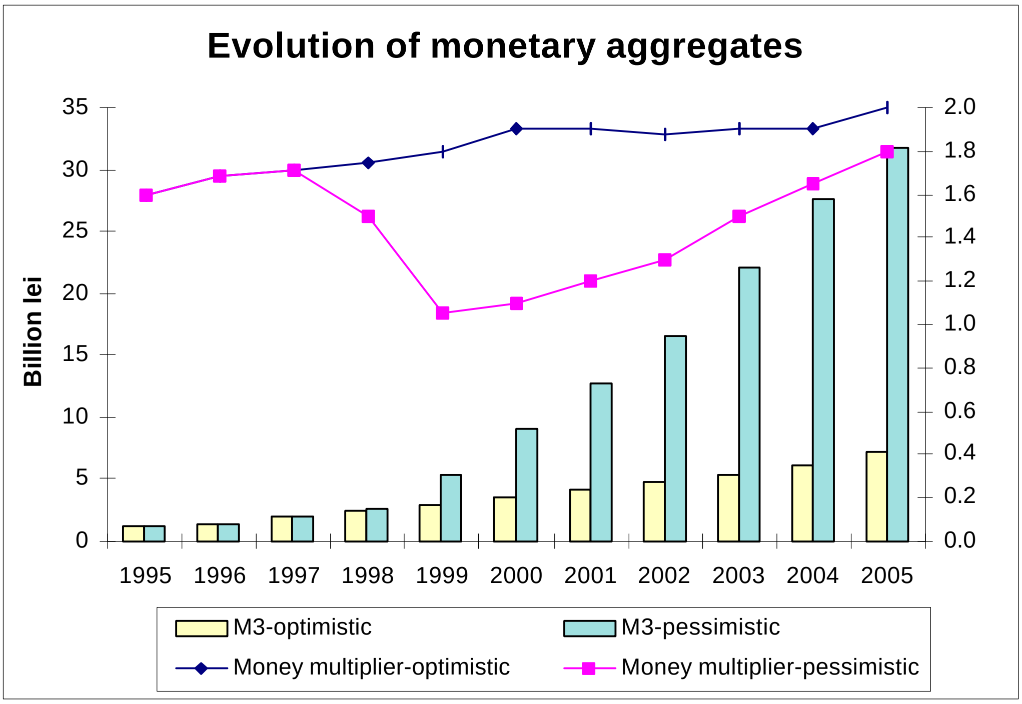


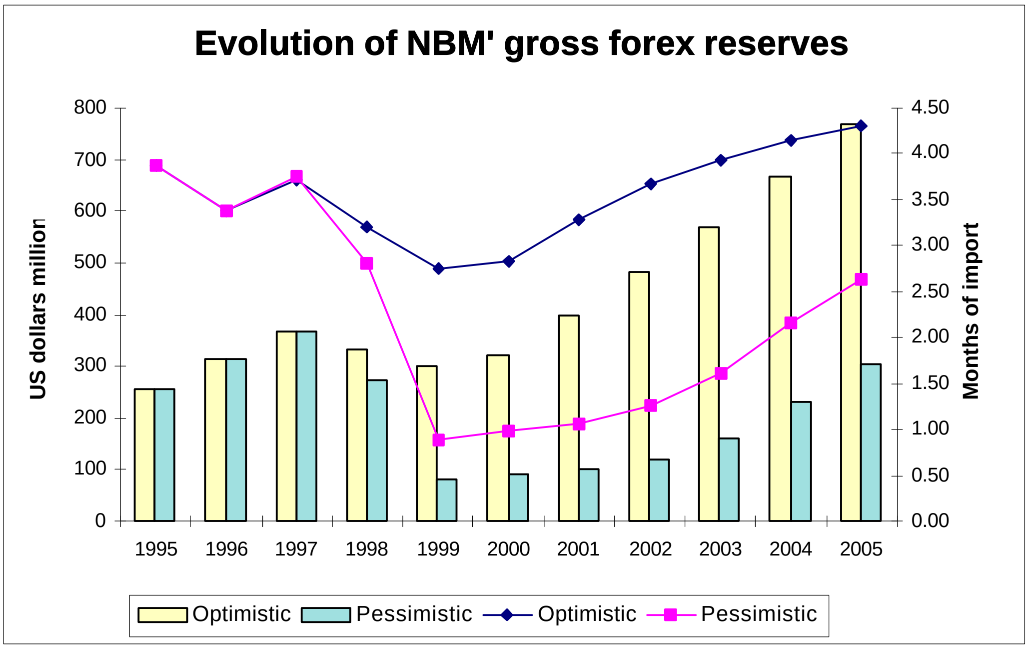





Evolution of exports and imports
US dollars million
2000
1800
1600
1400
1200
1000
800
600
400
200
0
1998
1999
2000
2001
2002
2003
2004
2005
Export-optimistic
Import-optimistic
Export-pessimistic
Import-pessimistic


