

Center for Strategic Studies and Reforms

Moldova in transition

ECONOMIC SURVEY

No. 8, 2001

Chişinău, July 2001

CENTRUL
*de Investigații Strategice
și Reforme*



CENTER
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PREFACE

In the new history of the Republic of Moldova each year is characterized by new changes. The current year – 2001 – is not an exception. The first half of this year is distinguished by outstanding contrasts. Traditionally, in Moldova politics badly impacts the economy. Suffice is to remind the years of 1995/1996, when the discrepancies between the political elite became a barrier to resuming the economic growth after a successful stage of macro-stability; or, the late 1999, when the turbulence in the parliament led to a sharp crisis in the cabinet of ministers and breach of relations with IMF and WB.

The contrast of the first half of 2001 consists in the fact, that the political and economic vectors, apparently were in headed in opposite directions. But this factor did not affect the economy.

On one hand there was a political turbulence: anticipated parliament elections (Feb. 2001), formation of the new cabinet of ministers (Apr. 2001), difficulties of the incipient stage of both legislative and executive powers' activity.

The emergence in power of left forces (Party of Moldovan Communists) stirred the hope of the population in returning to the "bright past" and changes to better.

On the other hand, despite political uncertainty and concerns of the entrepreneurial population, the economic evolvement occurred generally successfully. This creates prerequisites to the fact, that for the first time after 1989 in the Republic of Moldova for two years in a row an economic growth was observed: the GDP growth in 2000 accounted for 1.9% and in 2001 (estimate) – about 5-7%.

The reasons of the above are, seemingly, not only the exclusively favorable weather conditions of this year for agriculture (last year there was drought), but also overall accumulation of positive environmental changes of market orientation both within the country, and in foreign relations.

In terms of foreign relations, particularly, Moldova joined in the WTO and Stability Pact for South-Eastern Europe (May-Jul. 2001).

Over and above, the economic development of Moldova is burdened now by the high level of external debt (120% of GDP), Gross share of payments for debt service are due in 2001 and 2002. Most probably the default will be avoided (the probability of default of the next two years is not greater than 50%), however, it is necessary to make considerable efforts both in terms of enhancing the reforms efficiency and negotiations with IMF about continuing cooperation with Paris Club on restructuring the external debt.

This survey comprises studies carried out by CISR and cooperating experts. The opinions and conclusions presented in this survey entirely belong to their authors and do not necessarily express the viewpoint of any organization or governmental structure.

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We invite you to collaboration.

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1. FROM MARKET ROMANTICISM TO WORKADAY ROUTINE OF STATE REGULATION?

The Parliament approved the action programme of the new Government quickly, without any broad discussions, on the 19th of April¹. Its main thing is revival of economy through “enhancement of role of the state in provision of sustainable socio-economic development”.

Thereby, one can say, that an end has been put to the decades of neoliberal search, whose main postulates were: “any state interference always causes damage to rational utilization of resources”, “state property is, in principle, ineffective” and “any modification of the general level of prices always takes place due to changes in monetary aggregates’ amount”.

Our common expectations that market would arrange everything did not come true. Truth to tell, though, that during the decade of Moldova’s realization of the “neoliberal plan” a legal basis of the market orientation was created and structural reforms in real sector and social sphere were initiated. But weakness of the state, instability of governments and opportunism of judiciary system have caused multilevel corruption, concealed ties between political and economical powers the fact that reduces practically to zero all pleasures of constitutional democracy – free elections, competition, independence of mass media and so on.

Collapse of the economy at the beginning of the 90’s later changed to a stable depression and increasing poverty zone. According to the report of the World Bank “Indicators of World’s Development In 2000”, there are 63 poorest countries (this is 59% of the world’s population) that stand out in the world and get only 6% of the world’s income, i.e. on average less than 2 USD per capita in a day. Today, Moldova is one of these countries.

General disappointment of Moldova’s population with “economic freedom” has appeared in results of the parliamentary elections of the 25th of February and expectations of quick changes for the better.

Taking all this into account, the essence of maneuver proposed by the new Government is transition from a simplified monetary model to a policy providing for significant increase of responsibility of the state for the course and results of reforms. Orientation at market remains, but “the state is becoming a full participant of the market and market relations and imparts a social orientation to the reforms that are being implemented”.

What the “technology” of realization of these intentions is, the Programme does not show clearly. Abundance of references to that approximately a half of a hundred (!) of strategies of different kinds (“of internal and external policy”), national programmes (“economical security, etc.”), “fundamentally new systems” and mechanisms of management and social policy will be elaborated does not make things clear. Most likely is that it is a result of the fact that authors of the Government’s Programme, as it was announced, had six initial drafts, which were hard to bring together.

As a consequence, the programme of the 9th Government represents a symbiosis of: a) propagandistic declarations concordant with election pledges of the winners; b) preliminary outlines of the market orientation and c) abundance of instruments from the recent past – “forecasting and planning”, “territorial arrangement and specialization of agro-industrial production”, “regulation of the population’s incomes”, “control over prices for essential goods”, “strict control over import and export”, “enhancement of role of labor collectives in making of management decisions”, etc.

¹ “Economic Revival Is Revival of the Country”, 2001-2005 Activity Program of the Government of the Republic of Moldova, April 2001

It looks like romanticism of statesmen and belief in almighty powers of administrative directives comes to take place of the market romanticism. Thus, the planned multiplication of state bodies and possible return to the subdivided administrative-territorial system of the country is rather disturbing. Public government will enrich itself, for instance, with a “specialized body empowered to organize, regulate and supervise the programme for state support of production investments”, “a body authorized to promote export of domestic products”, “a standing interdepartmental body on coordination of works in the field of energy security” and, finally, the long-awaited “concern on provision of the country with fuel and energy resources”. All this is disputable as state regulation is always fraught with a burden of corruption, whose dimensions are proportionate to the height of bureaucratic pyramid.

Moreover, for elation of branch ministries (despite the fact that branch method of management died long ago), they were invested, in addition to certification, with functions of privatization and management of state property.

Should the state engage in the economy? Sure it should - through creation of legal and organizational premises for both state and private sectors. But it should take into account, though, that owner engaged in private business incurs risks and receives results alone by himself. And if the state attempts to run a business, this means that it imposes risks on state budget and taxpayers. Meanwhile, the programme abounds in intentions of direct intrusion into business: “taking measures on solution of problems arising in activity of privatized (!) enterprises”, “provision for post-privatization forms of management in energy complex adequate to the situation that has created (?)”, “arrangement of trade and intermediary extra charges’ system” and so on.

An obstacle for realization of these intentions is such an important circumstance as the fact that legal basis has been forming during this whole decade without any stipulations for state interference in the market economy reasoning from the neoliberal postulate – “mistakes of the state are always worse than the ones of the market”. And this means that a fundamental revision of the legislation is pending, isn’t it?

The more serious obstacle is critical deficit of financial resources for realization of everything that was promised by the programme – “state programme of privileged crediting of agricultural producers” or “renewal of the system of state and other guaranteed orders and contracts for production and acquisition of agricultural products”, for example. And attempts to drive the National Bank into a monetary issuance represent a clear threat of inflation.

The state should not, and can not, support everybody and everything. Its task is to provide for a favorable climate for the real sector – stability of legislation, adequate tax treatment, protection of property, investments, etc. And it looks like the Government intends to pay equal attention to state and private sectors of the economy. As it turned out, liberalization during transition period worked mainly for the private sector – has lead to transfer of resources into those areas that promised quick and significant return (export-import transactions, production of grain, resale of oil products and pharmaceutical goods, and service sphere).

While considering state approach to Moldova’s economy, we should be realists. It is impossible to revive everything at once. And at the same time not to repeat the same structure of the economy as it was in the Soviet period. Therefore, it is important to determine new priorities (no more than 5-7) and mechanisms of their support. We shall have to provide for restoration and loading of production capacities of strategic enterprises in the real sector and engineering infrastructure. And these types of production the state should stimulate and protect until they consolidate their position again. This can be accomplished through distribution of risks with crediting organizations while financing the respective projects, tax maneuvers, accordance of partial guarantees, conducting of a flexible customs policy.

As regards the other things, let them get going in market conditions, surviving the best. And renewal of enterprises' funds here should be carried out at the expense of means of their own and those attracted on resources market. Such selective approach to "liberal" and protected by the state sector has already been tested in other countries of the transition economy.

Despite an evident tendency towards enhancement of the role of state in the economy, the programme, nonetheless, promises "a weighted realization of reforms". And for this purpose, it should give positive signals to private business in order to finally bring its incomes "out into the open", to increase inpayments into the budget, stop capital flight into off-shore zones and not through prohibition, but through creation of a climate of confidence, protection of property and personality of entrepreneurs. Plus, limit, where it is necessary, level of openness of the Moldovan economy and protect domestic commodity producers. It looks like, though, that introduction of dosed protectionism can coincide at the wrong time with forthcoming admission of Moldova into the World Trade Organization and the necessity to meet obligations strictly specified earlier.

Thus, the new Government basing itself on its programme still has to detect through cut-and-try method dimensions and limits of a justified state participation in the economy. The fact that such participation can be fruitful is confirmed by experience of the "advanced" countries of the transition economy (Slovenia, Poland, and Hungary), where share of the state expenditures in GDP is of 45-50%. Diminution of this indicator in Moldova to an extremely low level limits possibilities of the Government to render the population minimal necessary amount of social services.

Programme of the Government is a mandatory document for all ministries and territorial bodies of the public administration. The Parliament, as well as the population, will trace the Government's activity according to it. Meanwhile, a little thing is missed: for the first time, governmental programme is not equipped, as it should have been, with a list of drafts, which the Government is going to present to the Parliament in order to corroborate its intentions, and of organizational undertakings on realization, say, of top-priority measures, through which it will ensure "already in the first stage (?) abeyance of negative consequences" in the economic and social development.

The fact that the President, Parliament and the Government intend to establish order in the country, "increase responsibility of the authorities to the people" – deserves support. What methods will be used and what results will be obtained – this will be clear in a half of a year. And few people will remember then of the Government's programme. It will be judged by the results. As regards intentions, their predecessors had the same ones – to change life for the better.

The above was written and published "hot on the trail of events" in April 2001². One hundred days have passed of the new President, Parliament and Government activity. As assumed, the main efforts were directed to activating foreign political and foreign economic contacts, both with East (CIS, Russia and China), and West (European Union, OSCE, Romania). Sound attempts have been made to settle the Transnistrian problem, as well as enhance the legal and administrative capacity of the state: erection of "power vertical", activation of the juridical system (prosecution, courts) and power structures in terms of shrinking corruption and organized crime.

² Logos Press, Economic Review, Apr. 27, 2001 - <http://logos.press.md>

With regard to the economy, in this field there is an insistent search of legal forms going on, as well as of administrative methods, for strengthening state's role in the economy. Among them: to introduce state's control over prices for some goods and services; to restore state's monopoly in the sectors of alcohol and tobacco production; preferential special crediting of agricultural sector; introduction of the state orders for agricultural products; possible restoration of privileges on payments for electricity in conditions of normative compensations mechanism; setting up a unique system of electricity generation and creation of a unique complex for energy and fuels, etc.

At the same time it turned out, that in the pre-election period and in the program of the new government there was an "underestimation of difficulty of problems encountered nowadays by us, i.e. power structures... One should not say that the new power had an absolutely detailed program... There were clear directions. However, as of today there are no mechanisms"³.

Excerpt from the speech of the President Voronin in the Parliament of the Republic of Moldova on the 30th July, 2001⁴:

"During these first four months of the new power, we did not manage to elaborate a clear and transparent strategy of the country's renewal that would take into account both social priorities in the ruling majority's policy and mechanisms of realization of these priorities...

General vector of activity of both our legislative body and the Government manifested itself through enhancement of prohibitive authorities of officials, increasing of penalties, punitive sanctions for economic units... We are abetting further degradation of the country through introduction of new prohibitive and regulating measures, raising administrative penalties, creation of new bureaucratic structures, which practically turn into bureaucrats' sinecures...

We need reforms of a new type – the ones that will allow us to modernize the state and economy through accelerated methods".

Considering these estimates of the President, priorities of the power for the nearest future are de-bureaucratization of public administration and liberalization of economy. But, following this logic, the programme of the Government should be revised as now its motto is state regulation and increasing of the state's presence in the economy and social life.

³ V. Doraş, Chief of the Political Planning Department under the Presidential Administration, Adviser of the President. See: Chisinau Observer, July 26, 2001.

⁴ V. Voronin, Speech at the closing of the Parliament's session, 30 July 2001. Moldova Suverană, 31 July 2001

2. MOLDOVA: MACROECONOMIC TRENDS - 6 months of 2001

Introduction

Evolutions in Q2, 2001 are characterized by the same fragile stability on macroeconomic level. The situation is seriously jeopardized by lack of foreign financing, while the country continues to pay significant amounts (about \$45m in the first half of the year, plus \$60m planned for the second half) as external debt service. Scarcity of budget financing (budget revenues are declining) impedes all attempts of communist governing structures to improve the social indicators as per numerous promises done in the election campaign.

The April 2001 mission of the International Monetary Fund pointed out a number of provisions from new Government's economic program which are inconsistent with the Memorandum of Financial and Economic Policies, among them being – state control over prices, state monopoly in alcohol and tobacco sectors, preferential crediting of agriculture, introduction of state orders in agriculture, and others.

Consequently, IMF financing continues to be on hold, and the same applies to the World Bank, the European Union and other donors. Thus, Moldova is not getting \$30m from World Bank, and planned 10m Euros grant from EU, apart from next IMF's PRGF tranches.

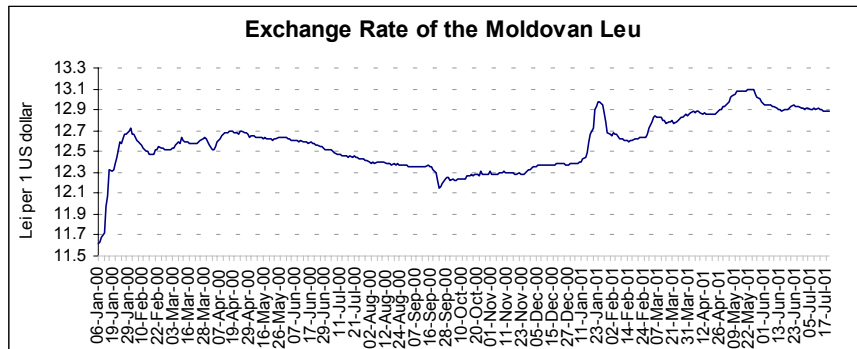
Moreover, planned privatization receipts did not come true, which is not surprising in conditions of less friendly environment for investors. Hence, state budget is not receiving for instance \$10m from privatization of 2 electricity grids.

The next mission of the Fund will arrive on 25 July, aiming to conduct the annual consultation review and to assess progress under the PRGF program. Resumption of external financing is conditioned now by implementation by the Government of a number of concrete measures, among them being – Parliament's approval of pre-shipment inspection, of the new law on free economic zones, of the title V of Fiscal Code, as well as announcement of auctions for sale of two wineries, elimination of export licenses, no increase in import tariffs, selection of a financial consultant for privatization of "Moldtelecom".

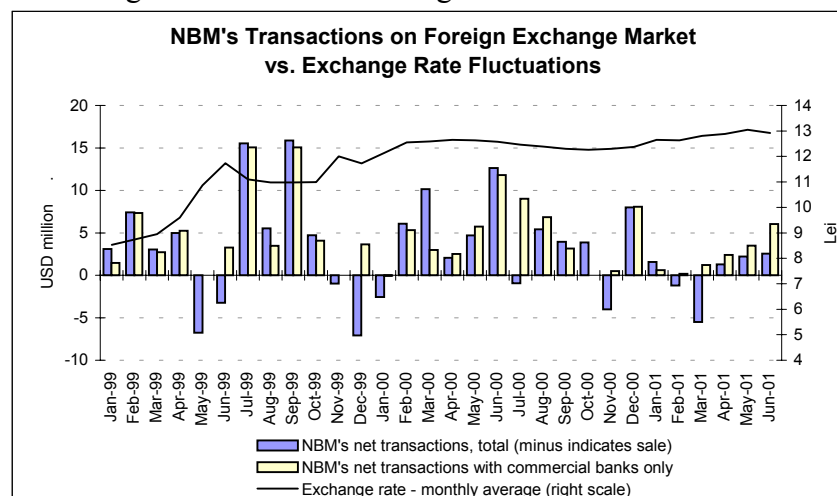
On 14 June 2001 Finance Minister M. Manoli addressed a confidential letter to Moldova's leadership focused on the difficulties in realization the State Budget for 2001 and consequences of cessation of relations with IMF. He basically warns about an eventual total incapacity of the Republic of Moldova to make payments to external and internal creditors for a long period of time and on financial isolation with no way out. He wrote that "state budget approved for this year is practically left without sources of financing amounting to about 660m lei." At the same time "MoF faces a permanent pressure towards increase in state budget expenditures".

Nominal Exchange Rate, Foreign Exchange Reserves

Evolution of the nominal exchange rate of the Moldovan leu against the US dollar was in the first 5 months of 2001 on a depreciating path, and from the last week of May till mid-July it has even slightly appreciated (in spite of the worsening of Moldova's country rating, lack of IMF program etc). In the first half of 2001 the nominal depreciation, expressed in domestic currency terms, was 4.3%, leu sliding from 12.38 lei/1US\$ to around 12.9 lei/1US\$ by end-June (in 2000 the leu has depreciated against the US dollar by 6.8%).

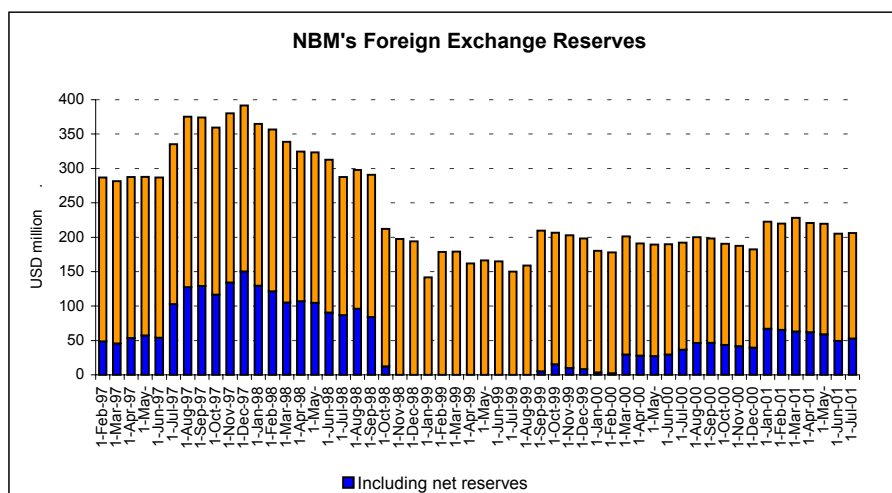


NBM continued to buy important amounts of hard currency from commercial banks, in spite of the difficult situation characterized by absence of foreign financing. In 2000 NBM bought from commercial banks US\$60m, and in the first half of 2001 it has bought \$14m, which did help a lot in offsetting the burden of the foreign debt service.



In the first half of the year the government had to pay about \$35m in foreign debt service, and NBM – about \$12m, while the projected figure for whole 2001 is as high as \$85m for the government, and \$24m for NBM. In order to avoid a default in meeting external obligations of the country, the Parliament passed at the beginning of July an amendment to the 2001 Budget Law, according to which NBM would extend a loan to the MoF up to 30 million dollars, used for foreign debt repayments (thus not having inflationary impact).

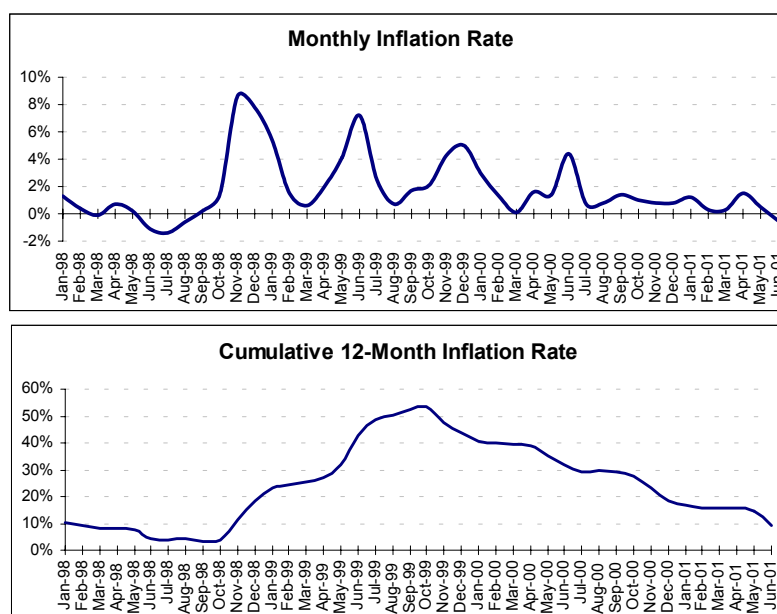
Consequently, NBM's foreign exchange reserves will have to diminish accordingly, if there is no further agreement with IMF reached. So far, in spite of the debt service payments, the National Bank managed to keep its reserves in place – in the first 6 months gross foreign exchange reserves were above \$200m, covering at least 2.5 months of imports of goods and services. At the same time, net reserves slid from \$65m to \$50m. There is still some room for servicing the debt, but certainly NBM's reserves are not infinite.