Evolution of budget deficit
Million lei
3500
3000
2500
2000
1500
1000
500
0
16%
14%
12%
10%
8%
6%
4%
2%
0%
Percent of GDP
1997
1998
1999
2000
2001
2002
2003
2004
2005
Optimistic
Pessimistic
Optimistic (% of GDP)
Pessimistic (% of GDP)


Evolution of monetary aggregates
Billion lei
35
30
25
20
15
10
5
0
2.0
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
M3-optimistic
M3-pessimistic
Money multiplier-optimistic
Money multiplier-pessimistic


Evolution of NBM' gross forex reserves
US dollars million
800
700
600
500
400
300
200
100
0
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Months of import
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
Optimistic
Pessimistic
Optimistic
Pessimistic

MAIN MACROECONOMIC INDICATORS

Optimistic scenario

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Real GDP growth rate	-3.0%	-8.0%	1.3%	3.0%	4.0%	4.5%	5.0%	5.0%	5.0%	4.5%	4.5%
Nominal GDP (excl. Transnistria), lei million	6375	7317	8655	9806	11014	12431	13966	15544	17300	19164	21228
Nominal GDP, in percent over previous year	134.6%	114.8%	118.3%	113.3%	112.3%	112.9%	112.4%	111.3%	111.3%	110.8%	110.8%
Nominal GDP, USD million	1417	1591	1876	1998	2109	2238	2388	2552	2727	2899	3083
Inflation rate (end period)	23.8%	15.1%	11.2%	10.0%	8.0%	8.0%	7.0%	6.0%	6.0%	6.0%	6.0%
Inflation rate (average)	30.0%	24.0%	12.0%	11.0%	9.0%	8.5%	7.5%	6.5%	6.0%	6.0%	6.0%
Average exchange rate, lei/1USD	4.50	4.60	4.61	4.91	5.22	5.56	5.85	6.09	6.34	6.61	6.88
Nominal annual appreciation(+)/depreciation(-)	–10.5%	–2.2%	–0.3%	–6.0%	–6.0%	–6.0%	–5.0%	–4.0%	–4.0%	–4.0%	–4.0%
Real annual appreciation(+)/depreciation(-)	+12.0%	+12.6%	+10.9%	+3.4%	+1.5%	+1.5%	+1.7%	+1.8%	+1.8%	+1.8%	+1.8%
Comparison: crowling peg exchange rate, lei/1USD	–	–	4.61	5.08	5.48	5.92	6.33	6.71	7.12	7.54	8.00

Pessimistic scenario

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Real GDP growth rate	-3.0%	-8.0%	1.3%	-2.0%	-6.0%	1.0%	1.0%	1.0%	3.0%	4.0%	5.0%
Nominal GDP (excl. Transnistria), lei million	6375	7317	8655	9881	13933	21812	28198	33607	39288	45354	51908
Nominal GDP, in percent over previous year	134.6%	114.8%	118.3%	114.2%	141.0%	156.6%	129.3%	119.2%	116.9%	115.4%	114.5%
Nominal GDP, USD million	1417	1591	1876	1704	387	326	317	331	346	363	385
Inflation rate (end period)	23.8%	15.1%	11.2%	25.0%	80.0%	30.0%	20.0%	14.0%	12.0%	10.0%	8.0%
Inflation rate (average)	30.0%	23.5%	12.0%	16.5%	50.0%	55.0%	28.0%	18.0%	13.5%	11.0%	9.0%
Average exchange rate, lei/1USD	4.50	4.60	4.61	5.80	36.00	67.00	89.00	101.46	113.64	125.00	135.00
Nominal annual appreciation(+)/depreciation(-)	–10.5%	–2.2%	–0.3%	–20.4%	–83.9%	–46.3%	–24.7%	–12.3%	–10.7%	–9.1%	–7.4%
Real annual appreciation(+)/depreciation(-)	+12.0%	+12.6%	+10.9%	–0.6%	–71.0%	–30.1%	–9.7%	0	0	0	0
Nominal depreciation, times	1.11	1.02	1.00	1.26	6.21	1.86	1.33	1.14	1.12	1.10	1.08

BALANCE OF PAYMENTS, optimistic scenario

USD million	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Trade balance	**-53.4**	**-285.1**	**-280.0**	**-263.9**	**-218.2**	**-152.9**	**-101.1**	**-82.1**	**-98.2**	**-125.4**	**-157.2**
Export	740.6	828.1	900.0	981.0	1088.9	1219.6	1353.7	1489.1	1638.0	1801.8	1982.0
Export, yr/yr		111.8%	108.7%	109.0%	111.0%	112.0%	111.0%	110.0%	110.0%	110.0%	110.0%
Import	-794.0	-1113.1	-1180.0	-1244.9	-1307.1	-1372.5	-1454.9	-1571.2	-1736.2	-1927.2	-2139.2
Import, yr/yr		140.2%	106.0%	105.5%	105.0%	105.0%	106.0%	108.0%	110.5%	111.0%	111.0%
Services, net	-98.6	-57.1	-60	-55	-50	-45	-40	-35	-30	-25	-20
Income, net	-29.0	55.1	35.0	-0.9	2.3	-6.6	3.4	6.2	1.8	-0.4	5.6
Incl. remittances from work. abroad	–	80	80	100	100	90	90	90	90	90	90
Current transfers, net	35	73.1	67	65	65	65	65	60	60	60	60
Current account	**-146.0**	**-214.0**	**-238.0**	**-254.8**	**-201.0**	**-139.5**	**-72.7**	**-50.9**	**-66.4**	**-90.8**	**-111.6**
Capital and financial account	**71.0**	**192.7**	**215.0**	**187.0**	**140.7**	**151.0**	**134.8**	**117.5**	**146.9**	**183.0**	**224.9**
Direct investment	73	44.6	45	80	100	100	110	120	150	180	200
Portfolio investment, net	0.0	54.8	240.0	119.0	55.7	51.0	34.8	-12.5	11.9	8.0	34.9
Medium and long term loans, net	74	87	-56	-12	-15	0	-10	10	-15	-5	-10
New borrowing	132	120	65	90	95	80	70	105	80	85	95
Debt servicing	-58	-33	-121	-102	-110	-80	-80	-95	-95	-90	-105
Other capital flows, net	-76	6.34	-14	0	0	0	0	0	0	0	0
Errors and ommissions	21	21	15	0	0	0	0	0	0	0	0
Overall balance	**-54**	**-0.4**	**-8.0**	**-67.9**	**-60.2**	**11.5**	**62.1**	**66.6**	**80.5**	**92.3**	**113.2**
Financing	54	0.4	8.0	67.9	60.2	-11.5	-62.1	-66.6	-80.5	-92.3	-113.2
Use of IMF credit	65	25.1	-1.6	-20.8	-17.5	12.1	13.1	16.0	8.2	3.8	-10.5
New borrowing	57.3	30.4	20.3	50	54.3	40	30	40	40	30	20
Principal repayment	0	7.6	21.8	70.8	71.8	27.9	16.9	24.0	31.8	26.2	30.5
Change in gross reserves	-78	-57.3	-56.3	34	33	-23.5	-75.3	-82.6	-88.7	-96.0	-102.7
Other flows	67	32.5	66	55	45	0	0	0	0	0	0
NBM gross forex reserves	**256.4**	**313.7**	**365.7**	**332.1**	**299.4**	**322.9**	**398.2**	**480.8**	**569.5**	**665.5**	**768.2**
NBM net forex reserves	**26**	**66.1**	**131.6**	**129.1**	**122.8**	**140.6**	**207.5**	**277.5**	**361.2**	**455.9**	**570.9**
Debt to IMF	230.4	247.6	234.1	203.0	176.6	182.2	190.7	203.2	208.3	209.6	197.3
Gross reserves in months of import	3.88	3.38	3.72	3.20	2.75	2.82	3.28	3.67	3.94	4.14	4.31
Share of net reserves in gross reserves	10.1%	21.1%	36.0%	38.9%	41.0%	43.6%	52.1%	57.7%	63.4%	68.5%	74.3%