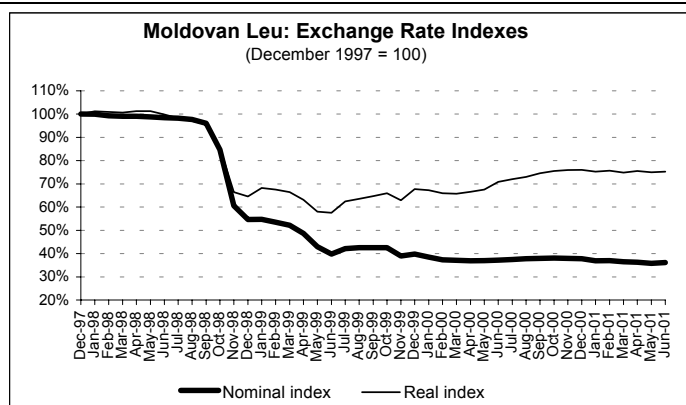
Inflation, Real Exchange Rate

In the first half of 2001 inflation rate remained stable and very low. Highest inflation so far was observed in April (1.5%), and lowest in June (deflation of -0.5%). Cumulative inflation for the first 6 months was 3.3%, while cumulative 12-month inflation is 9.15%.

NBM's Monetary Policy for 2001 forecasts a 10% end-year inflation rate, and so far this figure seems well attainable if nothing wrong happens.



Evolution of the exchange rate of the Moldovan leu against the US dollar in real terms is stable. Slight nominal depreciation of leu was offset by the low level of inflation. Leu's real exchange rate index hovered in the first 6 months of 2001 at around 99%, if we take December 2000 as basis, as it can be seen in the table below.

**Exchange rate indexes**

	Nominal	Real
Dec-00	100.0	100.0
Jan-01	97.8	99.0
Feb-01	98.0	99.4
Mar-01	96.6	98.4
Apr-01	96.1	99.3
May-01	94.8	98.5
Jun-01	95.8	98.9

Monetary Aggregates

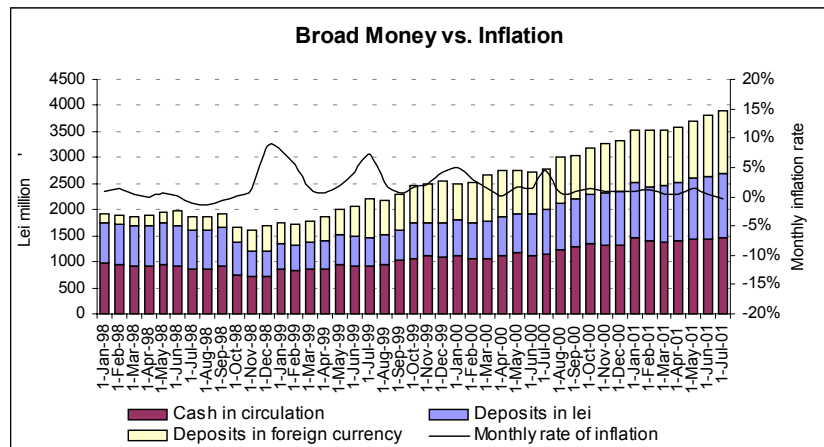
Evolution of monetary aggregates has shown good performance in 2000 and in the first half of 2001 as well.

Monetary aggregates

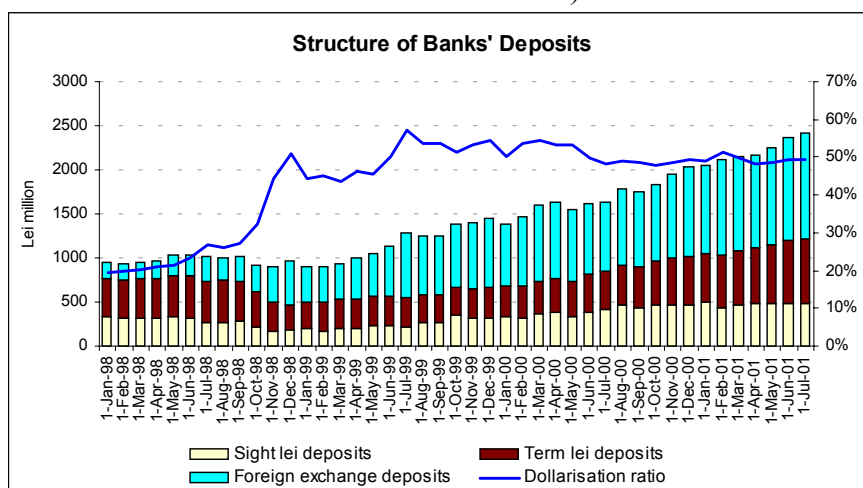
	Inflation	M0 growth	RM growth	M3 growth
Dec-00	0.8%	12.0%	8.9%	5.2%
Jan-01	1.2%	-4.8%	-1.6%	0.2%
Feb-01	0.3%	-1.5%	-1.6%	0.2%
Mar-01	0.3%	2.0%	0.0%	1.3%
Apr-01	1.5%	2.7%	2.5%	3.5%
May-01	0.5%	0.0%	-0.3%	3.2%
Jun-01	-0.5%	2.2%	1.4%	1.8%

In the first 6 months of 2001 volume of lei in circulation M_0 has increased by only 0.4%, reaching at 1 July 1.476bn lei (reserve money has increased by 3.6%). While broad money M_3 increased by 10.7%, reaching at 1 July 3.886bn lei (NBM's Monetary Policy for 2001 assumed a broad money increase by 22.6%, denoting a larger money demand conditioned by the real growth in GDP and reduction of inflation expectations). Money multiplier for M_3 grew from 1.80 to 1.99. Reserves of commercial banks with the NBM did not vary much, and reached at 1 July 478 million lei, out of which a quarter are excess reserves.

Following the provisions of its Monetary Policy for 2001, NBM announced a gradual reduction of reserve requirement from existing 13% (o/w 10% in banks' correspondent accounts with NBM and 2% in banks' cash offices) to 10%. Reserves from banks' correspondent accounts will be lowered by one percentage point during 1-15 July, 1-15 August, and 1-15 September. As a result, 75 million lei will be freed up for lending into the real sector of the economy.



Noticeable growth of broad money in the first half of 2001 is on the account of the big increase in the volume of deposits with the banking system (deposits increased by 18%, reaching at 1 July 2.410bn lei). This obviously shows confidence of population and economic agents both in leu and in banks. Share of foreign exchange deposits did not change much - dollarization ratio of deposits with commercial banks is close to 50% (NBM's Monetary Policy for 2001 foresees a reduction in dollarization level to 43%).



NBM's Credit

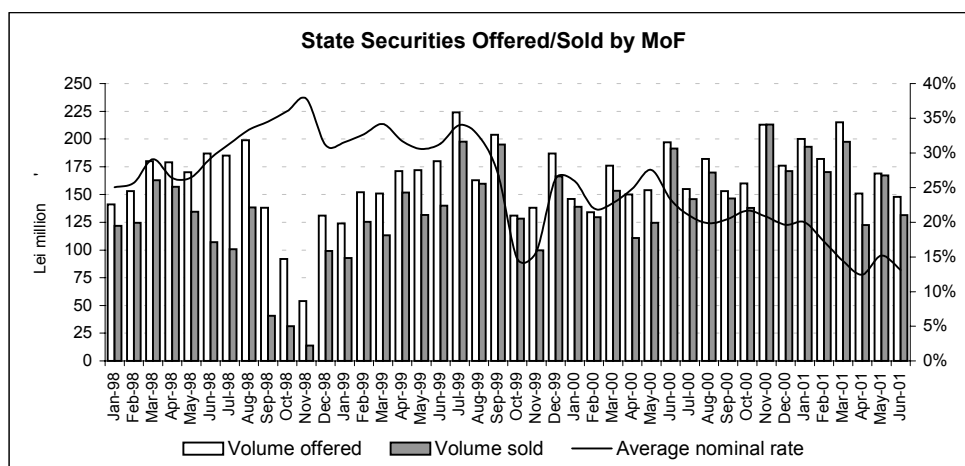
Government's debt to NBM, expressed in the stock of NBM's Treasury papers, has remained unchanged – at 1 July it was 1.646 bn lei. According to NBM's Monetary Policy for 2001, the National Bank shall not provide credits to the Government in 2001 to finance the state budget deficit, but, as it was mentioned earlier in this chapter, in order to avoid a default in meeting external obligations of the country, the Parliament passed at the beginning of July an amendment to the 2001 Budget Law, according to which NBM would extend a loan to the MoF up to 30 million dollars, used for foreign debt repayments (thus not having inflationary impact). No further credit is to be extended to the Ministry of Finance.

Stock of NBM's credit to commercial banks (excl. REPOs) hovered slightly above 100 m lei. For 2001 NBM aims at conducting an interest rate policy, targeted at maintaining the real interest rates at a low positive level, thus stimulating real sector's demand for credits and, respectively, contributing to the economic growth. However, as in previous years, it appears that banks have sufficient credit resources and they are not so interested in getting new loans from NBM, especially after the reserve requirement will be gradually lowered.

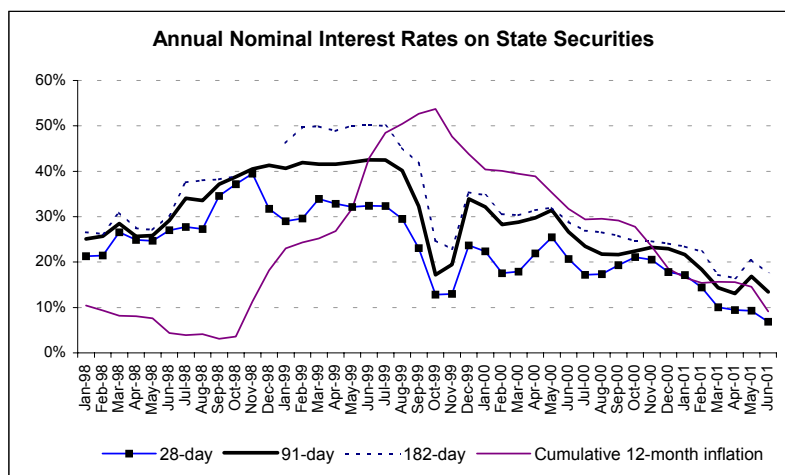
MoF: State Securities Market

Situation in the state securities market remained stable in the first half of 2001. Ministry of Finance did not have difficulties in placing the new treasury securities (sometimes in even higher amounts) and redeeming those in circulation. In January-June 2001 at the primary auctions at NBM there were offered treasury securities in a total volume of about 1065m lei, the volume sold being 980m lei, i.e. on average TBs worth 160 million lei sold per month (in 2000 average volumes sold per month was about 140m lei).

In January-June 2001 Ministry of Finance had to redeem securities totaling about 890m lei. Thus, net volume (issuance minus redemption) was 84 million lei, and these funds went into the state budget.



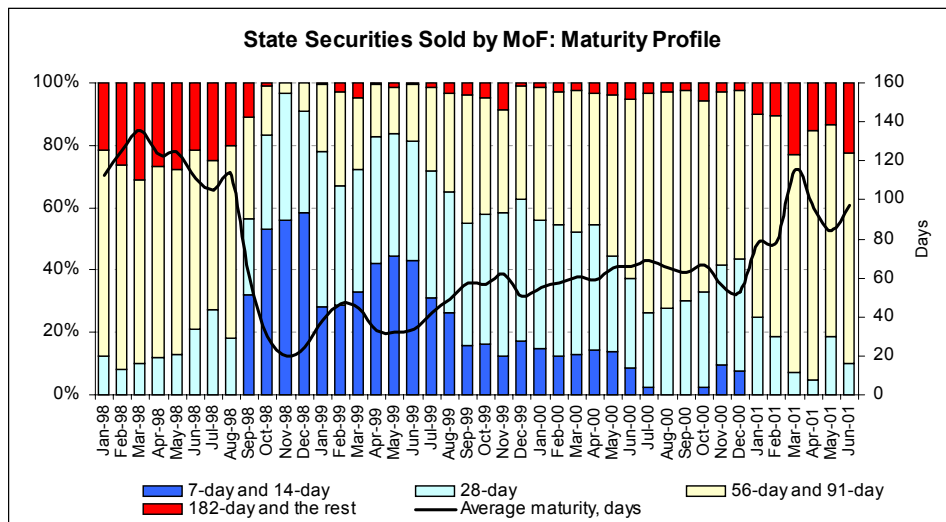
A very good tendency of the first half of 2001 was the reduction in interest rates for TBs. While in 2000 average interest rate for TBs (all maturities) constituted 22.3% and monthly average in Dec-2000 and Jan-2001 was about 20% - already in April 2001 it has dropped to 12.5%. In May it increased again to 15.2%, but in June it dropped again to 13.1%. However, by mid-July figures show another increase to 15.8%. This only means that we should not be too optimistic about the evolutions in the TBs market, especially considering Government's desperate need in additional financial resources for the state budget.



Looking into the maturity profile of state securities sold, there is a positive tendency of significant growth in average maturity in the system. While during 2000 average maturity hovered at 55-65 days, in Jan-Feb 2001 it was close to 80 days, increasing even more in the next 4 months (in June it was 95 days).

2. MOLDOVA: MACROECONOMIC TRENDS - 6 months of 2001

While throughout 2000 volumes of sold TBs with 182-day and 364-day maturities were on average 5 m lei per month, in the first half of 2001 they were around 20m lei and higher. At the same time, no 7-day and 14-day securities were sold (while in 2000 on average 12m lei per month were put up for sale).

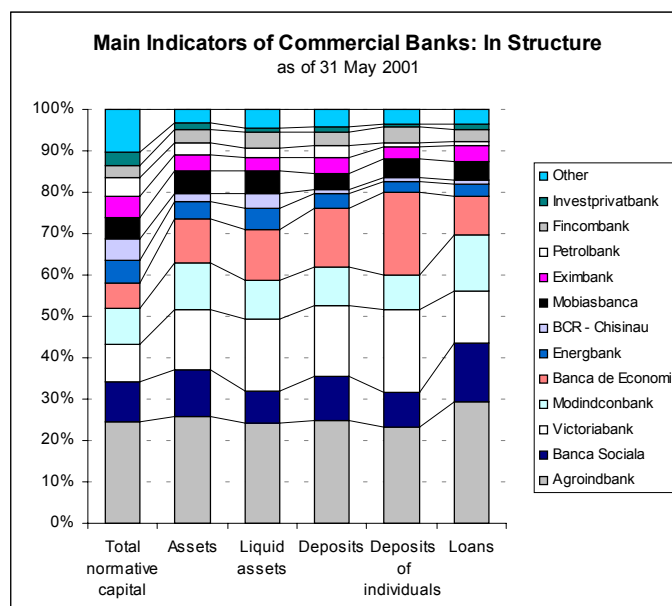


Commercial Banks

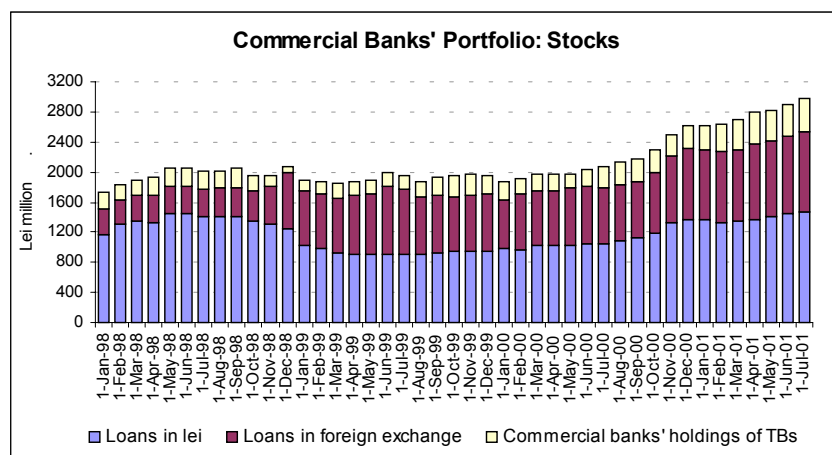
Presently there are 20 commercial banks in Moldova, 5 originated from the reorganization of the former state specialized banks, and 15 are new banks. The banking sector is very concentrated with five biggest banks (Moldova-Agroindbank, Victoriabank, Banca Sociala, Moldinconbank and Banca de Economii) accounting for 68% of total assets in the system (end-May 2001).

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

This has spurred the consolidation of the banking sector, most of the banks increased their capital through share issues.

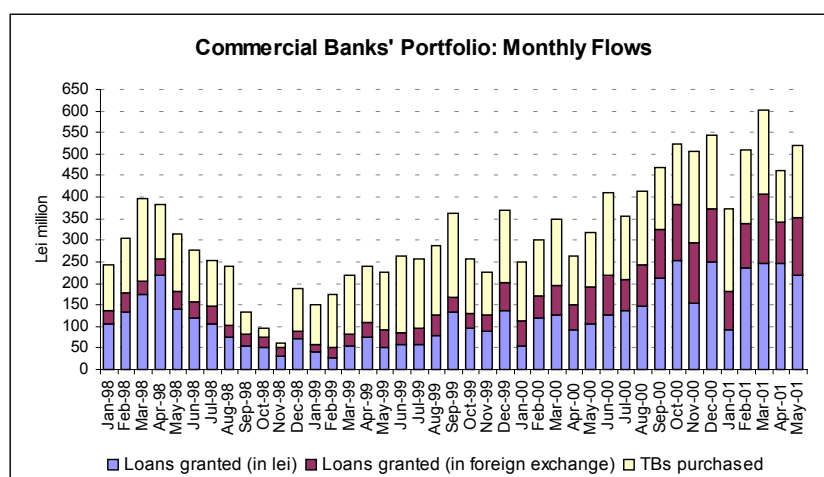


Moldovan banking system's aggregate assets reached 5.029 billion lei at 1 June 2001 (increased by 7.8% compared end-2000). Banks' aggregate normative capital equaled to 1.544 billion lei (increased by 10.3%), liquid assets - 1.808 billion (increased by 9.2%).



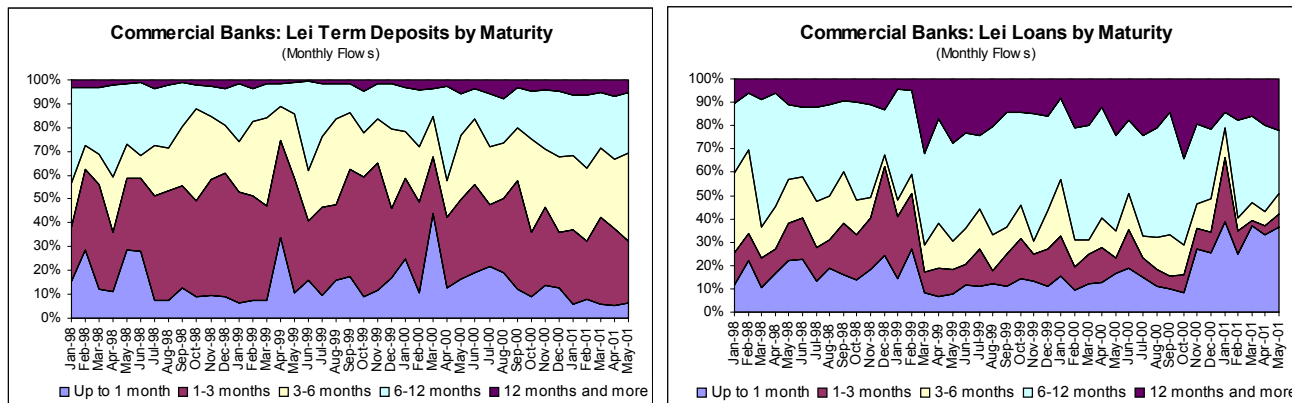
Commercial banks' lending activity was good: while in 2000 stock of banks' credits into the economy grew from 1.635 bn lei to 2.291 bn, i.e. by 40%, in the first half of 2001 banks' credits grew further to 2.544 bn lei, i.e. by 11%. Credit dollarization ratio did not change much, it stays at about 42%. As regards the stock of Treasury securities in banks' portfolios, it continues to increase, reaching 444m lei at end-June (it was 321 million at the beginning of the year).

A more dynamic picture is offered by the monthly flows data for commercial banks' credits. During the month of January banks' loans in lei granted to economic agents noticeably reduced down to 93m lei, but then picked up later, by the end of first quarter the volume was 245m lei, and by the end of second quarter – 219m lei (December 2000 figure was 248m lei). Loans granted in foreign exchange jumped from 88 million lei in January to 134 million in June (December 2000 figure was 126m lei).



Looking on the charts below at the maturity structure of deposits with banks and banks' loan portfolios, it can be seen that as in previous years, in the first half of 2001 the deposits in lei are mostly short term (95% are up to 1 year), which consequently determines the reduced maturity of the loans granted by banks (78% are up to 1 year). Obviously banks cannot make long-term lending having a short-term deposit base of their clients.

2. MOLDOVA: MACROECONOMIC TRENDS - 6 months of 2001

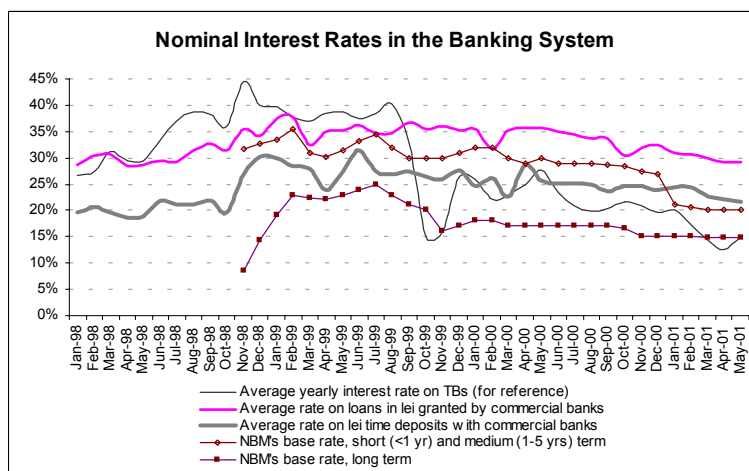


Interest Rates

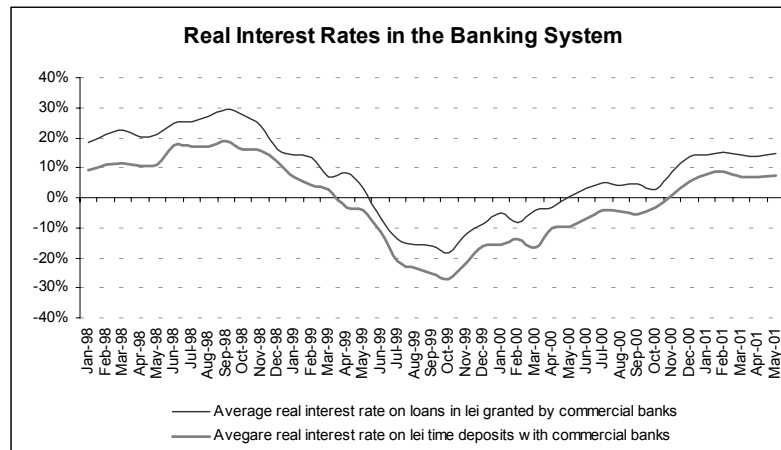
During the first half of 2001, similarly with 2000, interest rates on deposits with commercial banks and on banks' loans are slowly decreasing. Average nominal interest rate on loans in lei dropped to 29.3% in May from 32.4% in December 2000, while the rate for time deposits in lei firmly slid to 21.7% in May from 23.9% in December 2000. Average nominal interest rate on loans in foreign exchange also had a downward trend – it fell to 13.8% in May from 15.1% in December 2000, while the rate for term deposits in foreign exchange was 4.1% in May, comparing to 5.4% in December 2000.

NBM's base rate for short and medium term was noticeably reduced in January 2001 to 21% from 27% in December 2000 and in the following months stood at around 20%, while NBM's long-term base rate remained unchanged at around 15% (it was 14.8% in March-June).

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



The real interest rate for loans granted in lei continued to increase till February 2001 (when it reached the highest value in the last 2 years – 15.3%), and it has stabilized in the following months. Same tendency had the real interest rate on time deposits in lei – it has stabilized after reaching the maximal value in February (8.9%). It is worthwhile mentioning that during most of 1999-2000 the above deposit rate was negative in real terms, and only in November-December 2000 it became positive, advancing more this year.



The picked up high deposit real interest rate is a good sign, showing a stability in the banking system, banks willing to commit themselves to paying higher than inflation interest rate on clients' deposits. However, the margin between banks' lending rate and deposit rate basically has not changed, and it is still large. It means that commercial banks are too cautious, thus keeping the lending rates high and costly for their clients.

Moldova As Seen By International Rating Agencies

World's prime rating agencies have been showing increasing concerns about Moldova's perspectives in 2001.

In early July Moody's has degraded the rating of external obligations of Republic of Moldova to Caa1 and that of bank deposits to Caa2. Over the last several years, the rating dropped from Ba2 in 1997 to B3 in 2000.

Fitch IBCA has already downgraded Moldova's sovereign rating twice in 2001. In early June Fitch has lowered Moldova's long-term foreign-currency rating from B- to CCC+, and the short-term local-currency borrowings - from B to C. Fitch downgraded the outlook of the long-term rating from "stable" to "negative", and it noted that the Government's inability to attract means from other sources may influence negatively the Budget revenues and lead to a \$70 million gap in the 2001 payment balance, and in 2002 - up to \$100 million. The gaps will have to be covered from the country's scarce hard-currency reserves. The agency pointed out the slackness of structural reforms, a gigantic external debt, insignificant progress in privatization, instability of main export markets, and a need for restructuring liabilities to creditors. At end-June Fitch reviewed its rating again and downgraded Moldova long-term foreign currency rating from CCC+ to CC. The agency further assigned a negative outlook to the rating, saying that its further downward slide is not out of the question. Fitch stated that the premise lying behind its decision to downgrade Moldova is high likelihood of government's failure to redeem outstanding Eurobond issue on time.

Below are 2 charts showing Moldova's country rating vs. other countries.



Austria	France	Germany	Greece	Italy	Aaa	max ↑ min
Netherlands	Spain	Switzerland	UK	USA		
Canada	Japan	Singapore	Sweden		Aa1	
Australia	New Zealand				Aa2	
Iceland	Taiwan				Aa3	
					A1	
Cyprus	Israel	Slovenia	UAE		A2	
China	Hong Kong	Hungary	Malta		A3	
Chile	Czech Rep.	Estonia	Kuwait	Poland	Baa1	
Latvia	Korea	Malaysia			Baa2	
Croatia	Mexico	Saudi Arabia	South Africa	Thailand	Baa3	min ↑ max
Egypt	Lithuania	Slovakia			Ba1	
India	Kazakhstan	Moldova '97			Ba2	
Jamaica	Jordan	Peru			Ba3	
Brazil	Lebanon	Turkey	Vietnam		B1	
Argentina	Bulgaria	Russia	Turkmenistan	Moldova '98	B2	
Indonesia	Romania	Moldova 2000			B3	
Moldova 2001	Cuba	Pakistan	Ukraine		Caa1	
Ecuador					Caa2	
					Caa3	

* Country Ceilings for Foreign Currency, Bonds and Notes, Long-Term
As of 5 July 2001

Fitch-IBCA Ratings*

Austria	Finland	France	Germany	Ireland	AAA
Netherlands	Norway	Switzerland	UK	USA	
Canada	Denmark	Japan	Singapore	Spain	AA+
Australia	Portugal	Sweden			AA
Belgium	Hong Kong	Iceland	Italy		AA-
Kuwait					A+
Greece	Malta	Slovenia			A
Chile	China	Hungary	Israel		A-
Czech Rep.	Estonia	Korea	Poland		BBB+
Latvia	Malaysia	Tunisia			BBB
Croatia	Egypt	Lithuania	South Africa		BBB-
India	Mexico	Slovakia			BB+
Costa Rica					BB
Brazil	Kazakhstan	Peru			BB-
Argentina	Azerbaijan	Bulgaria	Turkey		B+
Romania	Russia	Moldova '98			B
Indonesia	Ukraine	Moldova '99			B-
Moldova 2001					CCC+
Turkmenistan					CCC-
Moldova 2001					CC
					C

* Long-Term, Foreign Currency
As of 5 July 2001

3. THE MACROECONOMIC MODEL (ANNUAL) FOR MOLDOVA: IMPLEMENTATION

The macroeconomic model has been implemented within the Ministry of Economy and Reform in order to obtain reliable middle-term financial forecasts and facilitate economic policy making. In course of the previous work the model was also extended to the National Bank of Moldova and Ministry of Finance. That allowed for more effective cooperation among these institutions in the work on medium-term financial planning. Separate document presenting the methodology of the model is now available at the Ministry of Economy and Reforms.

Current economic situation

The major positive developments in the first half of 2001 were higher than expected export and industrial production growth rates. These rates are partly explained by the previous underestimation of impact of Russian GDP growth on Moldovan exports but probably also by the positive results brought by structural policies in last three years and especially better corporate governance in enterprises. This new trend, although still uncertain, is the major source of moderate optimism about prospects for growth in medium term perspective. Impact of the favorable weather on agriculture output might be very large (Ministry of Agriculture estimates growth in 2001 at 20%, MER at 15%). However, in the medium term structural changes in the agriculture sector are most important for sustainable economic growth.

In 2000, the major source of growth was domestic consumption. Accordingly imports surged while exports were almost flat. As a result the trade balance widened sharply hinting at the unsustainable character of the growth (increasing external imbalances). In the first half of 2001 this negative tendency changed. Rapid export growth (partly due to the expected change in the VAT regime in Russia) combined with more moderate rate of growth of imports implies better than expected trade balance. While the remittances from working abroad increased sharply, the current account improved. However, in comparison with previous year, when FDI payment were especially large due to acquisition of electric utilities by Union Fenosa, the capital account was much weaker. Therefore, it proved impossible for National Bank to increase its foreign reserves. This put a restraint on the growth on the monetary base (it was falling in the first five months) and in turn on the broad money. More moderate than planned by NBM growth of money combined with the stable exchange rate produced low inflation. What is very important the tight monetary policy was supported by disciplined fiscal policy, unlike in years preceding financial crisis in 1998. Low budget borrowings led to the further increase in the credit to the economy that will be stimulating growth in medium term.

Predictions 2001-2004

Policies

Forecast are based on the crucial assumptions that current responsible macroeconomic policies and cooperation with international organizations will be continued. Otherwise, Moldova almost immediately will find itself again in the deep financial crisis. Period of high inflation and suppressed real GDP growth will than follow.

These assumptions are reflected in the model as:

- conservative budget expenditures throughout the period;
 - expansion of expenditure would have to be financed through the higher money supply;
- moderate money supply growth;
 - more expansionary monetary policy would lead to the spiral of inflation and exchange rate depreciations;
- high privatization proceeds and FDIs (particularly privatization of remaining electric utilities in 2001, MoldTelecom in 2002, tobacco and wine companies in 2003 and 2004);
 - without large privatizations costs of debt service are unbearable and higher imports accompanying output growth cannot be financed;
- floating exchange rate;
 - if exchange rate movements do not reflect the pressures on balance of payment, NBM would run quickly out of reserves and rapid currency crisis follows;
- new credits from international financial organizations;
 - without these credits Moldova faces the risk of default and balance of payment crisis
- restructuring of foreign debt;
 - even under responsible economic policies, Moldova will not be able to make all debt payments in year 2002 and probably 2003, without fair deal Moldova might be in default.

Please note, that the positive scenario (presented below) requires all of above interdependent policies to be followed in coordination. In particular, the attempt to increase expenditures or to stop privatizations would have the negative impact on monetary policy and would cancel chances for new international credits.

Exogenous factors

There are other factors that are key determinants for economic developments in Moldova that are largely beyond control of the authorities.

Factors influencing exports and indirectly other variables:

- situation in Russia (determinant of Moldovan exports to CIS markets);
- situation in Central European countries (impact on exports to these countries);
- improvements in corporate governance in enterprises (impact on abilities to export to new markets).

Factors influencing agriculture and indirectly other variables:

- weather condition;
- privatization and post-privatization program in agriculture.

Predictions presented below are based on favorable and in our opinion justifiable assumptions concerning exogenous variables.

Period of moderate real growth

Relatively high growth rate of 4-5% in 2001 is partly explained with the good results of agriculture (5% real growth in value added). Growth in agriculture is a result of base effect (bad

harvest in 2000 and expected good harvest in 2001) and structural changes in the sector. Real GDP growth was also stimulated by continued fast growth in Russia (3% in real terms - 15% in dollar terms) and moderate growth of exports to non-CIS countries. It should be noted that if agriculture is assumed to grow at 15% (MER) the overall growth is close to 7% and therefore consistent with the official prediction of MER. Lower rate of growth of money base, that is consistent with balance of payment situation (no increase in foreign reserves of NBM) will suppress inflation to the level of 13% (annual average).

Moderate real growth (between 3% and 4%) in years 2002-2004 is explained by three driving factors. Firstly, we assume some gradual improvements in agriculture as a result of land privatization program (4% annual growth). Growth in this sector will also fuel recovery in industry (and to some extent in exports). Secondly, we expect that restructuring in industry will allow for increasing exports to new markets and will bring increases in industrial production. Additional important stimulus is due to the impact of more banking credit to the economy. Banks that have limited opportunities to make paper profits on T-bills (tight fiscal policy), will need to look for quality investment projects. If investment climate is not further deteriorated due to political situation, this should push investments. Therefore we predict relatively high growth in constructions and industry. The effect will not be strong however due to two reasons. External debt amortization in years 2002 and 2003 will drain resources from the national economy what will slow down investments and growth. Secondly, investments (as shown in official statistics) had previously rather weak impact on the overall economic situation. We forecast further increases in services sector, especially trade. This growth cannot be however overestimated as it is associated with increases in consumption. Given the situation in the balance of payment, we cannot predict rapid growth of consumption (and imports), therefore growth rates in the service sector will not be large.

Difficult situation in the capital account of balance of payment due to the large debt service obligations implies the natural tendency towards improving current account deficit in next years. Especially in the year 2002, when large debt payments need to be made, trade deficit must be kept under control. Prospects for rapid export growth, although brighter after results of first half of 2001, are still uncertain. Therefore, imports will be constrained through the relatively high rate depreciation of lei. Higher depreciation will have an impact on the domestic price level, therefore we think that it will be rather difficult to bring down inflation below 15% in 2002.

Concluding remarks

Scenario presented above needs to be assessed as moderately optimistic. There is important downward risk in case of macroeconomic destabilization or the deceleration of post-privatization program in agriculture and restructuring in industry. At the same time, if there is significant breakthrough in the building the market economy institutions, especially through better law enforcement and crack on corruption, the economy could possibly grow much faster. Another factor of risk is external to Moldova. If Russian economy undergoes another major negative shock, for example as a result of the further decline of price of oil, Moldova will be severely affected. Unfortunately last years were not be successful in reducing economic dependence of Moldova on one major trade partner.

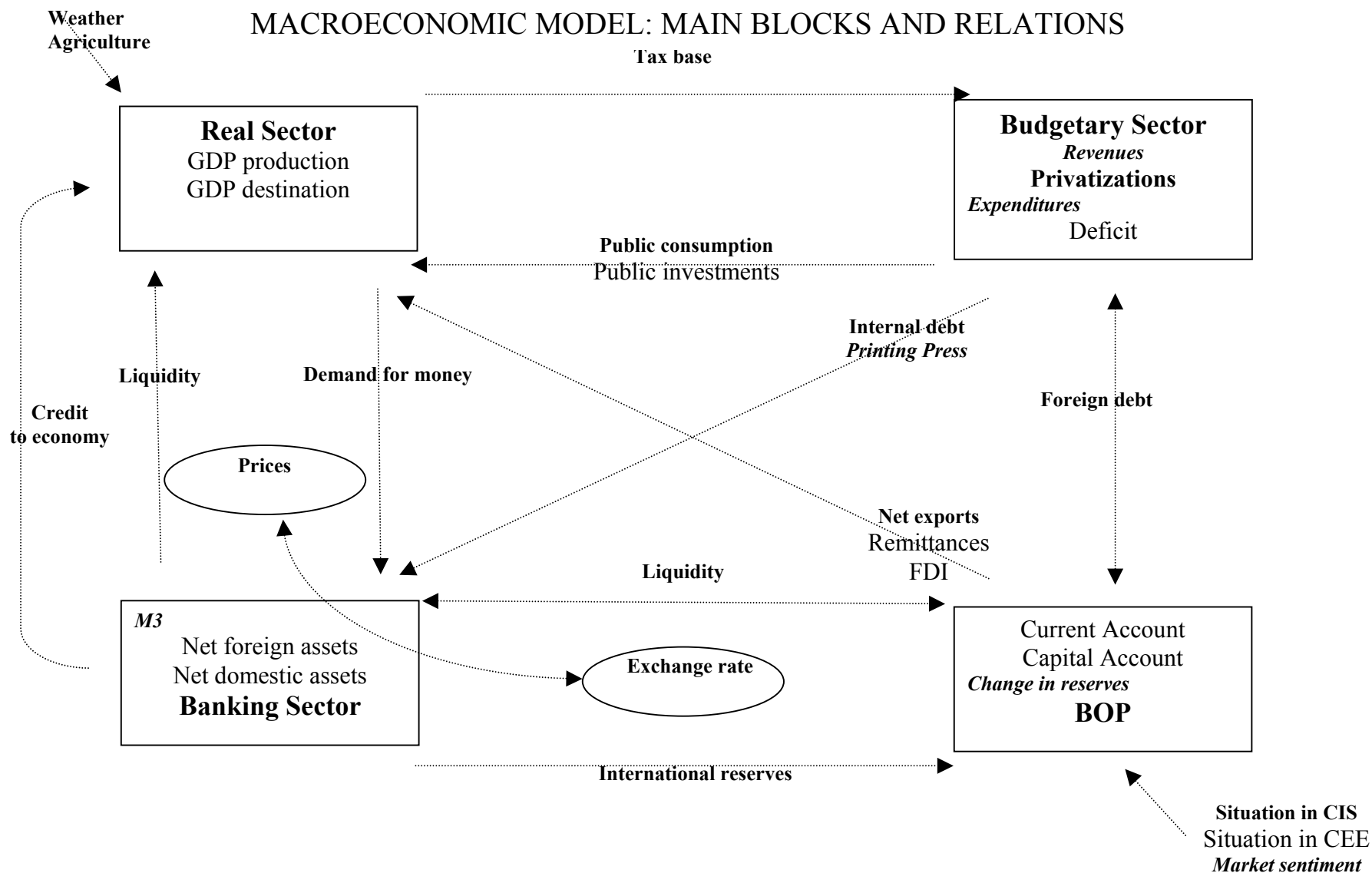


Table 3.1

GDP by expenditure, current prices, % of GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
final consumption	82.9	94.3	97.3	100.9	90	97.9	101.2	97.1	95.8	95.7
households	55.8	67.2	67.5	75.4	74.2	82.2	88.8	86.2	86	86.9
government and non-profit institutions	27.1	27.1	29.9	25.5	15.9	15.7	12.4	11	9.8	8.8
gross capital formation	24.9	24.2	23.8	25.9	22.9	22.3	21.2	23	23.1	22.7
private	22.8	22.3	21.2	23.6	22.1	21.2	20.6	22.4	22.5	22.1
public	2.08	1.91	2.62	2.26	0.84	1.1	0.65	0.61	0.6	0.57
net export	-7.8	-18.6	-21.2	-26.8	-12.9	-20.2	-22.5	-20.1	-18.9	-18.4
export	51.2	48.6	46.1	38	40.4	36.9	36.2	39.5	42.5	44.8
import	55	63.4	64.1	60.9	51	60.1	56.6	58.4	60.8	62.9
balance of services	-6.65	-3.78	-2.69	-4.31	-1.88	-1.48	-2.07	-1.21	-0.62	-0.24
GDP	100	100	100	100	100	100	100	100	100	100
gross national disposable income	102.5	107.6	106.4	108.2	112.8	118.4	114.7	115.4	116.5	116
current transferts	-0.02	0.032	0.024	0.024	0.029	0.052	0.051	0.059	0.073	0.071
net factor income	0.05	0.04	0.04	0.06	0.07	0.13	0.1	0.09	0.09	0.09