MONETARY AGGREGATES, optimistic scenario

Lei million	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net foreign assets NFA	**129.1**	**269.0**	**495.3**	**501.4**	**481.6**	**560.6**	**830.9**	**1108.8**	**1442.6**	**1824.4**	**2292.3**
NFA convertible (net forex reserves)	118.0	263.0	489.4	495.1	475.0	553.5	823.5	1101.1	1434.6	1816.1	2283.7
Gross foreign exchange reserves	1155.0	1417.0	1558.5	1459.1	1347.6	1490.9	1834.0	2199.8	2584.2	2996.9	3419.1
Debt to IMF	-1037.0	-1154.0	-1069.1	-964.0	-872.6	-937.4	-1010.5	-1098.7	-1149.5	-1180.8	-1135.4
NFA non-convertible	11.1	6.0	5.9	6.3	6.6	7.0	7.4	7.7	8.0	8.3	8.6
Net domestic assets NDA	**652.4**	**585.0**	**627.3**	**909.3**	**1156.5**	**1318.3**	**1309.5**	**1384.8**	**1380.3**	**1372.9**	**1330.8**
Net claims on government	431.4	369.7	511.8	563.0	608.0	656.7	702.6	894.8	921.6	949.3	977.8
Net credit to banks	366.5	362.6	273.3	407.4	427.8	444.9	462.7	499.7	529.7	561.5	595.2
Other assets, net	-145.5	-147.3	-157.8	-61.1	120.7	216.8	144.2	-9.7	-71.1	-137.9	-242.1
Reserve money=NFA+NDA=M_0+BR	**781.5**	**854.0**	**1122.6**	**1410.6**	**1638.1**	**1878.9**	**2140.4**	**2493.6**	**2822.9**	**3197.3**	**3623.1**
In percent over previous year	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%
Lei cash in circulation M_0	**638.8**	**731.1**	**972.0**	**1234.4**	**1444.3**	**1675.4**	**1926.7**	**2273.5**	**2591.8**	**2954.6**	**3368.3**
In percent over previous year	184.9%	114.4%	133.0%	127.0%	117.0%	116.0%	115.0%	118.0%	114.0%	114.0%	114.0%
Banks' reserves BR	140.4	122.9	150.6	176.2	193.8	203.5	213.7	220.1	231.1	242.7	254.8
In percent over previous year	69.7%	87.5%	122.5%	117.0%	110.0%	105.0%	105.0%	103.0%	105.0%	105.0%	105.0%
Broad money M_3	**1243.8**	**1434.1**	**1922.2**	**2468.6**	**2948.6**	**3569.9**	**4066.7**	**4688.0**	**5363.5**	**6074.9**	**7246.1**
In percent over previous year	165.2%	115.3%	134.0%	128.4%	119.4%	121.1%	113.9%	115.3%	114.4%	113.3%	119.3%
Money multiplier	**1.6**	**1.7**	**1.7**	**1.8**	**1.8**	**1.9**	**1.9**	**1.9**	**1.9**	**1.9**	**2.0**
Commercial banks' deposits	605.0	703.0	950.2	1234.2	1504.3	1894.5	2140.0	2414.5	2771.7	3120.2	3877.9
Share of deposits in M_3	48.6%	49.0%	49.4%	50.0%	51.0%	53.1%	52.6%	51.5%	51.7%	51.4%	53.5%