*Table 3.2***Government as % GDP***

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
government revenues**	26.6	25.2	31.5	27.8	25.2	24.5	23.8	23.1	23.0	22.5
revenues	39.4	36.4	41.2	38.4	31.5	30.7	29.4	27.8	27.0	26.1
tax revenues	33.5	31.0	33.9	32.1	24.8	24.9	25.0	23.4	22.3	21.6
income tax from individuals	3.1	2.8	3.2	2.5	1.8	1.7	1.4	1.2	1.0	0.9
profit tax	6.0	4.6	2.7	2.0	1.9	1.7	2.0	2.1	2.2	2.3
VAT	8.8	7.9	10.6	12.3	7.6	8.3	8.7	8.3	8.2	8.2
excise taxes	2.9	2.5	5.7	4.1	3.6	4.1	4.3	4.1	4.0	4.0
taxes on international trade	0.8	1.2	1.4	1.2	1.9	1.4	1.5	1.6	1.7	1.7
other taxes	2.0	2.2	2.1	1.5	1.6	1.4	1.6	1.3	1.1	0.9
social fund contributions	9.9	9.8	8.2	8.6	6.4	6.2	5.7	4.7	4.1	3.6
non-tax revenues	5.9	5.4	7.2	6.3	5.9	5.0	4.4	4.5	4.7	4.5
privatization revenues	0.4	0.5	2.7	0.8	1.1	0.0	0.0	0.0	0.0	0.0
Central Bank profits	2.9	1.4	1.5	2.0	1.3	2.4	1.3	1.4	1.6	1.4
other	2.6	3.5	3.1	3.4	3.4	2.6	3.1	3.1	3.1	3.1
grants	0.0	0.0	0.0	0.0	0.9	0.8	0.0	0.0	0.0	0.0

3. THE MACROECONOMIC MODEL (ANNUAL) FOR MOLDOVA: IMPLEMENTATION

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General public services	--	1.4	1.6	1.6	1.8	1.9	1.6	1.6	1.6	1.6
Defence	--	0.9	0.9	0.6	0.5	0.4	0.4	0.4	0.4	0.4
Public order and safety	--	2.3	2.6	2.2	1.7	1.6	1.5	1.5	1.5	1.5
Education	--	10.3	10.0	7.0	4.7	4.5	4.7	4.7	4.7	4.7
Health	--	6.7	6.0	4.3	2.9	3.0	2.9	2.9	2.9	2.9
Social security	--	2.1	5.1	4.0	3.8	3.8	2.7	3.4	3.7	4.0
transfers to the Social Fund	--	0.3	3.3	1.5	1.0	2.1	1.7	2.4	2.8	3.1
other expenditures	--	1.8	1.8	2.5	2.8	1.8	1.0	1.0	0.9	0.9
Recreation, culture and religion	--	0.8	0.9	0.9	0.5	0.5	0.5	0.5	0.5	0.5
Fuel and energy	--	0.0	0.4	0.0	0.3	0.1	0.0	0.0	0.0	0.0
Agriculture, forestry, fishing & hunting	--	1.4	0.9	1.0	1.1	1.0	0.5	0.5	0.5	0.5
Manufacturing & construction	--	0.035	0.038	0.025	0.028	0.041	0.04	0.04	0.04	0.0
Transportation & communications	--	1.05	1.09	0.86	0.57	0.62	0.5	0.5	0.5	0.5
Other economic	--	0.14	0.06	0.11	0.18	0.17	0.12	0.12	0.12	0.1
Other expenditures	--	3.84	3.59	3.28	1.83	1.71	1.98	1.98	1.98	2.0
Debt servicing	--	3.12	4.23	4.62	7.04	0.01	6.17	4.98	4.02	3.4
internal	--	1.69	2.39	2.67	3.55	3.65	2.9	2.24	1.78	1.5
external	--	1.42	1.85	1.94	3.79	2.73	3.27	2.75	2.24	1.9
Capital investments	--	1.99	2.63	2.25	0.9	1.14	0.65	0.61	0.6	0.6
Total expenditures excluding net lending	--	36.1	40.1	32.9	27.8	26.9	24.4	23.8	23.2	22.7
Expenditures of the Social Fund	--	9.8	11.9	10.0	7.2	8.3	7.4	7.1	6.9	6.6
Net lending	--	-1.8	0.3	0.3	0.6	-0.2	-0.1	-0.1	0.0	0.0
Cash balance	--	-7.6	-7.5	-3.4	-3.2	-1.0	-0.6	-0.6	-0.2	-0.2

Table 3.3

Budget deficit financing as % of GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
external financing	--	--	4.22	-3.32	1.23	-0.2	0.09	-3.96	-0.02	0.35
internal financing	--	--	3.6	6.94	2.55	0.71	-0.24	1.29	-0.85	-0.67
bank financing	--	--	1.45	5.39	2.02	-0.02	-0.93	0.03	-0.68	-0.38
net Central Bank	--	--	0.56	5.45	2.48	0	-0.69	0.03	-0.69	-0.38
net banks	--	--	0.89	-0.07	-0.46	-0.02	-0.24	0	0	0
net non-bank	--	--	2.15	1.56	0.53	0.72	0.69	1.26	-0.17	-0.29
Privatisation	--	--	0	0	0	1.95	0.76	3.31	1.04	0.5
Adjustments	--	--	0	-0.28	-0.58	-1.42	-0.05	0	0	0
total financing	--	--	7.82	3.35	3.21	1.04	0.56	0.64	0.16	0.17

Table 3.4

Debt and debt service

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
government debt	3421	4333	5455	9950	12550	13523	14998	17514	19437	21944
external government debt mil.lei	2944	3596	4471	8378	10639	11501	13024	15234	17404	20143
external government debt, mil.USD	650	770	972	981	907	929	930	871	870	876
domestic government debt	477	737	984	1572	1911	2022	1974	2281	2034	1801
to NBM	45	367	467	232	353	625	713	1013	966	866
others	431	370	517	1340	1558	1397	1261	1268	1068	935
government debt as % of GDP	53	56	61	109	102	85	76	74	67	63
external government debt as % of GDP	45	46	50	92	87	72	66	64	60	58
domestic government debt as % of GDP	7	9	11	17	16	13	10	10	7	5
debt service as % of government revenues	10	9	10	12	23	21	21	18	15	13
external debt service as % of government revenues	4	4	5	5	12	9	11	10	8	7
external debt service as % of exports	2	3	3	4	8	5	7	5	4	3
domestic debt service as % of government revenues	7	5	6	7	11	12	10	8	7	6

3. THE MACROECONOMIC MODEL (ANNUAL) FOR MOLDOVA: IMPLEMENTATION

Balance of payments, USD million

Table 3.5

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
current account	-115	-188	-274	-323	-47	-120	-117	-72	-36	-39
current account (excluding current transfers)	-180	-261	-351	-421	-133	-277	-260	-215	-179	-182
trade balance	-55	-252	-347	-387	-135	-306	-306	-286	-282	-293
Exports	739	823	890	644	475	477	542	597	657	723
exports to CIS countries	467	543	608	429	256	280	325	358	394	434
exports to non-CIS countries	272	280	282	215	219	197	217	239	263	289
Imports	794	1075	1237	1032	610	783	848	882	939	1016
imports of energy resources	293	328	337	245	245	164	197	221	247	275
imports of non energy resources	501	747	900	787	365	619	650	662	692	741
balance of services	-96	-64	-52	-73	-32	-43	-31	-18 *		-4
exports of services	130	114	134	119	137	164	180	193	208	224
imports of services	226	178	186	193	169	207	211	211	218	228
net income	-29	55	47	41	34	72	77	89	113	115
current transfers	65	73	77	98	86	157	143	143	143	143
capital account	62	170	324	3	-19	272	11	18	30	15
capital transfers	0	0	0	1	117	2	0	0	0	0
direct investments	73	23	71	86	39	128	111	164	120	108
medium- and long-term loans	74	101	11	40	97	33	-9	4	-18	-17
inflows	132	133	101	83	178	90	119	116	76	70
outflows	58	32	90	43	82	57	128	112	94	87
short term loans	-85	62	259	-116	-319	109	-91	-150	-72	-76
overall balance	-53	-1	-67	-311	-66	152	-106	-54	-6	-24
reserves adjustments	-78	-57	-52	227	-53	-46	-22	0	0	0
IMF credit	65	25	1	-64	5	-13	22	32	29	-19
exceptional financing	68	33	-15	148	114	-90	106	22	-23	43
gross official reserves	257	315	366	140	181	222	244	244	244	244
gross official reserves in months of imports	3.9	3.5	3.6	1.6	3.7	3.4	3.5	3.3	3.1	2.9
external debt	838	1071	1289	1451	1476	1490	1518	1426	1342	1273

3. THE MACROECONOMIC MODEL (ANNUAL) FOR MOLDOVA: IMPLEMENTATION

external debt in months of exports	13.6	15.6	17.4	27	37.8	37.6	33.6	28.7	24.5	21.1
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Table 3.6

Dynamics of prices, monetary aggregates and exchange rate

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
consumer price index, average	6306	7788	8705	9375	13055	17141	19524	22697	26641	30866
% change to the previous year	29.9	23.5	11.8	7.7	39.3	31.3	13.9	16.3	17.4	15.9
deflator PIB	45	58	65	72	100	127	150	176	208	242
% change to the previous year	--	27.9	12.6	9.5	39.9	27.2	18.1	16.8	18.1	16.8
velocity of M3, average	6.91	5.77	5.44	4.99	5.66	5.4	5.24	5.36	5.44	5.43
% change to the previous year	-21.6	-16.5	-5.6	-8.3	13.5	-4.7	-3	2.3	1.5	-0.2
M3, average	938	1352	1639	1829	2176	2961	3774	4441	5330	6396
% change to the previous year	74.5	44.1	21.2	11.6	19	36.1	27.5	17.7	20	20
M3, end of period	1244	1434	1922	1756	2503	3511	4038	4845	5814	6977
% change to the previous year	65.2	15.3	34	-8.7	42.6	40.3	15	20	20	20
reserve money, average	667	818	988	1092	1280	1722	2003	2254	2678	3182
% change to the previous year	74.6	22.6	20.9	10.5	17.2	34.5	16.3	12.5	18.8	18.8
reserve money, end of the year	782	854	1123	1061	1499	1945	2060	2448	2908	3455
% change to the previous year	41.6	9.3	31.5	-5.5	41.3	29.8	5.9	18.8	18.8	18.8
annual average exchange rate	4.5	4.6	4.6	5.4	10.5	12.4	13.2	15.8	18.8	21.5
% change to the previous year	10.3	2.4	0.4	16.5	95.5	18.2	6.1	19.4	19	14.7
exchange rate, and of period	4.5	4.7	4.6	8.5	11.7	12.4	14	17.5	20	23
% change to the previous year	6.1	3.1	-1.5	85.7	37.4	5.5	13.1	25	14.3	15
real exchange rate against non-CIS countries	80	68	63	70	100	92	88	93	96	98
% change to the previous year	-99.4	-15	-7.9	10.8	43.9	-7.8	-4.5	5.3	4	1.4

4. FOREIGN TRADE IMPACT ON MOLDOVAN OPEN ECONOMY

Terms of trade are defined as wins or losses of economy as a result of export and import prices changes. For small open economy, what the Moldova is, this parameter is particularly important. Moldovan economy substantially depends on the external economic factors and first of all - from an economic state of main trade partners. Trade partners diversification with orientation of export to economically more stable countries is absolute necessity for a Moldova. Prevalence of agricultural and food-processing products in Moldavian export makes a national economy dependent on unstable global market of these products. Diversification of branch export structure, expand of products and services share which not connected with agriculture also is absolute necessity for Moldova. Imperfection of branch and geographical structure of export in last 10 years was showed in pressure of adverse terms of trade on economic growth in Moldova. It is necessary to recognize, that the improvement of branch and geographical structure of export is impossible without the significant direct foreign investments.

For a quantitative estimation of terms of trade changes impact on GDP growth the **windfall profit** was calculated: volume of the financial resources received by the Moldovan residents from abroad (or paid by them abroad) as a result of foreign trade prices changes.⁵ Windfall profit represents the value added, which is redistributed free-of-charge for the national economy benefit (paid by national economy). Its amount may be considered as an estimation of potential economic growth rates with condition that influence of other factors of economic growth are neutrally. Considering this assumption, the difference between actual and potential rates of economic growth can be interpreted as the contribution to economic growth of other factors, including economic policy.

Positive size of windfall profit means, that the world prices for Moldovan export which have increased in comparison with the previous year (or the world prices for Moldovan import which have decreased) give the price subsidy for local economic agents that actually has been not connected to their own efforts. Negative size of windfall profit means, that reduction of the world prices for Moldovan export (increase of the world prices for Moldovan import) compels of economic agents to pay the appropriate price subsidy to foreign partners.

The change of import prices on raw material, materials and power products consumed during manufacture, directly influences on a level of created GDP. For calculation of windfall profit the share of import that supplied for final consumption and investment is amounted to 30% for 1991 and 45% for 2000 of total import. The results of windfall profit calculation by years are showed in table 1.

From the point of view of foreign trade impact (which are very important for Moldova as small open economy) on economic growth, last decade can be divided into four periods:

- **1991.** In the USSR there is gradual prices liberalization, inflation grows, centrifugal tendencies in political life accrue, the national consciousness in republics

⁵ Illarionov A. Economic policy in condition of open economy with significant raw material sector. – Issues of economy, No. 3, 2001.

Table 4.1

Calculation of terms of trade impact on GDP										
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
External trade volume (mil.										
Export	8.4	65	701.9	2318.5	3318	3786	4105	3475	4937	5968
Import	8.1	92.9	909.2	2733.9	3565	4945	5710	5571	6283	9823
Price										
Export	2.25	5.82	5.82	5.82	1.38	1.26	1.11	1.2	1.25	1.16
Import	3.16	10.43	10.43	10.43	1.12	1.12	1.01	1.08	1.55	1.26
Income from terms of trade (mil.										
Export	4.7	53.8	581	1920	914	781	407	579	987	823
Import	-3.9	-54.6	-534.3	-1606.7	-229.2	-317.9	-33.9	-227.0	-1226.2	-1114.8
Windfall profit (mil.	0.79	-0.8	47	313	685	463	373	352	-239	-292
Windfall profit as % of	3.1%	-0.4%	2.6%	6.6%	10.6%	6.0%	4.2%	3.9%	-1.9%	-1.8%
GDP (mil.	25.9	191.9	1821	4737	6480	7658	8917	9122	12322	15980
GDP	-17.5%	-29.1%	-1.2%	-30.9%	-1.4%	-5.9%	1.6%	-6.5%	-3.4%	1.9%
GDP growth adjusted on windfall	-20.6%	-28.7%	-3.8%	-37.5%	-12.0%	-11.9%	-2.6%	-10.4%	-1.5%	3.7%

grows. Becomes clear, that days of the USSR, meanwhile a global superstate, are finished. This year Moldova declares independence, and since this year the country is compelled to consume energy products under the world prices (or is little bit lower in exchange for political and economic concession to importers). At the same time, non-competitiveness of Moldavian production on foreign markets (including - traditional), both on quality, and under the price, was showed. In 1991 the energy import prices have grown in 4.5 times, the share of these products in import has risen up to 17.1 % (in 1989 – 7.3 %), and export prices of the main food-processing and agriculture products (40-45 % of export) have grown only in 3.3 times. Terms of trade calculation by main export and import products are showed in table 2.

- **1992-1994.** In 1992-1993, despite of independence declaration, Moldova had no Moldovan currency and was in a ruble zone with practically uncontrollable currency issue. Inflation of 1991 has developed into a hyperinflation. In this years a mid-annual inflation reached more than 1200 %, at the end of 1993 the Moldavian currency was entered and in 1994 inflation was reduced in 2 times. Owing to high inflation and shortsighted activities of the government legislatively limiting a level of profitability, the enterprises have lost circulating assets and practically became bankrupts. In this period the energy price have grown in 4350 times, the share of these products in import has risen up to 42 % while the export prices of main food-processing and agriculture products (50 % of export) have grown only in 968 times.

In 1991-1994 a GDP falling reached to 50 % that was caused also by crisis in Russia, that is a main market for Moldovan production. For these years Russia GDP decreased by 35 %.

- **1995-1998.** This period is characterized by relative stability in economy; low inflation and stable currency exchange rate are presented. Macroeconomic achievements of this period are connected to a rigid monetary policy. Soft budgetary restrictions and inconsistent actions of authorities in the field of structural reforms undermined them. From the point of view of terms of trade this period was extremely favorable for production escalation and for deep structural crisis overcoming. During this period the average import prices have grown in 1.4 times, including energy products - in 1.6 times, the share of these products in import was reduced up to 28.8%. At the same time the average export prices have grown in 2.3 times, including main food-processing and agriculture products - in 3.4 times. Unfortunately, the Moldavian authorities did not create conditions for deep re-structuring economy and for attraction of significant volumes both internal and foreign investments. Reforming of Moldovan economy basic sector (agriculture) was braked by authorities of various levels. Investments in a fixed capital for 1995-1997 years dropped by 30 %. Insignificant revival of economy in 1997 replaced the Russian 1998 crisis that caused 11.9 % GDP falling for period.

- **1999-2000.** Russian market demand was reduced as a result of regional financial crisis and Moldovan export was reduced significantly. In 1999 the export volume was lower almost in 2 times, than in 1997. Demand in the European markets was more stable, than in CIS market, therefore a share of non-CIS countries in total export increased from 30 % in 1997 to 46 % in 1999. However the Moldovan producers were non-competitive by main products in the European markets and consequently could not fill loss of east markets. The external economic conjuncture also braked economic growth in Moldova: the import prices of energy products have grown at 2.66 time while the export prices of main food-processing and agriculture products have grown only at 1.85 time.

Table 4.2

Export and import prices changes by main products

	Structure, 1989	Price indexes, 1990-1991	Structure, 1991	Price indexes, 1992-1994	Structure, 1994	Price indexes, 1995-1998	Structure, 1998	Price indexes, 1999-2000	Structure, 2000
Import of energy products*									
Gasoline	16.9%	4.8	23.1%	1580.5	12.8%	1.42	12.8%	3.57	16.1%
Diesel oil	14.0%	6.4	24.7%	1594.5	13.4%	1.63	14.6%	3.39	22.9%
Black oil	16.1%	5.5	19.9%	2003.5	15.2%	1.59	5.9%	3.77	3.5%
Gaz	17.1%	2.1	13.8%	6388.2	54.6%	1.33	46.3%	2.19	35.4%
Coal	26.4%	1.4	9.6%	11151.5	0.6%	1.92	0.9%	1.87	1.8%
Electricity	9.5%	2.6	9.0%	2224.1	3.5%	2.73	19.4%	1.80	20.3%
Weighted average price		4.5		4351.4		1.60		2.66	
Export of main food products**									
Cereales	1.5%	4.2	4.4%	4950.3	10.8%	0.20	5.7%	4.77	6.0%
Vegetables	2.4%	2.5	3.3%	1330.9	2.2%	1.82	0.8%	1.93	0.7%
Fruits	10.2%	2.3	2.2%	818.9	9.0%	1.50	2.7%	2.20	1.5%
Walnuts	0.0%	-	0.0%	-	1.1%	1.64	4.5%	2.70	7.5%
Grapes	0.7%	4.3	1.1%	324.1	8.7%	1.75	0.4%	2.07	0.7%
Vegetable cannery	5.5%	5.6	11.3%	492.6	6.1%	2.47	4.5%	1.40	4.9%
Fruit cannery, juice	8.9%	3.0	18.5%	266.5	9.8%	2.17	13.1%	1.73	8.0%
Sunflower oil	4.0%	1.9	4.2%	1170.6	3.0%	1.92	0.9%	1.21	1.3%
Sugar	4.7%	3.4	0.8%	571.8	11.1%	1.41	6.9%	2.10	0.6%
Vine	8.3%	1.4	12.7%	348.4	16.1%	5.19	43.9%	1.30	37.2%
Coniac	13.8%	1.3	5.0%	737.7	6.0%	2.18	2.8%	1.47	5.4%
Shampani	1.8%	2.4	1.1%	139.1	4.7%	3.57	2.4%	2.19	1.5%
Vine materials	18.2%	4.2	15.2%	211.9	1.2%	3.02	3.1%	2.05	10.9%
Tobacco	16.5%	2.9	12.6%	229.8	4.9%	2.91	6.7%	1.80	12.7%
Cigarettes	2.1%	4.7	6.7%	277.3	3.5%	1.67	0.9%	2.48	0.6%
Sweets	1.2%	1.7	1.0%	1450.7	1.6%	1.55	0.6%	1.80	0.5%
Weighted average price		3.3		968.3		3.40		1.85	
Memo:cummulative inflation		2.2		911.2		1.94		1.83	

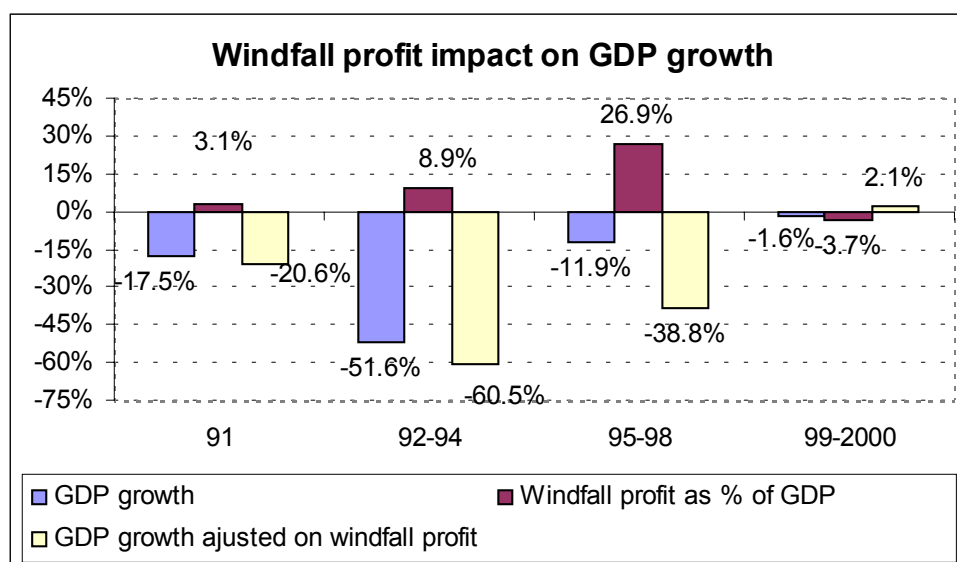
*Share of energy products in total import: 1989 - 7.3%, 1991 - 17.1%, 1994 - 42%, 1998 - 30.9%, 1999 - 33.8%, 2000 - 28.8%

**Share of main food products in total export: 1989 - 45.8%, 1991 - 41.9%, 1994 - 49.7%, 1998 - 60.8%, 1999 - 50.8%, 2000 - 48.2%

Lack of statistical data did not allow carrying out terms of trade calculations for all products of export and import. Price changes of the main products of import (energy) and export (agriculture and food-processing products) for 1991-1994, 1999 and 2000 assumed as a basis for terms of trade calculations. In these calculations the foreign trade statistics and data from natural-value input-output tables was used. Orientation to use of comparative advantages in foreign trade promoted change of export of main agriculture and food-processing products structure. In 1989 winemaking production amounted 42 %, in 2000 - 55 %; in 1989 walnuts practically were not taken out, by 2000 the share of this product amounted 7.5 % and Moldova became the largest walnuts importer to EU countries.

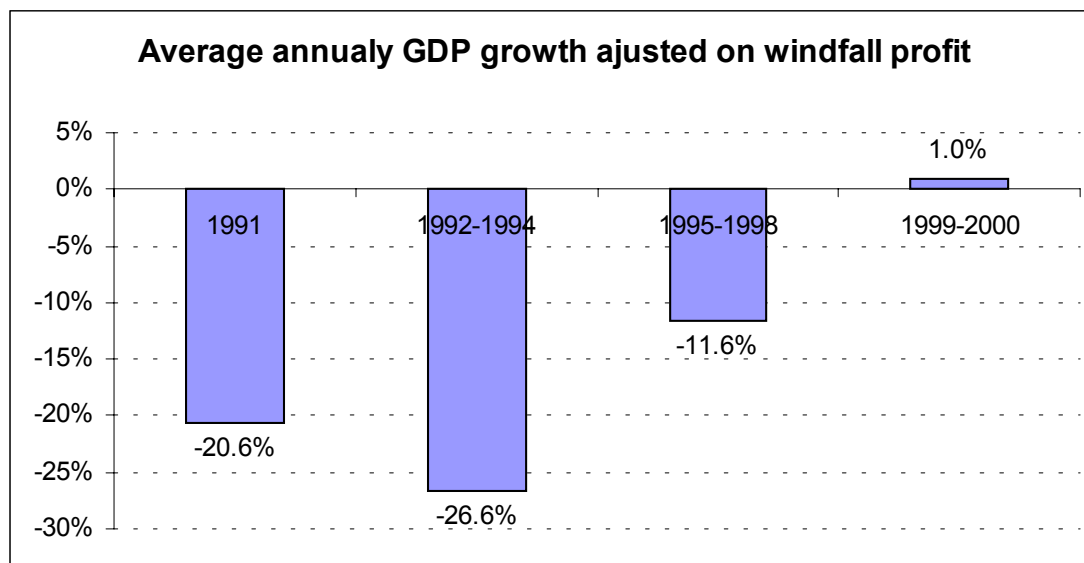
Windfall profit had increased economic growth by 3.1 % in 1990-1991, by 8.9 % in 1992-1994 and by 26.9 % in 1995-1998 (chart 1). In 1999-2000 the windfall profit promoted decrease of economic growth by 3.7 %. Thus, from 1990 to 2000 the windfall profit has caused GDP growth by 37.2%. Therefore, taking into account a windfall profit received by Moldovan economic entities at this period the GDP falling as a result of another reasons (including economic policy and structural reforms implementation) was more deeper.

Chart 4.1.



Provided the neutrality of windfall profit factor, the middle term GDP decline accounted for 20.6% in 1991, 26.6% in 1992-1994, 11.6% in 1995-1998, but for 1999-2000 average year GDP increased by 2.1% (chart 2). The decline of GDP in the years of crisis (1991-1993) was changed by the stagnation of economy up to Russian crisis of 1998. The observed in 1999-2000 a certain revival of economy was a consequence of the Russian market and increasing competitiveness of Moldovan production as a result of Moldovan currency devaluation. Unfortunately, the economic revival of this period was not backed-up by attracting a required amount of investments into the real economy and restructuring industrial enterprises in big volumes. In such conditions the economic reanimation, can be changed by depression.

Chart 4.2.



The reanimation of economic development in 2000 is very insignificant, this is why trendline for 2001 based on data 1991-2000 (chart 3) forecasts GDP growth with level at (- 3%), however, if we use trendline base on data 1995-2000 (excluding crisis GDP falling) then GDP growth forecast for 2001 reached to almost + 1% (chart 4). Considering the favorable weather conditions and possible improvement of trade conditions the GDP growth in 2001 can reach + 4-6%. However, it is more important to reach a sustainable growth, grounded on modernization of industry and effectiveness enhancement of agriculture.

Chart 4.3.

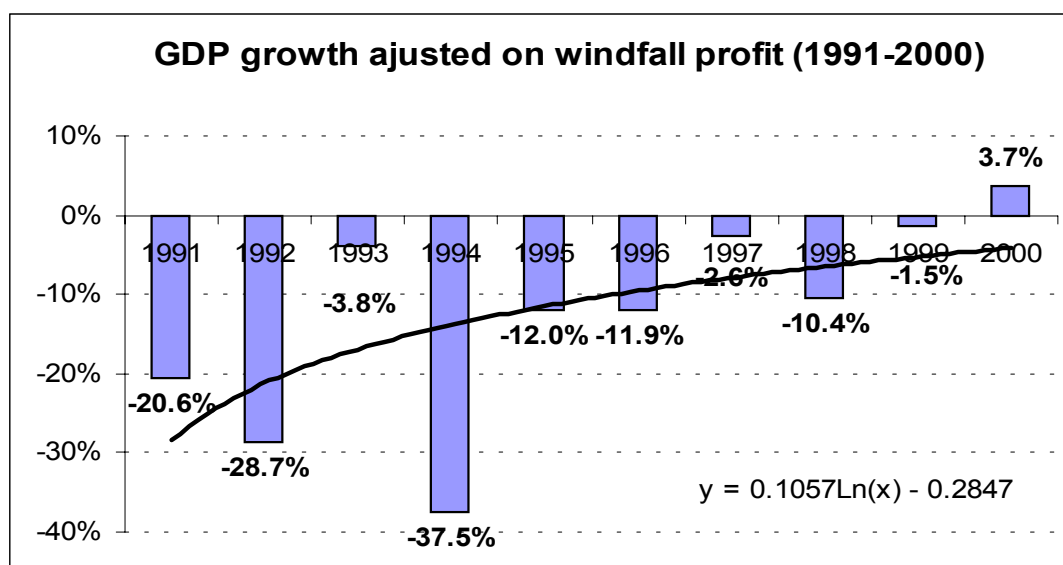
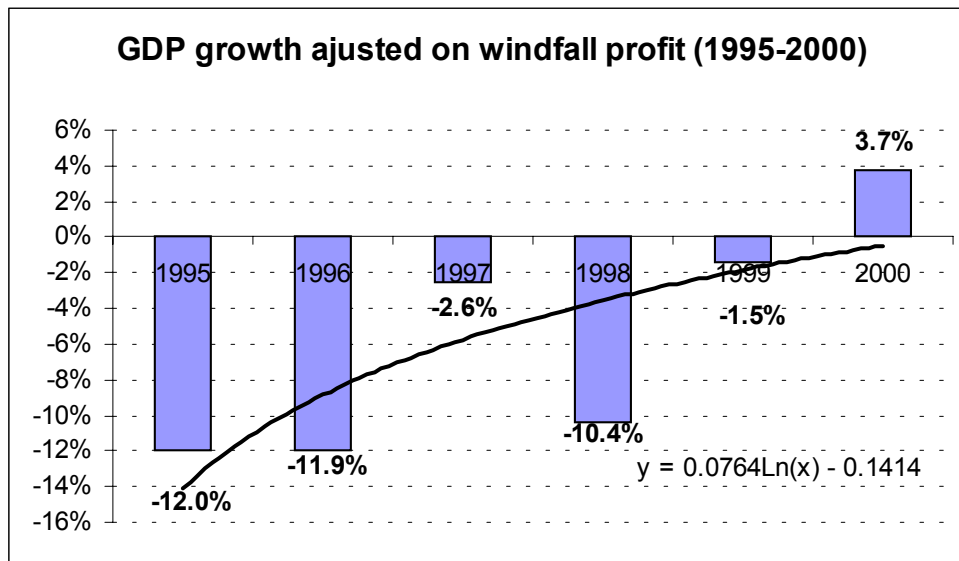


Chart 4.4.



International activities and trade development. Reaching a sustainable economic development it is possible only in conditions of raising competition of Moldovan production on external markets. Joining in WTO was the first step, which did not discriminate the promotion of Moldovan products on stable markets. The WTO membership will foster attraction of foreign investments, which respectively will lead to raising competitiveness of Moldovan production. By improving the trade conditions will lead to getting additional sources of raising GDP.

Joining to **Stability Pact for South East Europe** will help Moldovan producers exit to European market and compete with other countries of the region. In May 1999, by launching the Stability Pact for South Eastern Europe and subsequently the Stabilization and Association Process, the EU offers the opportunity for European Integration to five countries of South-Eastern Europe which do not have at present signed association agreements with the EU: Macedonia, Croatia, Albania, Bosnia-Herzegovina and Yugoslavia. The EU will sign with these countries, depending upon the degree of preparation of each country, Stabilization and Association Agreements (SAA). The countries that are not yet ready for an Agreement will receive assistance for the preparation of the necessary conditions.

By becoming full member of the Stability Pact for South Eastern Europe and by initiating association negotiations with the EU, Moldova will obtain a chance to be together with other European states of the region within the tomorrow's united Europe and would make a decisive step in the process of European integration. In spite of Moldova joining to Stability Pact Moldovan Parliament didn't approved yet the strategy of the Republic of Moldova for Becoming Associate Member of the European Union.

A Comprehensive Trade Policy Plan for the Western Balkans was prepared.⁶ This document argue that trade liberalization needs to be at the heart of reform and adjustment in the Western Balkans, especially given that all these countries are small economies without significant domestic markets. Mentioned document proposes a radical plan in three stages:

- Asymmetric liberalization of EU trade policies towards the Western Balkans and the removal of trade barriers for the region's exports to the EU.

⁶ The European Institute, Sofia; The Centre for European Policy Studies, Brussels. – 2000.

4. FOREIGN TRADE IMPACT ON MOLDOVAN OPEN ECONOMY

- The inclusion of the Western Balkans in CEFTA, thus further liberalizing intra-regional trade and trade with Central European countries.
- Free trade agreements between the region and EFTA and Turkey.

The Comprehensive Trade Policy Plan for the Western Balkans put forward by the European Commission in June 2000 and approved on 18 September by the General Affairs Council. Moldova should prepare himself for competitiveness among Balkan countries within the European market and for fight for high-tech investment from this market.

In line with developing trade relations with EU, the Stability Pact member countries extend mutual trade cooperation. The Memorandum on Trade Liberalization was signed.⁷ Agreement has been reached by Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the FYR of Macedonia, Romania, the Federal Republic of Yugoslavia. Moldova has expressed its wish to join the process and has signed a statement of intent. Provisions of this Memorandum envisage:

- Free trade between the signatory countries to be realized by completing the network of free trade agreements between them by the end of 2002.
- The agreements, both existing and those to be negotiated, will provide for free trade in at least 90% of the parties' mutual trade by value and of Harmonised System tariff lines; major tariff reductions are to be implemented in the beginning, with 6 year transition periods.
- The special status of those Signatory Countries that are candidates for accession to the EU is recognized.
- A standstill clause for non-tariff measures is included.

Recognizing the open trade regimes and primacy of multilateral trading systems and creating a framework for regional trade co-operation are a very important point for finding consensus among countries. Increasing of products competitiveness and, consequently, increasing of the wealth can be based only on the principals of economic openness and on the elimination of all possible obstacles from the way of market development.

⁷ Memorandum of Understanding on Trade Liberalization and Facilitation, Brussels, 27 June 2001

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

One of the problems most impeding the implementation of the government social program is insufficiency of sources in the budget and budget deficit. The budget revenues for the first half of 2001 made 1246.3 mil. lei, and has risen by 0.4% in comparison with 2000 in nominal terms. Taking into consideration that the cost of the minimal basket of goods in the first half of 2001 has risen in comparison to the same period of the last year by 12.6%, this means that in real terms the budgeted revenues declined essentially and made only 85.5% of the expected sum. Consequently, the problem of budget deficit in this year will be more acute than in last year.

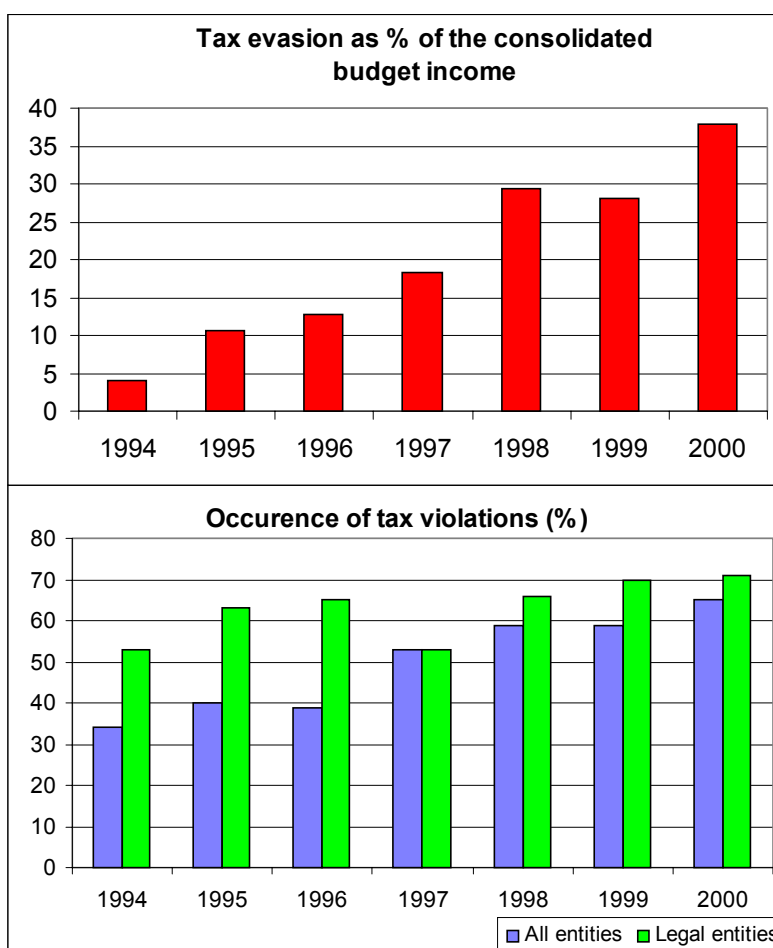
Among the most traditional ways to solve this problem are at least five: financing the budget deficit from supplementary loans, seigniorage, rising the tax burden, diminishing the expenditures of the government and reducing the tax evasion.

It is obviously that at present time it is almost impossible to solve the problem by first four ways. Raising the tax burden will discourage definitively the development of the real sector of the economy. As soon as the state debt is comparable with the GDP, resorting to seigniorage or to additional loans would destroy the financial system of the economy. Therefore reducing tax evasion is the only real way to solve the problem of scarcity of funds.

Being widely spread in the country, if considerably reduced, tax evasion presents a great potential source of supplementary revenues for the state budget. Diminishing this phenomenon in considerable proportions could create possibilities to relieve the current tax burden and

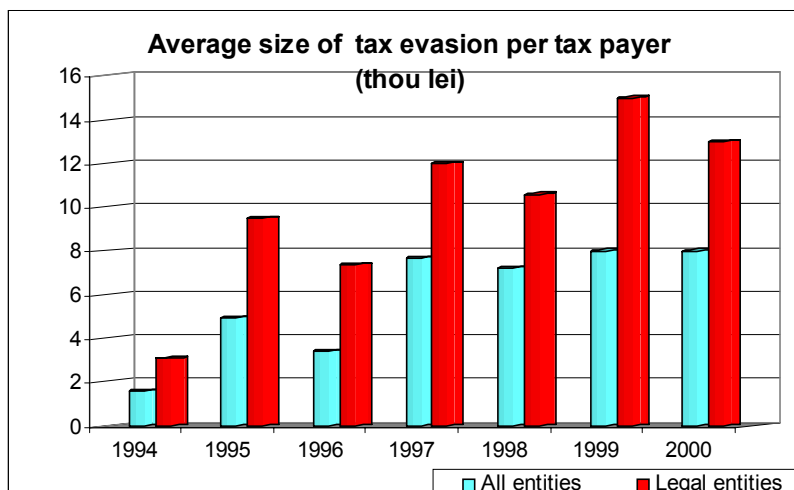
stimulate the real sector.

The evaluation of the amplitude of this phenomenon and explanation of its causes has to be done as the first step for the improvement of the tax policy in the Republic of Moldova. For this a model of estimation of total tax evasion in the Republic of Moldova was elaborated. (See "Tax Evasion in a Transition Economy: Theory and Empirical Evidence from the Former Soviet Union Republic of Moldova", John Anderson, Department of Economics, University of Nebraska, Lincoln, USA, and Lilia Carasciuc, Center for Strategic Studies and Reforms, Chisinau, Moldova, 1999, Journal "Public Economics", available in Internet : http://papers.ssrn.com/paper.taf?abstract_id=182812). The advantage of this model is that it can be used for both, country and local levels, in a single country, as well as in a number of countries.



As input data for the model there was used the information of the State Tax Service for the interval of time between 1994 and 2000. The data on 13.6 thousands of tax controls served as a sample of the general picture of tax evasion in the country and were extrapolated for the entire country.

The results of our calculations show that in 2000 of the total number of tax payers – 549673 (51723 legal entities and 497950 individual) only 13644 (8134 legal entities and 5773 individuals), or 2% were subject to tax controls (16% of legal entities and 1% of individuals). Of them in 65% of the audits violations of the tax law have been found (including 71% among legal entities and 55% among individuals). As the result a total amount of 192696 thousand lei was charged as supplementary payments (184124 thousand lei for legal entities and 8573 for individuals). Of them tax evasion made 113648 thousand lei, or 59% (109306 thousand lei, or 96.2% for legal entities and 4342 thousand lei, or 3.8% for individuals). The penalty rate formed 70% of the tax evaded sum (68.44% for legal entities and 97.4% for individuals).



The dynamic of tax evasion is as follows: if in 1994 the total tax evasion made about 4% of the total consolidated budget income, than in 2000 this indicator formed about 38%, or more than 900 million lei. Of them the legal entities made 93.76%, and the individuals – only 6.24%.

The occurrence of tax evasion, being measured as the per cent of detected tax law violation in the total number of controls, almost doubled in during 1994-2000, from 32% to 65%. The average size of tax evasion has risen from 1.8 to 8 thousand of lei.

All tax payers in the country can be grouped in two ways:

First way is according to the type of their legal organization (totally 15 types, including legal entities - state enterprises, joint enterprises, renting enterprises, cooperatives of all kinds, including kolkhozes, LTDs, stock companies, enterprises with participation of foreign capital, social organizations, banks, insurance companies, associations, concerns, other unions, farmers, budget institutions, other legal entities; as well as individuals - individual enterprises, collective societies, citizens who have taxable property, farmers, other societies.)

The second way of grouping the taxpayers is according to the geographical area of their location (11 regions/judets, such as the municipality of Chisinau, and the following judets: Balti, Cahul, Chisinau, Edinet, Lapusna, Orhei, Soroca, Taraclia, Tighina, Ungheni and Gagauzia. The Main Tax Inspectorate of the Republic of Moldova also gathered all big tax payers that operate on their territory of a number of regions in a special group noted conventionally "DUCCM".

In this paper we will make a short analysis of tax evasion in two of these divisions: by regions and by type of their legal organization.