STATE CONSOLIDATED BUDGET, optimistic scenario

Lei million	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revenue	**2537.8**	**2838.7**	**3277.0**	**3527.5**	**3930.8**	**4295.8**	**4669.3**	**5050.5**	**5461.5**	**5907.3**	**6311.5**
Share of revenue in GDP	39.8%	38.8%	37.9%	36.0%	35.7%	34.6%	33.4%	32.5%	31.6%	30.8%	29.7%
Direct taxes	697.6	709.0	520.0	555.0	655.0	760.0	840.0	925.0	1020.0	1115.0	1175.0
Profit tax	392.5	358.6	180.0	180.0	200.0	225.0	245.0	270.0	290.0	315.0	325.0
In percent over previous year		91.4%	50.2%	100.0%	111.1%	112.5%	108.9%	110.2%	107.4%	108.6%	103.2%
Personal income tax	201.5	219.1	220.0	200.0	230.0	260.0	285.0	310.0	340.0	380.0	400.0
In percent over previous year		108.7%	100.4%	90.9%	115.0%	113.0%	109.6%	108.8%	109.7%	111.8%	105.3%
Land tax	91.7	115.8	100	125	150	175	190	205	225	230	240
Real estate tax	11.9	15.5	20	50	75	100	120	140	165	190	210
Indirect taxes	806.1	905.2	1270.0	1445.8	1630.2	1792.6	1970.5	2138.5	2308.4	2500.2	2694.3
Share of indirect taxes in total revenue	31.8%	31.9%	38.8%	41.0%	41.5%	41.7%	42.2%	42.3%	42.3%	42.3%	42.7%
VAT	568.4	613.9	750	850	945	1050	1160	1260	1370	1510	1650
In percent over previous year		108.0%	122.2%	113.3%	111.2%	111.1%	110.5%	108.6%	108.7%	110.2%	109.3%
Excises	186.4	196.5	400	465	540	580	630	680	720	750	780
In percent over previous year		105.4%	203.6%	116.3%	116.1%	107.4%	108.6%	107.9%	105.9%	104.2%	104.0%
Income from foreign economic activity	51.3	94.8	120	130.8	145.2	162.6	180.5	198.5	218.4	240.2	264.3
In percent over previous year		184.8%	126.6%	109.0%	111.0%	112.0%	111.0%	110.0%	110.0%	110.0%	110.0%
Other fiscal revenue	26.8	41.6	45	50	65	75	80	90	100	100	110
Non-fiscal revenue	385.2	418.2	522.0	466.7	460.6	458.2	478.8	486.9	513.1	562.1	582.3
National Bank's profit	190.1	106.1	127.0	121.7	110.6	113.2	123.8	136.9	153.1	172.1	192.3
Proceeds from privatization	24.5	37.7	150	120	110	80	75	70	70	80	70
Other revenues	170.6	274.4	245	225	240	265	280	280	290	310	320
Contributions into social fund	622.1	764.7	920	1010	1120	1210	1300	1410	1520	1630	1750
Expenditure	**2972.6**	**3377.8**	**3867.6**	**4073.6**	**4336.9**	**4741.9**	**5028.5**	**5303.7**	**5672.9**	**6082.1**	**6508.3**
Share of expenditure in GDP	46.6%	46.2%	44.7%	41.5%	39.4%	38.1%	36.0%	34.1%	32.8%	31.7%	30.7%
Expenditures, including:	2279.1	2785.6	2977.6	3113.6	3256.9	3551.9	3743.5	3903.7	4162.9	4462.1	4768.3
Environment protection	7.6	6.5	7	8	8.5	9	9.5	10	10.5	11	11.5
Health care	375	522	520	525	540	560	580	610	620	640	650
Education, culture and sports	612.9	865	860	870	900	915	925	935	950	960	975
Defense, security and police structures	278.9	248.8	285	290	295	300	310	315	320	320	325
State debt servicing:	265.2	242.8	387.4	495.4	510.4	536.4	506.2	510.2	559.6	597.4	581.4
internal debt servicing	172.6	132	189	274.5	301.5	342	301.5	297	337.5	333	306
external debt servicing (interest)	92.6	110.8	198.4	220.9	208.9	194.4	204.7	213.2	222.1	264.4	275.4
external debt servicing, in $	20.5777778	24.0869565	43	45	40	35	35	35	35	40	40
Capital investments	132.8	155	130	130	150	170	185	200	220	250	250
Other expenditures	606.7	745.5	788.2	795.2	853.1	1061.4	1227.9	1323.5	1482.8	1683.7	1975.4
Net lending	71.4	-172.5	-30	-50	-40	-20	-15	-10	-10	-10	-10
Contributions into social fund	622.1	764.7	920	1010	1120	1210	1300	1410	1520	1630	1750
Deficit/surplus	**-434.8**	**-539.1**	**-590.5**	**-546.1**	**-406.1**	**-446.1**	**-359.2**	**-253.2**	**-211.4**	**-174.8**	**-196.7**
Deficit/surplus as % of GDP	**6.8%**	**7.4%**	**6.8%**	**5.6%**	**3.7%**	**3.6%**	**2.6%**	**1.6%**	**1.2%**	**0.9%**	**0.9%**
Deficit dinancing	437.4	546.1	590.5	546.1	406.1	446.1	359.2	253.2	211.4	174.8	196.7
Internal sources:	189.1	131.3	443	335	380	335	330	375	370	340	300
National Bank	111.9	-61.7	138	0	0	0	0	0	0	0	0
Banking system	68.6	41.7	150	160	180	155	150	175	170	160	135
Non-banking system	8.6	151.3	155	175	200	180	180	200	200	180	165
External sources:	248.3	414.8	147.5	211.1	26.1	111.1	29.2	-121.8	-158.6	-165.2	-103.3
Disbursements	421.8	468.4	507.5	392.7	496.1	305.5	233.9	639.6	349.0	363.5	378.7
new Eurobonds etc.	0	30	75	30	40	15	10	40	15	20	20
new state loans	93.7333	71.826	35	50	55	40	30	65	40	35	35
Principal repayment	-173.5	-53.6	-360	-181.6	-470.0	-194.4	-204.7	-761.4	-507.6	-528.7	-481.9
Principal repayment, in $	-38.6	-11.7	-78.0	-37	-90	-35	-35	-125	-80	-80	-70
Average exchange rate, lei/1USD	4.50	4.60	4.61	4.91	5.22	5.56	5.85	6.09	6.34	6.61	6.88

BALANCE OF PAYMENTS, pessimistic scenario

USD million	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Trade balance	**-53.4**	**-285.1**	**-300.0**	**-292.7**	**-244.9**	**-187.8**	**-169.8**	**-138.7**	**-149.5**	**-158.4**	**-169.5**
Export	740.6	828.1	870.0	865.7	878.6	909.4	948.5	1000.7	1063.7	1133.9	1213.3
Export, yr/yr		111.8%	105.1%	99.5%	101.5%	103.5%	104.3%	105.5%	106.3%	106.6%	107.0%
Import	-794	-1113.14	-1170.0	-1158.3	-1123.6	-1097.2	-1118.3	-1139.4	-1213.2	-1292.3	-1382.8
Import, yr/yr		140.2%	105.1%	99.0%	97.0%	97.7%	101.9%	101.9%	106.5%	106.5%	107.0%
Services, net	-98.6	-57.1	-60	-55	-55	-50	-50	-45	-45	-45	-40
Income, net	-29	55.1	35	-4.6	50.9	74.9	73.2	83.1	78.5	75.3	73.5
Incl. remittances from work. abroad	–	80	80	90	100	110	110	110	105	100	100
Current transfers, net	35	73.1	67	65	50	50	50	55	55	60	60
Current account	**-146**	**-214.0**	**-258.0**	**-287.2**	**-199.0**	**-112.9**	**-96.6**	**-45.6**	**-61.0**	**-68.2**	**-76.1**
Capital and financial account	**71**	**192.7**	**210.0**	**123.5**	**-18.3**	**44.4**	**37.4**	**35.5**	**77.5**	**109.2**	**133.2**
Direct investment	73	44.6	40	55	30	25	31	45	55	75	100
Portfolio investment, net	0	54.8	240.0	88.5	-23.3	9.4	9.4	-46.5	-15.5	28.2	28.2
Medium and long term loans, net	74	87	-56	-20	-25	10	-3	37	38	6	5
New borrowing	132	120	65	65	25	70	60	65	55	65	70
Debt servicing	-58	-33	-121	-85	-50	-60	-63	-28	-17	-59	-65
Other capital flows, net	-76	6.3	-14	0	0	0	0	0	0	0	0
Errors and ommissions	21	21	15	0	0	0	0	0	0	0	0
Overall balance	**-54**	**-0.4**	**-33.0**	**-163.7**	**-217.4**	**-68.5**	**-59.2**	**-10.1**	**16.5**	**41.0**	**57.1**
Financing	54	0.4	33.0	163.7	217.4	68.5	59.2	10.1	-16.5	-41.0	-57.1
Use of IMF credit	65	25.1	-1.6	-50.8	-71.8	-7.9	13.1	10.3	26.0	28.7	14.4
New borrowing	57.3184	30.4	20.3	20	0	20	30	30	45.7	40	30
Principal repayment	0	7.6	21.8	70.8	71.8	27.9	16.9	19.7	19.7	11.3	15.6
Change in gross reserves	-78	-57.3	-56.3	94.5	189.2	-8.6	-8.9	-20.1	-42.5	-69.6	-71.5
Other flows	67	32.5	91	120	100	85	55	20	0	0	0
NBM gross forex reserves	**256.4**	**313.7**	**365.7**	**271.2**	**82.1**	**90.7**	**99.6**	**119.7**	**162.2**	**231.8**	**303.2**
NBM net forex reserves	**26**	**66.1**	**131.6**	**98.3**	**-11.6**	**8.9**	**8.5**	**21.8**	**41.0**	**84.7**	**144.0**
Debt to IMF	230.4	247.6	234.1	173.0	93.7	81.7	91.1	97.9	121.2	147.1	159.3
Gross reserves in months of import	3.88	3.38	3.75	2.81	0.88	0.99	1.07	1.26	1.60	2.15	2.63
Share of net reserves in gross reserves	10.1%	21.1%	36.0%	36.2%	-14.1%	9.8%	8.6%	18.2%	25.3%	36.5%	47.5%