Regional differences

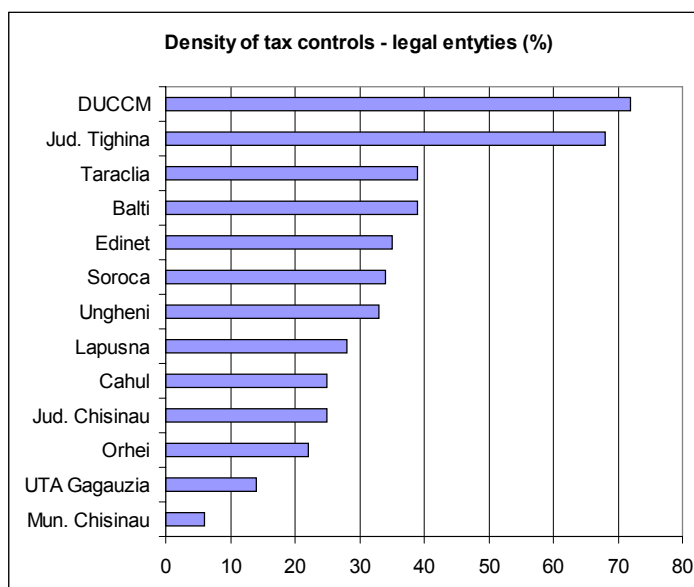
The results of our analysis of tax evasion in the division of regions in 2000 displays the following picture.

Density of controls

Among legal entities the most frequently subject to controls of tax inspections were the big taxpayers (DUCCM - 72% of the total number) and Tighina judets (68%). The least frequently subject to tax controls was the municipality of Chisinau (only 6% of the total number of officially registered tax payers), Gagauzia (14%), the judets o Chisinau (25%), the average for the Republic of Moldova being 16%.

Among individuals the most frequently were subject to controls those from Gagauzia (8%, probably, due to their small number in this region) and from jud. Soroca (20%). Most seldom were subject to tax controls the individuals from the following judets: Orhei, Chisinau and Ungheni (about 1% of the total), the average for Moldova being also 1%.

Most frequently subject to tax controls (totally, including legal entities and individuals), were DUCCM (72% of the total) and the tax payers from Taraclia (25%). The least visited by tax inspectors were taxpayers from Orhei, Chisinau and Ungheni (1%).

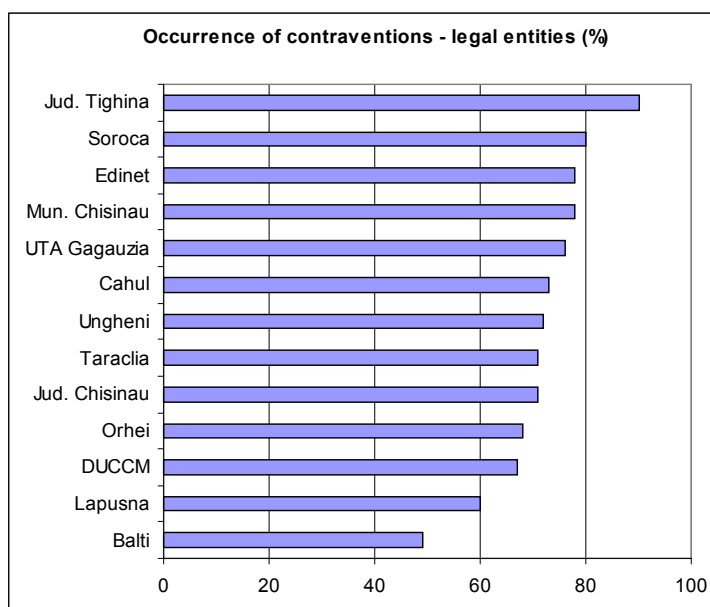


Occurrence of contraventions

Among legal entities the most frequently breaking the rules were those from Tighina (90%), Soroca (80%), Edinet (78%) and the municipality of Chisinau (78%). The minimal density of contraventions was observed in jud. Balti (49%) and Lapusna (60%), the average for Moldova being 90%.

Among individuals the most frequently breaking the tax legislation in 2000 were the following judets: Tighina (85%), Soroca (83%), Edinet (75%) and Chisinau (73%).

The least frequently breaking the rules were those from jud. Balti (34%) and Chisinau (38%), the average for Moldova being 55%.



For both, legal entities and individuals the most frequently breaking the tax legislation in Moldova in 2000 were jud. Tighina (89%), Soroca (81%), Edinet (76%), Gagauzia (74%) and jud. Chisinau (72%).

The least frequently breaking rules were the tax payers from jud. Balti (42%) and jud. Lapusna (58%), the average being 65%.

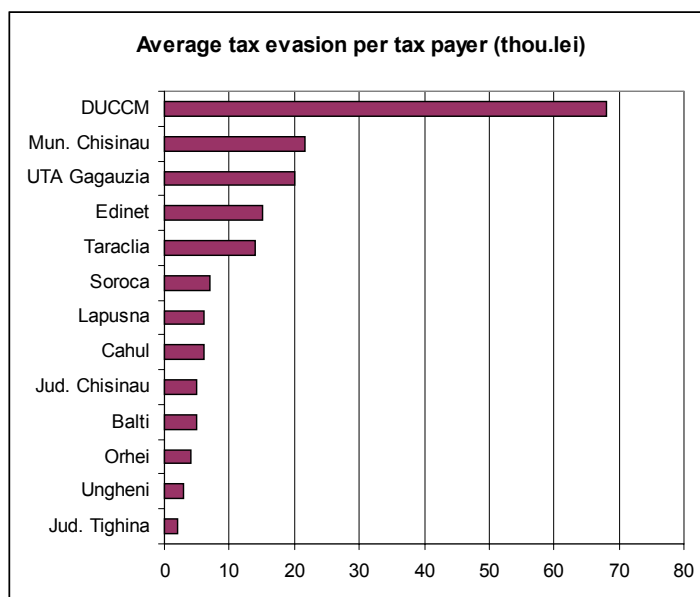
Detected tax evasion

Among legal entities the maximum of tax evasion was detected in the municipality of Chisinau – 41757.6 thousand lei, then come the big taxpayers (DUCCM) – 30587 thousand lei. Minimal tax evasion was detected in jud. Tighina – 1602 thousand lei. As soon as tax evasion is higher among big legal entities, the figures for total (legal entities and individuals) does not differ very much from the above. Thus, maximum tax evasion was detected for DUCCM. The jud. Ungheni (1660 thousand lei) and jud. Tighina (1686 thou lei) were the regions having the minimal tax evasion.

Average tax evasion per taxpayer among individuals is insignificant and does not affect the budget revenue in an essential way. Among legal entities the maximal average tax evasion was for DUCCM – 68 thousand of lei. Then come Chisinau – 21.69 thousand lei and Gagauzia (20 thousand lei).

Penalties

The total amount of penalties for breaking the tax legislation varied by regions from 35010.2 thousand lei in the municipality of Chisinau and 16241 thousand lei for DUCCM, to 311 thousand of lei for jud. Taraclia.



For legal entities the penalty varied from 34909.9 thousand lei in the municipality of Chisinau and 16241 thousand lei for DUCCM, to 1142 thousand lei in Cahul and Orhei, and, finally, jud. Taraclia – 125 thousand lei.

For individuals maximal penalties were in the municipality of Chisinau (1077.6 thou lei), and judets of Chisinau (727 thou lei). Jud. Lapusna (147 thousand lei) and Tighina (54 thousand lei) were subject to minimal penalties.

In fact, the total amount of penalties paid by a certain region does not explain how severe law breakers were punished. An indicator that would explain this would be the penalty rate, calculated as the amount of penalties divided by the amount of tax evasion.

Penalty rate

For both, legal entities and individuals, the most likely penalized in the year 2000 were jud. Tighina, where the penalty rate was 112%. Then come jud. Ungheni (97%), municipality of Chisinau (80%), jud. Orhei and Cahul (for both 77%).

Minimally penalized taxpayers were the ones from jud. Taraclia (13.5%), the average penalty rate for the Republic of Moldova in 2000 being at the level of 70%.

“Efficacy of tax evasion”

A synthetic indicator that describes how „efficient” is tax evasion in economic terms calculated for the tax payer is the term called „efficacy of tax evasion”. This indicator is as a ratio of the net benefit to expected losses taking into consideration the probability of being detected in tax evasions and the penalty rate (see the same model).

In geographical division the highest efficiency of tax evasion among legal entities was in the municipality of Chisinau, where this indicator reached 829%. Then comes Gagauzia with 337%, the average for Moldova being 278%. This means that, taking into consideration the low penalty rates and probability of being detected, the phenomenon of tax evasion will continue to grow in the future in all Moldova, and especially in the regions where this indicator is high.

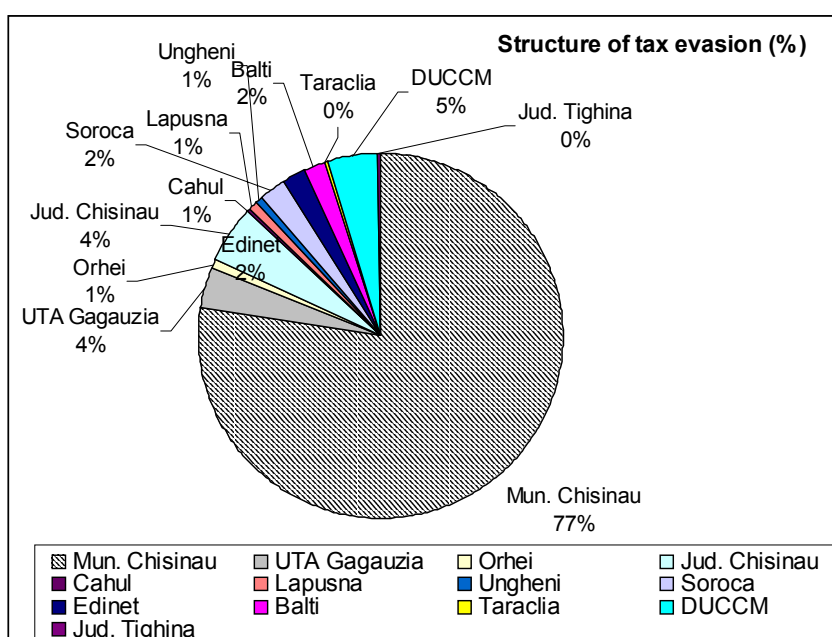
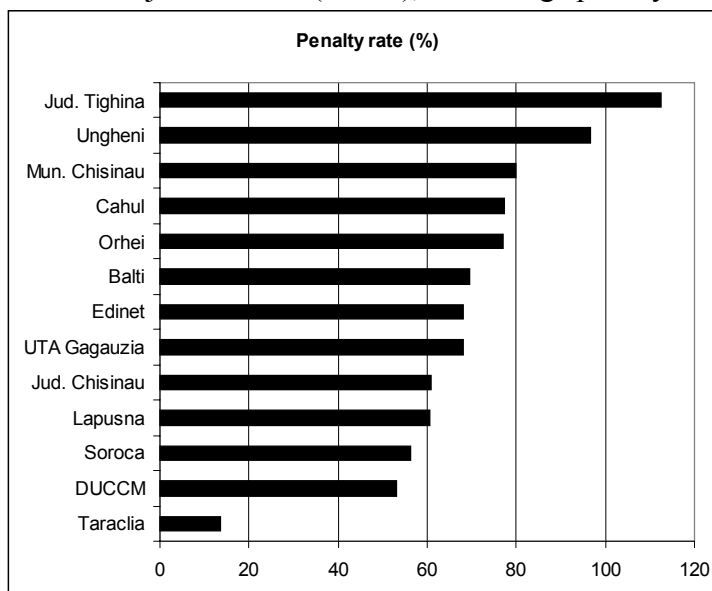
At the same time, in some regions this indicator remained relatively low. For example, in jud. Ungheni and Balti it made 53%. So, here tax evasion will grow slower. In jud. Tighina due to high penalty rate (113%) and frequent controls the „efficiency” of tax evasion was negative (-782%). The same situation was created among DUCCM, where this indicator made -8.73%. Tax evasion for these tax payers is likely to decline in the future.

Total tax evasion

As the result of application of the nominated above model, the total amount of tax evasion was estimated by regions. In this case total tax evasion means the amount of tax evasion for all tax payers, including the ones that were not subject to controls by tax authorities.

The results are as follows:

The main losses for the state vudget is caused by the municipality of Chisinau 723156 thousand lei, or 79.4% of the total tax evasion). Then comes the



judets of Chisinau (45537 thousand lei, or 5%). The losses to the budget caused by DUCCM are evaluated at the level of 43382 thousand lei, or 4.8%). The regions that contribute minimally to the losses for the state budget are jud. Tighina (1491 thousand lei, or 0.16%) and jud. Taraclia (2413 thousand lei, 0.27%).

Among legal entities maximal losses are caused by the municipality of Chisinau (702135 thousand lei, 77%), DUCCM (43382 thousand lei, 4.8%) and Gagauzia (29067 thousand lei, 3.2%).

Among individuals the most „guilty” regions are jud. Chisinau (32833 thousand lei, or 3.6%) and municipality of Chisinau (21020 thousand lei, or 2.3%).

Collection of penalties also varies by regions. Thus, in 2000 jud. Orhei collected a maximal share of penalties – 63.68%, jud. Tighina – 53.01%, jud. Chisinau – 51.08%. The minimal collection took place in Gagauzia, only 14.78%.

Among legal entities maximum of collections was achieved in jud. Orhei (65.95%), jud. Chisinau (61.66%). The minimal collection for this type of tax payers took place in Gagauzia (12.61%).

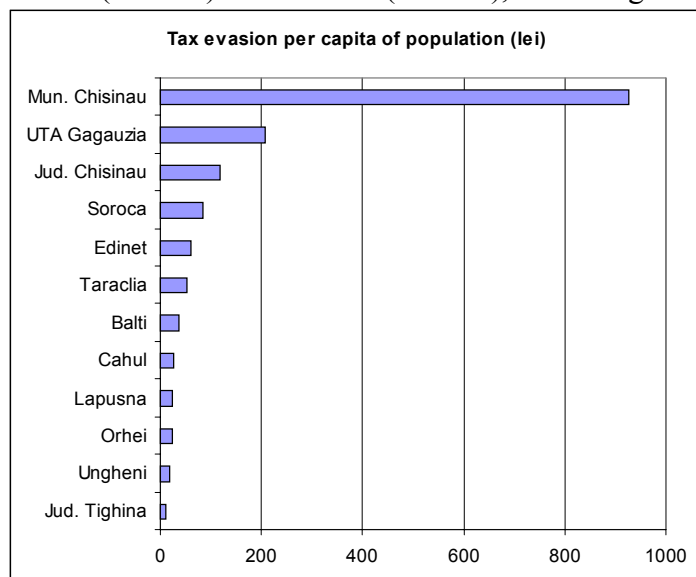
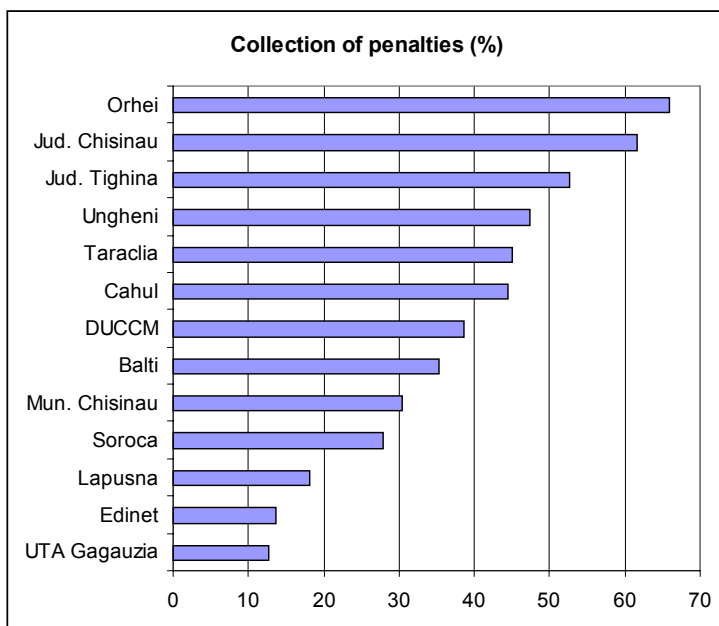
Among individuals the most significant collection took place in jud. Lapusna (78.7%), jud. Edinet and Tighina (63%). In most difficult way collection of penalties has occurred in jud. Soroca (11.86%) and Taraclia (13.25%), the average for Moldova being 33.16%.

Tax evasion per capita of population

The average size of tax evasion per capita of population varies essentially from one region to the other. Thus, this indicator made 926 lei in the municipality of Chisinau, then comes Gagauzia with 208 lei, then the judets of Chisinau – 119 lei. After this the average size of tax evasion per capita diminishes drastically to 10 lei in jud. Tighina.

Analysis by the type of legal organization of the enterprises

In 2000 the *most densely subject to tax controls* were the collective enterprises (43%), after them come the state enterprises and budget institutions, where 31% of the total number were subject to controls by tax inspections.



The most densely breaking the tax legislation were kolkhozes, where in 91% of the cases the tax inspectors registered violations of tax regulations. After them are the renting enterprises (80%), LTDs and stock companies (74%).

The *main amount of tax evasion* was detected by tax inspectors among LTDs- 54662 thousand lei, or 48.1% of the total amount of detected tax evasion. Then come stock companies – 21911 thousand lei, or 19.3% and the cooperatives – 10378 thousand lei, or 9.1%).

The *highest tax evasion per tax payer* was registered among the enterprises with foreign participation, where the average tax evasion reached 40 thousand lei. They are followed by the associations, concerns and consortiums – 37 thousand lei, and then - collective enterprises, where the average tax evasion reached 29 thousand of lei.

LTDs and stock companies were subject to the highest fines (correspondingly, 28106 and 21529 thousand lei). This is not surprising, taking into consideration the amount of tax evasion among these types of organizations.

The *most penalized types of tax payers* in 2000 were the renting enterprises, where the penalty rate reached 150%. They are followed by state enterprises (116%), insurance companies (100%), and farmers (121%).

The evaluation of the total amount of tax evasion shows that *maximum of tax evasion* occurred among LTDs (408255 thousand lei). They are followed by stock companies (78231 thousand lei), and enterprises with foreign participation - 71235 thousand lei.

Taking into the consideration the penalties and frequency of tax controls, *the most beneficiary process of tax evasion* was for the social organizations (2029%) and the enterprises with foreign participation (1713%). The *highest collection of penalties* took place among banks (94.55%), renting enterprises (72.29%) and budget institutions (53.2%).

The above analysis is mainly a static picture of tax evasion in the division of 21 types of legal organization and 12 regions of Moldova. It mainly proves the existence of a certain diversification of the phenomenon of tax evasion by regions of Moldova. Nevertheless, the model can not explain why the taxpayers from jud. Tighina are most penalized than in any other regions.

The low density of controls in the municipality of Chisinau can be explained by a large number of taxpayers in this region. Yet, taking into consideration the fact that the average size of tax evasion in this region is one of the highest, a further intensification of controls could bring some essential additional tax revenues to the state budget.

The group of big enterprises (DUCCM), having their activities on the territory of a number of regions, are subject to tax controls most frequently. This is mainly due to a high average size of tax evasion among these enterprises. Nevertheless, probably, due to high possibility to bribe the tax inspectors in a reach private enterprise, penalty rate for this group of enterprises is unexpectedly the lowest in the country.

A separate attention may be given to tax evasion in Gagauzia. Having one of the lowest density of controls and relatively small size of transactions, Gagauzia has one of the highest average sizes of tax evasion per taxpayer, and a relatively high occurrence of tax law violations. The penalty rate in this region is relatively low, and the collection of penalties is the lowest in the country. It looks like in this region the maximum is done in order to not contribute to the state budget.

All the above suggest the idea of a need to apply a more equitable approach to these regions in the country, equating the burden, otherwise the development of real sector in regions contributing more significantly to the budget revenues will be discouraged.

A more detailed analysis of causes of the dissemination of tax evasion in the Republic of Moldova, as well as concrete proposals to tackle this phenomenon will be done in a future study.