MONETARY AGGREGATES, pessimistic scenario

Lei million	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net foreign assets NFA	**129.1**	**269.0**	**495.3**	**452.7**	**-262.6**	**509.3**	**629.0**	**1570.9**	**3059.5**	**6539.4**	**11465.0**
NFA convertible (net forex reserves)	118.0	263.0	489.4	445.3	-308.6	423.7	515.2	1441.2	2914.2	6379.5	11292.4
Gross foreign exchange reserves	1155.0	1417.0	1558.5	1416.0	2881.8	5494.2	7859.9	10257.6	14891.1	22053.9	29264.4
Debt to IMF	-1037.0	-1154.0	-1069.1	-970.7	-3190.3	-5070.6	-7344.7	-8816.5	-11976.9	-15674.4	-17972.0
NFA non-convertible	11.1	6.0	5.9	7.4	46.0	85.7	113.8	129.7	145.3	159.8	172.6
Net domestic assets NDA	**652.4**	**585.0**	**627.3**	**1275.6**	**5430.1**	**7689.4**	**9980.9**	**11131.8**	**11635.5**	**10146.7**	**6199.0**
Net claims on government	431.4	369.7	511.8	767.7	1535.4	2487.3	3482.3	4178.7	4805.6	5286.1	5550.4
Net credit to banks	366.5	362.6	273.3	576.5	1153.1	1868.0	2615.2	3138.2	3608.9	3969.8	4168.3
Other assets, net	-145.5	-147.3	-157.8	-68.6	2741.6	3334.1	3883.4	3814.9	3221.0	890.7	-3519.7
Reserve money=NFA+NDA=M_0+BR	**781.5**	**854.0**	**1122.6**	**1728.4**	**5167.5**	**8198.7**	**10609.8**	**12702.7**	**14695.0**	**16686.1**	**17664.0**
In percent over previous year	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%	109.3%
Lei cash in circulation M_0	**638.8**	**731.1**	**972.0**	**1555.2**	**4821.1**	**7713.8**	**10027.9**	**12033.5**	**13958.9**	**15913.1**	**16867.9**
In percent over previous year	184.9%	114.4%	133.0%	160.0%	310.0%	160.0%	130.0%	120.0%	116.0%	114.0%	106.0%
Banks' reserves BR	140.4	122.9	150.6	173.2	346.4	484.9	581.9	669.2	736.1	772.9	796.1
In percent over previous year	69.7%	87.5%	122.5%	115.0%	200.0%	140.0%	120.0%	115.0%	110.0%	105.0%	103.0%
Broad money M_3	**1243.8**	**1434.1**	**1922.2**	**2592.6**	**5425.9**	**9018.6**	**12731.8**	**16513.5**	**22042.5**	**27532.0**	**31795.3**
In percent over previous year	165.2%	115.3%	134.0%	134.9%	209.3%	166.2%	141.2%	129.7%	133.5%	124.9%	115.5%
Money multiplier	**1.6**	**1.7**	**1.7**	**1.5**	**1.1**	**1.1**	**1.2**	**1.3**	**1.5**	**1.7**	**1.8**
Commercial banks' deposits	605.0	703.0	950.2	1037.4	604.8	1304.8	2703.9	4480.0	8083.6	11618.9	14927.3
Share of deposits in M_3	48.6%	49.0%	49.4%	40.0%	11.1%	14.5%	21.2%	27.1%	36.7%	42.2%	46.9%

STATE CONSOLIDATED BUDGET, pessimistic scenario

Lei million	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revenue	**2537.9**	**2838.7**	**3197.0**	**3273.3**	**5030.0**	**7595.0**	**9807.7**	**11704.3**	**13467.5**	**15291.2**	**17067.0**
Share of revenue in GDP	39.8%	38.8%	36.9%	33.1%	36.1%	34.8%	34.8%	34.8%	34.3%	33.7%	32.9%
Direct taxes	697.6	709	520	470	705	1092.8	1398.7	1650.5	1873.3	2079.4	2266.5
Profit tax	392.5	358.6	180	130	195	302.3	386.9	456.5	518.1	575.1	626.9
In percent over previous year		91.4%	50.2%	72.2%	150.0%	155.0%	128.0%	118.0%	113.5%	111.0%	109.0%
Personal income tax	201.5	219.1	220	180	270	418.5	535.7	632.1	717.4	796.4	868.0
In percent over previous year		108.7%	100.4%	81.8%	150.0%	155.0%	128.0%	118.0%	113.5%	111.0%	109.0%
Land tax	91.7	115.8	100	120	180	279	357.1	421.4	478.3	530.9	578.7
Real estate tax	11.9	15.5	20	40	60	93	119.0	140.5	159.4	177.0	192.9
Indirect taxes	806.1	905.2	1290	1369.4	1996.2	3031.7	3850.8	4527.6	5128.9	5686.6	6195.3
Share of indirect taxes in total revenue	31.8%	31.9%	40.3%	41.8%	39.7%	39.9%	39.3%	38.7%	38.1%	37.2%	36.3%
VAT	568.4	613.9	770	800	1200	1860	2380.8	2809.3	3188.6	3539.4	3857.9
In percent over previous year		108.0%	125.4%	103.9%	150.0%	155.0%	128.0%	118.0%	113.5%	111.0%	109.0%
Excises	186.4	196.5	400	450	675	1046.3	1339.2	1580.3	1793.6	1990.9	2170.1
In percent over previous year		105.4%	203.6%	112.5%	150.0%	155.0%	128.0%	118.0%	113.5%	111.0%	109.0%
Income from foreign economic activity	51.3	94.8	120	119.4	121.2	125.4	130.8	138.0	146.7	156.4	167.3
In percent over previous year		184.8%	126.6%	99.5%	101.5%	103.5%	104.3%	105.5%	106.3%	106.6%	107.0%
Other fiscal revenue	26.9	41.6	45	46	69	107.0	136.9	161.5	183.3	203.5	221.8
Non-fiscal revenue	385.2	418.2	522.0	507.9	939.8	1317.6	1802.3	2274.4	2774.5	3428.4	4139.7
National Bank's profit	190.1	106.1	127.0	137.9	384.8	457.3	701.2	975.0	1299.7	1791.5	2355.4
Share of NBM' profit in total revenue	7.5%	3.7%	4.0%	4.2%	7.7%	6.0%	7.1%	8.3%	9.7%	11.7%	13.8%
Proceeds from privatization	24.5	37.7	150	120	180	279	357.1	421.4	478.3	530.9	578.7
Other revenues	170.6	274.4	245	250	375	581.25	744	877.9	996.4	1106.0	1205.6
Contributions into social fund	622.1	764.7	820	880	1320	2046	2618.9	3090.3	3507.5	3893.3	4243.7
Expenditure	**2972.6**	**3377.8**	**3799.6**	**4071.7**	**6638.0**	**10645.0**	**12817.7**	**14145.7**	**15874.8**	**17246.2**	**19127.0**
Share of expenditure in GDP	46.6%	46.2%	43.9%	41.2%	47.6%	48.8%	45.5%	42.1%	40.4%	38.0%	36.8%
Expenditures, including:	2279.1	2785.6	2994.6	3171.7	5278.0	8537.0	10119.4	10961.8	12261.0	13232.9	14752.5
Environment protection	7.6	6.5	7	7.2	9.8	13	14	15	15.8	16.6	17.4
Health care	375	522	530	570	855	1325.3	1696.3	2001.7	2271.9	2521.8	2748.7
Education, culture and sports	612.9	865	900	920	1380	2139	2737.9	3230.7	3666.9	4070.3	4436.6
Defense, security and police structures	278.9	248.8	285	290	435	674.3	863.0	1018.4	1155.9	1283.0	1398.5
State debt servicing:	265.2	242.8	379	548.4	1768	2352	3279	2731.8	3008	3093	3583
State debt servicing, % of total expend.	11.6%	8.7%	12.7%	17.3%	33.5%	27.6%	32.4%	24.9%	24.5%	23.4%	24.3%
internal debt servicing	172.6	132	189	270	400	342	342	296.8	280.8	218	208
external debt servicing (interest)	92.6	110.8	190	278.4	1368	2010	2937	2435	2727.2	2875	3375
external debt servicing, in $	20.5777778	24.0869565	41.1790204	48	38	30	33	24	24	23	25
Capital investments	132.8	155	130	125	187.5	290.6	372	439.0	498.2	560	610.4
Other expenditures	606.7	745.5	763.6	711.1	642.7	1742.9	1157.1	1525.2	1644.3	1688.3	1958.0
Net lending	71.4	-172.5	-15	20	40	62	79.4	93.6	106.3	120.0	130.8
Contributions into social fund	622.1	764.7	820	880	1320	2046	2618.9	3090.3	3507.5	3893.3	4243.7
Deficit/surplus	**-434.7**	**-539.1**	**-602.5**	**-798.4**	**-1608**	**-3050**	**-3010**	**-2441.5**	**-2407.3**	**-1955.0**	**-2060**
Deficit/surplus as % of GDP	**6.8%**	**7.4%**	**7.0%**	**8.1%**	**11.5%**	**14.0%**	**10.7%**	**7.3%**	**6.1%**	**4.3%**	**4.0%**
Deficit dinancing	437.4	546.1	602.54	798.4	1608	3050	3010	2441.5	2407.3	1955.0	2060.0
Internal sources:	189.1	131.3	455	520	2940	1710	2120	3861.9	2180	2080	2060
National Bank	111.9	-61.7	90	100	1800	0	0	1521.9	0	0	0
National Bank - $ out of forex reserves	0	0	0	0	50	0	0	15	0	0	0
Banking system	68.6	41.7	200	220	590	890	1100	1210	1100	1100	1080
Non-banking system	8.6	151.3	165	200	550	820	1020	1130	1080	980	980
External sources:	248.3	414.8	147.54	278.4	-1332	1340	890	-1420.4	227.3	-125.0	0
Disbursements	421.8	468.4	507.54	493	180	3350	3560	6594.9	3977.2	4375.0	5399.9
new Eurobonds etc.	0	30	75	40	0	0	0	20	0	0	0
new state loans	93.7	71.8	35	45	5	50	40	45	35	35	40
Principal repaym. (with rescheduling)	-173.5	-53.6	-360	-214.6	-1512	-2010	-2670	-8015.3	-3750.0	-4500.0	-5399.9
Principal rep. in $ (with rescheduling)	-38.6	-11.7	-78.0	-37	-42	-30	-30	-79	-33	-36	-40
Principal repayment, total, in $	-38.6	-11.7	-78.0	-37	-90	-35	-40	-125	-35	-35	-55
Average exchange rate, lei/1USD	4.50	4.60	4.61	5.80	36.00	67.00	89.00	101.46	113.64	125.00	135.00