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of total tax evasion in the Republic of Moldova - 2000 (thousand lei)

	Total	Subjected	Density of Violations	Occurrence of Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collector	Collection	Collected	Collected	Total		
	to controls	audits	detected	violations	payments	evasions	evasion	from evasion	evasion (%)	total	total %	penalties	penalt. %	evasions		
Total legal entities and individuals	549673	13644	0.02	8920	0.65	192696	113648	8	84593	1768.58	79048	63905	33.16	28963	36.64	910629
Legal entities -total	51723	8134	0.16	5768	0.71	184124	109306	13	80351	277.50	74818	60921	33.09	27262	36.44	853765
including:																
state enterprises	1532	481	0.31	352	0.73	18862	8748	18	2826	47.71	10115	6197	32.85	2426	23.98	27862
joint enterprises	7	3	0.43	2	0.67	87	87	29	50	133.07	0	0	0.00	0	0.00	203
renting enterprises	76	5	0.07	4	0.80	25	10	2	8	516.55	15	18	72.29	7	48.65	154
cooperatives of all kinds	3433	768	0.22	599	0.78	14508	10378	14	7133	219.77	4129	3430	23.65	1433	34.71	46391
from them kolchozes	81	98	1.21	89	0.91	4663	3144	32	-2497	-44.27	1519	638	13.68	250	16.45	2599
LTDs	29352	3930	0.13	2895	0.74	82768	54662	14	43580	393.25	28106	25136	30.37	10174	36.20	408255
stock companies	5634	1578	0.28	1159	0.73	43441	21911	14	9744	80.09	21529	21598	49.72	11224	52.13	78231
enterprises with foreing invest.	1783	143	0.08	89	0.62	11166	5713	40	4818	537.94	5453	3209	28.74	1244	22.81	71235
social organizations	5652	148	0.03	67	0.45	889	496	3	472	2028.97	393	307	34.52	195	49.59	18927
banks	51	16	0.31	4	0.25	20	6	0	0	-0.59	14	19	94.55	13	92.09	20
insurance companies	110	3	0.03	2	0.67	102	51	17	48	1713.58	52	11	10.77	6	11.63	1852
associations, concerns	842	93	0.11	63	0.68	4431	3455	37	2966	605.91	976	157	3.53	75	7.72	31282
other unions																
farmers	416	19	0.05	14	0.74	62	28	1	25	882.46	34	10	15.54	10	27.62	613
budget institutions	1957	615	0.31	414	0.67	5228	3040	5	1398	85.07	2187	693	53.20	383	17.49	9675
other legal entities	878	280	0.32	104	0.37	2541	1708	6	898	110.78	833	137	5.38	73	8.75	5355
Individuals - total	497950	5773	0.01	3152	0.55	8573	4342	1	4243	4268.89	4231	2984	34.80	1701	40.21	56864
individual enterprises	55605	5106	0.09	2996	0.59	7003	3429	1	2786	433.19	3575	2633	37.60	1414	39.56	37341
collectiv societies	172	26	0.15	18	0.69	65	43	2	34	342.05	22	26	39.81	26	119.07	286
socien.with unlim.responsib.	38	5	0.13	3	0.60	50	25	5	18	276.96	25	3	6.40	3	12.70	188
citizens having taxable property	24	43	1.79	39	0.91	175.50	88.10	2.05	-226.34	-71.98	87.40	71	40.17	70.50	80.66	49
farmers	442111	328	0.00	96.00	0.29	1283.50	782.80	2.39	781.85	82107.69	500.70	250.80	19.54	187.80	37.51	1055135.64

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

Mun. Chisinau

	Total	Subjected	Density of	Violations	occurrence	Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collection	Collection	Collected	Collected	Total
		to controls	audits	detected	violations	payments	evasions	evasion	from evasion		evasion (%)	total	total %	penalties	penalt. %	evasions
Total legal entities and individuals	57240.00	2690.00	0.05	1783.00	0.66	78641.00	43630.80	16.22	38096.22	1030.81	35010.20	24252.80	30.84	12368.00	35.33	723156.26
Legal entities -total	32830.00	1925.00	0.06	1494.00	0.78	76667.50	41757.60	21.69	37262.17	828.89	34909.90	23319.70	30.42	11920.10	34.15	702135.49
including:																
state enterprises	581.00	51.00	0.09	43.00	0.84	9067.00	3075.50	60.30	2279.60	286.42	5991.50	3279.70	36.17	1379.60	23.03	35036.58
joint enterprises	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
renting enterprises	40.00	1.00	0.03	1.00	1.00	18.30	6.50	6.50	6.04	1320.77	11.80	16.90	92.35	6.40	54.24	260.00
cooperatives of all kinds	1784.00	40.00	0.02	25.00	0.63	455.00	312.70	7.82	302.50	2965.15	142.30	180.40	39.65	124.60	87.56	13946.42
from them kolchozes	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
LTDs	21567.00	1365.00	0.06	1092.00	0.80	45080.10	28424.40	20.82	25571.23	896.24	16655.70	11750.60	26.07	5208.50	31.27	449105.52
stock companies	3716.00	281.00	0.08	216.00	0.77	11737.50	4222.10	15.03	3334.52	375.69	7515.40	6881.90	58.63	4837.00	64.36	55833.89
enterprises with foreing invest.	1518.00	48.00	0.03	35.00	0.73	7729.50	3936.00	82.00	3691.59	1510.40	3793.50	1012.40	13.10	227.40	5.99	124476.00
social organizations	2463.00	36.00	0.01	18.00	0.50	387.60	146.40	4.07	140.73	2484.16	241.20	170.40	43.96	121.70	50.46	10016.20
banks	32.00	7.00	0.22	2.00	0.29	5.50	2.30	0.33	1.10	91.17	3.20	6.50	118.18	4.20	131.25	10.51
insurance companies	88.00	1.00	0.01	1.00	1.00	91.10	45.50	45.50	44.46	4295.17	45.60	0.00	0.00	0.00	0.00	4004.00
associations, concerns	314.00	3.00	0.01	3.00	1.00	0.00	0.00	0.00	0.00		0.00	0.00		0.00		0.00
other unions																
farmers	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
budget institutions	398.00	22.00	0.06	6.00	0.27	189.50	148.70	6.76	138.23	1319.59	40.80	0.40	53.20	0.40	0.98	2690.12
other legal entities	329.00	70.00	0.21	52.00	0.74	1906.40	1437.50	20.54	1031.88	254.40	468.90	5.70	0.30	3.10	0.66	6756.25
Individuals - total	24410.00	765.00	0.03	289.00	0.38	1973.50	895.90	1.17	834.05	1348.53	1077.60	933.10	47.28	447.90	41.56	21020.76
individual enterprises	19028.00	763.00	0.04	287.00	0.38	1868.60	838.60	1.10	763.67	1019.20	1030.00	921.20	49.30	437.50	42.48	20913.34
collectiv societies	8.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
socien.with unlim.responsib.	1.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00		0.00	0.00		0.00		0.00
citizens having taxable property	2.00	2.00	1.00	2.00	1.00	104.90	57.40	28.70	-47.50	-45.28	47.50	0.00	0.00	0.00	0.00	
farmers	5371.00													10.40		107.42

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

Jud. Balti

	Total	Subjected	Density of	Violations	ccurrence	Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collection	Collection	Collected	Collected	Total
		to controls	audits	detected	violations	payments	evasions	evasion	from evasion		evasion (%)	total	total %	penalties	penalt. %	evasions
Total legal entities and individuals	47256.00	2296.00	0.05	973.00	0.42	10419.00	6156.20	2.68	2297.86	453.92	4262.80	3693.10	35.45	1569.00	36.81	15346.38
Legal entities -total	3294.00	1273.00	0.39	628.00	0.49	9955.90	5919.90	4.65	2072.34	53.86	4036.00	3517.00	35.33	1438.00	35.63	12846.02
including:																
state enterprises	119.00	60.00	0.50	28.00	0.47	1071.00	668.60	11.14	128.60	23.81	402.40	264.10	24.66	142.20	35.34	1326.06
joint enterprises	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
renting enterprises	3.00	1.00	0.33	0.00	0.00	0.00					0.00	0.00		0.00		0.00
cooperatives of all kinds	228.00	98.00	0.43	77.00	0.79	2070.00	1404.10	14.33	514.36	57.81	665.90	719.60	34.76	136.70	20.53	3266.68
from them kolchozes	24.00	44.00	1.83	40.00	0.91	939.00	440.40	10.01	-1281.10	-74.42	498.60	325.70	34.69	83.20	16.69	240.22
LTDs	1605.00	572.00	0.36	308.00	0.54	2841.80	1644.10	2.87	631.32	62.34	1197.70	519.20	18.27	287.70	24.02	4613.25
stock companies	342.00	233.00	0.68	112.00	0.48	2597.70	1559.20	6.69	-210.58	-11.90	1038.50	1867.00	71.87	809.40	77.94	2288.61
enterprises with foreing invest.	52.00	10.00	0.19	5.00	0.50	65.40	32.90	3.29	20.32	161.59	32.50	14.30	21.87	10.30	31.69	171.08
social organizations	495.00	9.00	0.02	2.00	0.22	2.00	1.70	0.19	1.66	4575.00	0.30	1.30	65.00	0.00	0.00	93.50
banks	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
insurance companies	6.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
associations, concerns	33.00	0.00		0.00		0.00	0.00				0.00	0.70		0.70		0.00
other unions																
farmers	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
budget institutions	179.00	129.00	0.72	81.00	0.63	1206.10	566.50	4.39	-302.70	-34.83	639.60	113.20	53.20	44.20	6.91	786.07
other legal entities	229.00	160.00	0.70	15.00	0.09	101.40	42.30	0.26	-28.55	-40.29	59.10	17.60	17.36	6.80	11.51	60.54
Individuals - total	43965.00	1023.00	0.02	345.00	0.34	463.10	236.30	0.23	225.52	2092.91	226.80	176.10	38.03	131.00	57.76	2500.36
individual enterprises	7189.00	846.00	0.12	335.00	0.40	384.20	205.90	0.24	160.69	355.40	178.30	142.60	37.12	98.00	54.96	1749.66
collectiv societies	1.00	1.00	1.00	1.00	1.00	0.10	0.00	0.00	-0.10	-100.00	0.10	0.00	0.00	0.00	0.00	0.00
socien.with unlim.responsib.	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
citizens having taxable property	2.00	2.00	1.00	2.00	1.00	29.80	15.20	7.60	-14.60	-48.99	14.60	0.00	0.00	0.00	0.00	15.20
farmers	36775.00	174.00	0.00	7.00	0.04	50.00	16.20	0.09	15.96	6747.76	33.80	33.50	67.00	33.00	97.63	735.50

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

DUCCM

	Total	Subjected	Density of	Violations	ccurrence	Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collection	Collection	Collected	Collected	Total
		to controls	audits	detected	violations	payments	evasions	evasion	from evasion		evasion (%)	total	total %	penalties	penalt. %	evasions
Total legal entities and individuals	626.00	448.00	0.72	298.00	0.67	46828.00	30587.00	68.27	-2925.69	-8.73	16241.00	18110.00	38.67	5182.00	31.91	43382.21
Legal entities - total	626.00	448.00	0.72	298.00	0.67	46828.00	30587.00	68.27	-2925.69	-8.73	16241.00	18110.00	38.67	5182.00	31.91	43382.21
including:																
state enterprises	53.00	19.00	0.36	11.00	0.58	3532.00	1953.00	102.79	686.81	54.24	1579.00	1355.00	38.36	335.00	21.22	5447.84
joint enterprises	1.00	0.00	0.00	0.00		0.00	0.00				0.00	0.00		0.00		0.00
renting enterprises	4.00	0.00	0.00								0.00	0.00		0.00		0.00
cooperatives of all kinds	17.00	4.00	0.24	2.00	0.50	401.00	196.00	49.00	101.65	107.73	205.00	69.00	17.21	34.00	16.59	833.00
from them kolchozes	2.00	0.00	0.00			0.00					0.00	0.00		0.00		0.00
LTDs	194.00	147.00	0.76	105.00	0.71	23869.00	18646.00	126.84	559.70	3.09	5223.00	8780.00	36.78	2535.00	48.54	24607.65
stock companies	275.00	228.00	0.83	163.00	0.71	15898.00	8053.00	35.32	-5127.89	-38.90	7845.00	6261.00	39.38	1679.00	21.40	9713.05
enterprises with foreing invest.	48.00	38.00	0.79	11.00	0.29	2647.00	1476.00	38.84	-619.54	-29.56	1171.00	1510.00	57.05	528.00	45.09	1864.42
social organizations	4.00	2.00	0.50	1.00	0.50	57.00	30.00	15.00	1.50	5.26	27.00	57.00	100.00	27.00	100.00	60.00
banks	19.00	4.00	0.21	1.00	0.25	6.00	4.00	1.00	2.74	216.67	2.00	6.00	100.00	2.00	100.00	19.00
insurance companies	2.00	1.00	0.50	1.00	1.00	11.00	5.00	5.00	-0.50	-9.09	6.00	0.00	11.00	0.00	0.00	10.00
associations, concerns	5.00	4.00	0.80	2.00	0.50	61.00	25.00	6.25	-23.80	-48.77	36.00	61.00	100.00	36.00	100.00	31.25
other unions																
farmers	0.00	0.00		0.00	0.00	0.00					0.00	0.00		0.00		0.00
budget institutions	4.00	1.00	0.25	1.00	1.00	346.00	199.00	199.00	112.50	130.06	147.00	0.00	53.20	0.00	0.00	796.00
other legal entities	0.00	0.00		0.00	0.00	0.00					0.00	0.00		0.00		0.00
Individuals - total	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
individual enterprises	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
collectiv societies	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
socien. with unlim. responsib.	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
citizens having taxable property	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
farmers	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

Jud. Chisinau

	Total	Subjected to controls	Density of audits	Violations detected	Occurrence violations	Additional payments	Detected evasions	Average evasion	Net benefit from evasion	Penalties	Efficacy of evasion (%)	Collection total	Collection total %	Collected penalties	Collected penalt. %	Total evasions
Total legal entities and individuals	76374.00	1092.00	0.01	787.00	0.72	6831.20	4245.90		2957.20	3027.66	2585.30	3489.20	51.08	1295.00	50.09	21812.40
Legal entities -total	2640.00	651.00	0.25	463.00	0.71	5169.30	3311.30	5.09	2036.60	159.77	1858.00	3187.30	61.66	1153.30	62.07	12704.77
including:																
state enterprises	112.00	43.00	0.38	31.00	0.72	667.40	415.10	9.65	158.87	62.00	252.30	267.90	40.14	68.00	26.95	1081.19
joint enterprises	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
renting enterprises	6.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
cooperatives of all kinds	369.00	119.00	0.32	77.00	0.65	852.00	622.20	5.23	347.44	126.45	229.80	708.50	83.16	138.00	60.05	1929.34
from them kolchozes	5.00	2.00	0.40	0.00	0.00	0.00	0.00				0.00	0.00		0.00		0.00
LTDs	1214.00	295.00	0.24	227.00	0.77	1464.50	994.60	3.37	638.73	179.48	469.90	645.70	44.09	293.90	62.55	4093.03
stock companies	196.00	97.00	0.49	70.00	0.72	1530.30	900.30	9.28	142.96	18.88	630.00	1072.20	70.06	432.10	68.59	1819.16
enterprises with foreign invest.	41.00	8.00	0.20	7.00	0.88	187.30	98.20	12.28	61.65	168.70	89.10	220.70	117.83	93.50	104.94	503.28
social organizations	365.00	5.00	0.01	4.00	0.80	59.50	28.70	5.74	27.88	3421.18	30.80	57.60	96.81	27.20	88.31	2095.10
banks	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
insurance companies	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
associations, concerns	75.00	18.00	0.24	11.00	0.61	123.40	77.00	4.28	47.38	159.99	46.40	23.60	19.12	10.70	23.06	320.83
other unions																
farmers	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
budget institutions	203.00	56.00	0.28	28.00	0.50	153.80	73.80	1.32	31.37	73.94	80.00	111.10	53.20	54.50	68.13	267.53
other legal entities	59.00	10.00	0.17	8.00	0.80	130.60	100.90	10.09	78.76	355.83	29.70	80.00	61.26	35.40	119.19	595.31
Individuals - total	73734.00	621.00	0.01	324.00	0.52	1661.90	934.60	1.50	920.60	6577.24	727.30	301.90	18.17	141.70	19.48	9107.62
individual enterprises	3698.00	413.00	0.11	300.00	0.73	1518.20	855.30	2.07	685.74	404.44	662.90	255.00	16.80	125.00	18.86	7658.35
collectiv societies	44.00	7.00	0.16	4.00	0.57	7.10	4.10	0.59	2.97	262.98	3.00	3.20	45.07	2.50	83.33	25.77
socien. with unlim. responsib.	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
citizens having taxable property	7.00	1.00	0.14	1.00	1.00	8.60	3.40	3.40	2.17	176.74	5.20	0.00		0.00		23.80
farmers	69985.00	200.00	0.00	19.00	0.10	128.00	71.80	0.36	71.43	19528.61	56.20	43.70	34.14	14.20	25.27	1399.70

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

Jud. Cahul

	Total	Subjected	Density of	Violations	ccurrence	Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collection	Collection	Collected	Collected	Total
	to controls	to controls	audits	detected	violations	payments	evasions	evasion	from evasion		evasion (%)	total	total %	penalties	penalt. %	evasions
Total legal entities and individuals	36186.00	774.00	0.02	533.00	0.69	3052.00	1721.50	2.22	1036.65	1587.99	1330.50	1375.60	45.07	958.60	72.05	5593.03
Legal entities -total	1134.00	279.00	0.25	205.00	0.73	2764.30	1622.40	5.82	942.29	138.55	1141.90	1230.50	44.51	857.30	75.08	4674.32
including:																
state enterprises	48.00	43.00	0.90	30.00	0.70	779.90	485.90	11.30	-212.76	-30.45	294.00	133.00	17.05	41.30	14.05	542.40
joint enterprises	2.00	1.00	0.50	1.00	1.00	0.20	0.10	0.10	0.00	0.00	0.10	0.00	0.00	0.00	0.00	0.20
renting enterprises	4.00	1.00	0.25	1.00	1.00	0.30	0.30	0.30			0.00					0.00
cooperatives of all kinds	58.00	42.00	0.72	35.00	0.83	1039.00	661.90	15.76	-90.48	-12.03	377.10	317.80	30.59	190.90	50.62	914.05
from them kolchozes	10.00	18.00	1.80	16.00	0.89	663.60	329.20	18.29	-865.28	-72.44	334.40	206.70	31.15	94.70	28.32	182.89
LTDs	435.00	87.00	0.20	62.00	0.71	166.50	75.30	0.87	42.00	126.13	91.20	135.60	81.44	108.70	119.19	376.50
stock companies	141.00	102.00	0.72	74.00	0.73	698.00	370.80	3.64	-134.14	-26.56	327.20	591.60	84.76	463.90	141.78	512.58
enterprises with foreing invest.	7.00	0.00	0.00	0.00		0.00	0.00		0.00		0.00					0.00
social organizations	261.00	1.00	0.00	1.00	1.00	12.40	6.30	6.30	6.25	13160.48	6.10	0.00	0.00	0.00	0.00	1644.30
banks	0.00	0.00		0.00		0.00	0.00				0.00					0.00
insurance companies	2.00	0.00	0.00	0.00		0.00	0.00				0.00					0.00
associations, concerns	39.00	0.00	0.00	0.00		0.00	0.00		0.00		0.00	13.50		13.50		0.00
other unions																
farmers	0.00	0.00		0.00		0.00					0.00					0.00
budget institutions	114.00	1.00	0.01	0.00	0.00	32.50	0.00	0.00	-0.29	-100.00	32.50	38.00	53.20	38.00	116.92	0.00
other legal entities	23.00	1.00	0.04	1.00	1.00	34.50	21.80	21.80	20.30	1353.33	12.70	0.00	0.00	0.00	0.00	501.40
Individuals - total	35052.00	578.00	0.02	328.00	0.57	287.70	99.10	0.17	94.36	1988.91	188.60	145.10	50.43	101.30	53.71	918.71
individual enterprises	3245.00	488.00	0.15	401.00	0.82	206.50	42.50	0.09	11.45	36.86	164.00	128.90	62.42	85.10	51.89	282.61
collectiv societies	1.00	0.00	0.00	0.00		0.00	0.00		0.00		0.00	0.00		0.00		0.00
socien.with unlim.responsib.	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
citizens having taxable property	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
farmers	31805.00	90.00	0.00	90.00	1.00	81.20	56.60	0.63	56.37	24532.77	24.60	16.20		16.20		636.10

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

Jud. Tighina

	Total	Subjected to controls	Density of audits	Violations detected	Occurrence violations	Additional payments	Detected evasions	Average evasion	Net benefit from evasion	Penalties	Efficacy of evasion (%)	Collection total	Collection total %	Collected penalties	Collected penalt. %	Total evasions
Total legal entities and individuals	40628.00	1014.00	0.02	856.00	0.84	3580.00	1685.50		-853.86	-955.64	1894.50	1897.60	53.01	951.20	50.21	2428.82
Legal entities -total	1059.00	774.00	0.73	653.00	0.84	3438.50	1601.50	2.07	-911.62	-36.27	1837.00	1810.40	52.65	906.70	49.36	1490.79
including:																
state enterprises	55.00	43.00	0.78	39.00	0.91	343.70	254.10	5.91	-14.61	-5.44	89.60	0.20	0.06	0.20	0.22	325.01
joint enterprises	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
renting enterprises	1.00	0.00	0.00	0.00		0.00	0.00				0.00	0.00		0.00		0.00
cooperatives of all kinds	109.00	109.00	1.00	108.00	0.99	548.60	357.20	3.28	-191.40	-34.89	191.40	258.90	47.19	139.80	73.04	357.20
from them kolchozes	5.00	7.00	1.40	7.00	1.00	152.30	85.50	12.21	-127.72	-59.90	66.80	18.20	11.95	11.00	16.47	61.07
LTDs	369.00	339.00	0.92	281.00	0.83	814.90	517.80	1.53	-230.85	-30.84	297.10	621.50	76.27	190.20	64.02	563.62
stock companies	86.00	145.00	1.69	137.00	0.94	1055.10	523.40	3.61	-1255.55	-70.58	531.70	653.10	61.90	334.10	62.84	310.43
enterprises with foreign invest.	6.00	4.00	0.67	4.00	1.00	239.10	21.80	5.45	-137.60	-86.32	217.30	239.10	100.00	217.30	100.00	32.70
social organizations	230.00	6.00	0.03	5.00	0.83	0.10	0.00	0.00	0.00	-100.00	0.10	0.20	200.00	0.20	200.00	0.00
banks	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
insurance companies	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
associations, concerns	45.00	4.00	0.09	3.00	0.75	2.00	0.00	0.00	-0.18	-100.00	2.00	0.00		0.00		0.00
other unions																
farmers											0.00	0.00		0.00		0.00
budget institutions	128.00	64.00	0.50	72.00	1.13	418.70	-81.90	-1.28	-291.25	-139.12	500.60	32.60	53.20	20.90	4.17	-163.80
other legal entities	30.00	60.00	2.00	4.00	0.07	16.30	9.10	0.15	-23.50	-72.09	7.20	3.50	21.47	2.70	37.50	4.55
Individuals - total	39569.00	240.00	0.01	203.00	0.85	138.30	58.60	0.24	57.76	6885.85	79.70	87.20	63.05	44.50	55.83	938.03
individual enterprises	1235.00	225.00	0.18	195.00	0.87	82.00	30.70	0.14	15.76	105.50	51.30	47.60	58.05	29.00	56.53	168.51
collectiv societies	3.00	0.00	0.00	0.00		0.00					0.00	0.00		0.00		0.00
socien. with unlim. responsib.	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
citizens having taxable property	5.00	5.00	1.00	3.00	0.60	5.40	3.00	0.60	-2.40	-44.44	2.40	0.00		0.00		3.00
farmers	38326.00	10.00	0.00	5.00	0.50	50.90	24.90	2.49	24.89	0.00	26.00	39.60	77.80	15.50	59.62	766.52

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

UTA Gagauzia

	Total	Subjected	Density of	Violations	ccurrence	Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collection	Collection	Collected	Collected	Total
		to controls	audits	detected	violations	payments	evasions	evasion	from evasion		evasion (%)	total	total %	penalties	penalt. %	evasions
Total legal entities and individuals	4219.00	439.00	0.10	324.00	0.74	8991.30	5363.70		4150.60	443.64	3627.60	1329.30	14.78	718.70	19.81	32374.33
Legal entities -total	1800.00	254.00	0.14	192.00	0.76	8130.00	5008.60	19.72	3861.37	336.58	3121.40	1025.30	12.61	551.70	17.67	27964.85
including:																
state enterprises	93.00	25.00	0.27	19.00	0.76	378.30	307.70	12.31	206.01	202.58	70.60	167.80	44.36	54.20	76.77	1144.64
joint enterprises	1.00	1.00	1.00	1.00	1.00	87.00	87.00	87.00	0.00	0.00	0.00	0.00		0.00		87.00
renting enterprises	5.00	0.00	0.00	0.00		0.00	0.00				0.00	0.00		0.00		0.00
cooperatives of all kinds	113.00	27.00	0.24	21.00	0.78	1533.40	1261.70	46.73	895.31	244.36	271.70	120.70	7.87	99.20	36.51	5280.45
from them kolchozes	8.00	7.00	0.88	7.00	1.00	1155.20	964.10	137.73	-46.70	-4.62	191.10	56.60	4.90	47.30	24.75	1101.83
LTDs	581.00	85.00	0.15	61.00	0.72	2267.10	1090.60	12.83	758.92	228.82	1176.50	294.10	12.97	107.20	9.11	7454.57
stock companies	154.00	57.00	0.37	54.00	0.95	3227.80	1945.60	34.13	750.89	62.85	1282.20	368.70	11.42	235.90	18.40	5256.53
enterprises with foreing invest.	18.00	2.00	0.11	1.00	0.50	1.80	0.90	0.45	0.70	350.00	0.90	4.60	255.56	4.60	511.11	8.10
social organizations	264.00	8.00	0.03	5.00	0.63	219.00	188.60	23.58	181.96	2741.92	30.40	16.70	7.63	16.70	54.93	6223.80
banks	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00	0.00	0.00
insurance companies	2.00	1.00	0.50	0.00		0.00	0.00				0.00	0.00		0.00		0.00
associations, concerns	5.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
other unions																
farmers	409.00	15.00	0.04	11.00	0.73	36.80	17.10	1.14	15.75	1167.01	19.70	7.70	20.92	7.50	38.07	466.26
budget institutions	119.00	32.00	0.27	18.00	0.56	115.70	58.70	1.83	27.59	88.67	57.00	44.10	53.20	25.50	44.74	218.29
other legal entities	36.00	1.00	0.03	1.00	1.00	262.40	50.70	50.70	43.41	595.58	211.70	0.00	0.00	0.00	0.00	1825.20
Individuals - total	2419.00	185.00	0.08	132.00	0.71	861.30	355.10	1.92	289.23	439.09	506.20	304.00	35.30	167.00	32.99	4409.49
individual enterprises	2328.00	168.00	0.07	121.00	0.72	757.80	293.70	1.75	239.01	437.06	464.10	278.80	36.79	141.30	30.45	4069.84
collectiv societies	73.00	14.00	0.19	9.00	0.64	53.80	36.60	2.61	26.28	254.73	17.20	22.30	41.45	22.80	132.56	190.84
socien.with unlim.responsib.	18.00	3.00	0.17	2.00	0.67	49.70	24.80	8.27	16.52	199.40	24.90	2.90	5.84	2.90	11.65	148.80
citizens having taxable property	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
farmers	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

Jud. Edinet

	Total	Subjected	Density of	Violations	ccurrence	Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collection	Collection	Collected	Collected	Total
		to controls	audits	detected	violations	payments	evasions	evasion	from evasion		evasion (%)	total	total %	penalties	penalt. %	evasions
Total legal entities and individuals	52749.00	1230.00	0.02	935.00	0.76	12927.10	7692.20		3423.09	1135.60	5234.90	2095.10	16.21	1337.90	25.56	18386.58
Legal entities -total	1418.00	493.00	0.35	383.00	0.78	12251.20	7268.70	14.74	3009.29	70.65	4982.50	1665.30	13.59	1121.80	22.51	15146.45
including:																
state enterprises	94.00	39.00	0.41	36.00	0.92	1155.50	553.70	14.20	74.29	15.50	601.80	255.80	22.14	76.90	12.78	1334.56
joint enterprises	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
renting enterprises	4.00	1.00	0.25	1.00	1.00	5.10	2.60	2.60	1.33	103.92	2.50	1.10	21.57	0.80	32.00	10.40
cooperatives of all kinds	142.00	76.00	0.54	66.00	0.87	3437.70	2506.30	32.98	666.40	36.22	931.40	219.30	6.38	121.50	13.04	4682.82
from them kolchozes	2.00	15.00	7.50	14.00	0.93	1095.90	809.40	53.96	-7409.85	-90.15	286.50	30.60	2.79	13.60	4.75	107.92
LTDs	553.00	192.00	0.35	136.00	0.71	1260.20	615.80	3.21	178.26	40.74	644.40	261.80	20.77	187.60	29.11	1773.63
stock companies	132.00	85.00	0.64	69.00	0.81	1904.20	1015.50	11.95	-210.69	-17.18	888.70	879.40	46.18	728.40	81.96	1577.01
enterprises with foreing invest.	6.00	2.00	0.33	2.00	1.00	41.20	19.10	9.55	5.37	39.08	22.10	0.00	0.00	0.00	0.00	57.30
social organizations	275.00	17.00	0.06	10.00	0.59	44.60	41.70	2.45	38.94	1412.46	2.90	0.90	2.02	0.90	31.03	674.56
banks	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
insurance companies	9.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
associations, concerns	25.00	13.00	0.52	12.00	0.92	4002.20	2190.40	168.49	109.26	5.25	1811.80	1.80	0.04	1.80	0.10	4212.31
other unions																
farmers	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
budget institutions	160.00	63.00	0.39	47.00	0.75	395.80	321.70	5.11	165.85	106.42	74.10	10.10	53.20	3.40	4.59	817.02
other legal entities	18.00	5.00	0.28	4.00	0.80	4.70	1.90	0.38	0.59	45.53	2.80	5.10	108.51	0.50	17.86	6.84
Individuals - total	51331.00	737.00	0.01	552.00	0.75	675.90	423.50	0.57	413.80	4263.98	252.40	429.80	63.59	216.10	85.62	3240.13
individual enterprises	4371.00	692.00	0.16	541.00	0.78	552.60	364.30	-55.20	276.81	316.41	188.30	419.50	75.91	211.30	112.21	2301.09
collectiv societies	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
socien.with unlim.responsib.	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
citizens having taxable property	0.00	0.00		0.00	0.00	0.00	0.00				0.00	0.00		0.00		0.00
farmers	46952.00	45.00	0.00	11.00	0.24	123.30	59.20	48.90	59.08	49995.67	64.10	10.30	8.35	4.80	7.49	939.04

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

Jud. Lapusna

	Total	Subjected	Density of	Violations	ccurrence	Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collection	Collection	Collected	Collected	Total
		to controls	audits	detected	violations	payments	evasions	evasion	rom evasion		evasion (%)	total	total %	penalties	penalt. %	evasions
Total legal entities and individuals	40561.00	723.00	0.02	416.00	0.58	4474.70	2789.10	3.86	1589.30	1992.56	1685.60	952.00	21.28	834.50	49.51	7428.04
Legal entities - total	1495.00	422.00	0.28	253.00	0.60	4244.20	2705.10	6.41	1507.07	125.80	1539.10	770.60	18.16	656.50	42.65	6245.30
including:																
state enterprises	128.00	48.00	0.38	35.00	0.73	620.40	326.30	6.80	93.65	40.25	294.10	113.10	18.23	111.70	37.98	870.13
joint enterprises	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
renting enterprises	3.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
cooperatives of all kinds	101.00	78.00	0.77	55.00	0.71	1264.80	1030.20	13.21	53.42	5.47	234.60	240.70	19.03	216.20	92.16	1333.98
from them kolchozes	1.00	1.00	1.00	1.00	1.00	65.10	45.80	45.80	-19.30	-29.65	19.30	0.00	0.00	0.00	0.00	45.80
LTDs	637.00	163.00	0.26	87.00	0.53	752.70	412.30	2.53	219.69	114.06	340.40	119.20	15.84	114.00	33.49	1611.26
stock companies	129.00	71.00	0.55	44.00	0.62	1282.40	743.60	10.47	37.78	5.35	538.80	149.40	11.65	85.10	15.79	1351.05
enterprises with foreing invest.	11.00	6.00	0.55	5.00	0.83	10.10	3.40	0.57	-2.11	-38.28	6.70	16.30	161.39	16.30	243.28	6.23
social organizations	241.00	1.00		0.00	0.00	0.00	0.00	0.00			0.00	0.00		0.00		0.00
banks	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
insurance companies	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
associations, concerns	45.00	18.00	0.40	10.00	0.56	79.90	54.70	3.04	22.74	71.15	25.20	1.70	2.13	1.70	6.75	136.75
other unions																
farmers	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
budget institutions	185.00	23.00	0.12	9.00	0.39	200.80	113.30	4.93	88.34	353.85	87.50	107.10	53.20	88.40	101.03	911.33
other legal entities	15.00	13.00	0.87	8.00	0.62	33.10	21.30	1.64	-7.39	-25.75	11.80	23.10	69.79	23.10	195.76	24.58
Individuals - total	39066.00	301.00	0.01	163.00	0.54	230.50	84.00	0.28	82.22	4629.78	146.50	181.40	78.70	178.00	121.50	1182.73
individual enterprises	2640.00	260.00	0.10	125.00	0.48	118.60	44.70	0.17	33.02	282.70	73.90	34.50	29.09	31.80	43.03	453.88
collectiv societies	25.00	0.00	0.00	0.00		0.00	0.00				0.00	0.00		0.00		0.00
socien. with unlim. responsib.	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
citizens having taxable property	4.00	31.00	7.75	29.00	0.94	19.80	7.10	0.23	-146.35	-95.37	12.70	61.30	309.60	61.30	482.68	0.92
farmers	36397.00	10.00	0.00	9.00	0.90	91.80	32.20	3.22	32.17	127567.04	59.60	85.30	92.92	84.60	141.95	727.94

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

Jud. Orhei

	Total	Subjected	Density of	Violations	ccurrence	Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collection	Collection	Collected	Collected	Total
		to controls	audits	detected	violations	payments	evasions	evasion	from evasion		evasion (%)	total	total %	penalties	penalt. %	evasions
Total legal entities and individuals	76250.00	930.00	0.01	556.00	0.60	3562.90	2000.50	2.15	1264.57	2910.03	1562.40	2269.00	63.68	1064.20	68.11	8526.65
Legal entities - total	1961.00	435.00	0.22	296.00	0.68	3310.00	1916.60	4.41	1182.36	161.03	1393.40	2183.10	65.95	1011.20	72.57	6382.74
including:																
state enterprises	79.00	33.00	0.42	21.00	0.64	75.10	31.60	0.96	0.23	0.73	43.50	108.80	144.87	45.40	104.37	75.65
joint enterprises	1.00	0.00	0.00	0.00		0.00	0.00				0.00	0.00		0.00		0.00
renting enterprises	2.00	1.00	0.50	1.00	1.00	1.20	0.70	0.70	0.10	16.67	0.50	0.00		0.00	0.00	1.40
cooperatives of all kinds	211.00	66.00	0.31	51.00	0.77	1140.10	785.10	11.90	428.48	120.15	355.00	235.60	20.66	51.60	14.54	2509.94
from them kolchozes	17.00	0.00	0.00	0.00		0.00	0.00				0.00	0.00		0.00		0.00
LTDs	678.00	128.00	0.19	85.00	0.66	564.70	291.20	2.28	184.59	173.15	273.50	254.80	45.12	159.20	58.21	1542.45
stock companies	170.00	91.00	0.54	53.00	0.58	777.50	465.40	5.11	49.21	11.82	312.10	1479.00	190.23	710.40	227.62	869.43
enterprises with foreing invest.	22.00	8.00	0.36	8.00	1.00	183.80	94.70	11.84	27.86	41.69	89.10	31.80	17.30	16.70	18.74	260.43
social organizations	415.00	4.00	0.01	4.00	1.00	0.70	0.20	0.05	0.19	2864.29	0.50	0.30	42.86	0.20	40.00	20.75
banks	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
insurance companies	1.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
associations, concerns	159.00	24.00	0.15	14.00	0.58	79.20	67.40	2.81	55.45	463.79	11.80	7.70	9.72	0.80	6.78	446.53
other unions																
farmers	0.00	0.00		0.00		0.00	0.00				0.00	0.00		0.00		0.00
budget institutions	171.00	76.00	0.44	55.00	0.72	449.00	170.30	2.24	-29.26	-14.66	278.70	63.80	53.20	25.90	9.29	383.18
other legal entities	52.00	4.00	0.08	4.00	1.00	39.70	21.00	5.25	17.95	587.66	18.70	1.30	3.27	1.00	5.35	273.00
Individuals - total	74289.00	495.00	0.01	260.00	0.53	252.90	83.90	0.17	82.21	4878.89	169.00	85.90	33.97	53.00	31.36	2143.91
individual enterprises	4527.00	460.00	0.10	244.00	0.53	234.50	75.20	0.16	51.37	215.59	159.30	73.50	31.34	41.80	26.24	740.07
collectiv societies	7.00	0.00	0.00	0.00		0.00	0.00				0.00	0.00		0.00		0.00
socien. with unlim. responsib.	7.00	2.00	0.29	1.00	0.50	0.30	0.00	0.00	-0.09	-100.00	0.30	0.30	100.00	0.30	100.00	0.00
citizens having taxable property	6.00	2.00	0.33	2.00	1.00	3.40	3.00	1.50	1.87	164.71	0.40	9.20	270.59	9.20	2300.00	9.00
farmers	69742.00	31.00	0.00	13.00	0.42	14.70	5.70	0.18	5.69	87134.89	9.00	2.90	19.73	1.70	18.89	1394.84

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

Jud. Soroca

	Total	Subjected	Density of	Violations	ccurrence	Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collection	Collection	Collected	Collected	Total
		to controls	audits	detected	violations	payments	evasions	evasion	from evasion		evasion (%)	total	total %	penalties	penalt. %	evasions
Total legal entities and individuals	58576.00	829.00	0.01	670.00	0.81	7511.90	4807.20		2664.25	2506.05	2704.70	1909.00	25.41	936.90	34.64	23838.53
Legal entities -total	1684.00	567.00	0.34	453.00	0.80	6348.70	4168.80	7.35	2031.20	95.02	2179.90	1771.00	27.90	860.90	39.49	14346.90
including:																
state enterprises	77.00	25.00	0.32	24.00	0.96	792.80	469.30	18.77	211.90	82.32	323.50	77.30	9.75	36.20	11.19	1445.44
joint enterprises	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
renting enterprises	4.00	0.00	0.00	0.00		0.00					0.00	0.00		0.00		0.00
cooperatives of all kinds	156.00	19.00	0.12	17.00	0.89	1130.40	829.90	43.68	692.22	502.79	300.50	171.40	15.16	54.40	18.10	6813.92
from them kolchozes	3.00	4.00	1.33	4.00	1.00	591.90	469.90	117.48	-319.30	-40.46	122.00	0.00		0.00		352.43
LTDs	765.00	291.00	0.38	271.00	0.93	2161.70	1098.90	3.78	276.61	33.64	1062.80	1001.10	46.31	469.30	44.16	2888.86
stock companies	119.00	61.00	0.51	58.00	0.95	770.30	448.20	7.35	53.34	13.51	322.10	334.20	43.39	230.60	71.59	874.36
enterprises with foreing invest.	18.00	7.00	0.39	5.00	0.71	15.20	6.90	0.99	0.99	16.73	8.30	15.20	100.00	8.30	100.00	17.74
social organizations	362.00	51.00	0.14	13.00	0.25	103.20	50.90	1.00	36.36	250.09	52.30	2.50	2.42	1.20	2.29	361.29
banks	0.00	0.00				0.00	0.00				0.00	0.00		0.00		0.00
insurance companies	0.00	0.00				0.00	0.00				0.00	0.00		0.00		0.00
associations, concerns	56.00	5.00	0.09	4.00	0.80	53.40	45.70	9.14	40.93	858.50	7.70	31.00	58.05	2.20	28.57	511.84
other unions																
farmers	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
budget institutions	127.00	108.00	0.85	61.00	0.56	1321.70	1219.00	11.29	95.03	8.46	102.70	139.30	53.20	58.70	57.16	1433.45
other legal entities	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
Individuals - total	56892.00	262.00	0.00	217.00	0.83	1163.20	638.40	2.44	633.04	11817.59	524.80	138.00	11.86	76.00	14.48	9491.63
individual enterprises	3870.00	243.00	0.06	202.00	0.83	976.10	529.40	2.18	468.11	763.76	446.70	138.00	14.14	76.00	17.01	8431.19
collectiv societies	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
socien.with unlim.responsib.	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
citizens having taxable property	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
farmers	53022.00	19.00	0.00	15.00	0.79	187.10	109.00	5.74	108.93	162475.54	78.10	0.00		0.00		1060.44

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

Jud. Taraclia

	Total	Subjected	Density of	Violations	ccurrence	Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collection	Collection	Collected	Collected	Total
		to controls	audits	detected	violations	payments	evasions	evasion	from evasion		evasion (%)	total	total %	penalties	penalt. %	evasions
Total legal entities and individuals	1245.00	318.00	0.26	228.00	0.72	2622.30	2311.50		1399.84	209.00	310.80	982.30	37.46	489.00	157.34	2419.58
Legal entities -total	339.00	133.00	0.39	95.00	0.71	1999.60	1874.50	14.09	1090.00	138.94	125.10	899.80	45.00	458.30	366.35	2179.65
including:																
state enterprises	31.00	12.00	0.39	9.00	0.75	169.80	144.60	12.05	78.87	119.99	25.20	36.50	21.50	18.20	72.22	373.55
joint enterprises	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
renting enterprises	0.00	0.00		0.00		0.00					0.00	0.00		0.00		0.00
cooperatives of all kinds	30.00	18.00	0.60	11.00	0.61	159.30	155.90	8.66	60.32	63.11	3.40	37.40	23.48	37.40	1100.00	259.83
from them kolchozes	0.00	0.00		0.00							0.00	0.00				0.00
LTDs	135.00	36.00	0.27	28.00	0.78	164.90	121.70	3.38	77.73	176.76	43.20	104.60	63.43	50.70	117.36	456.38
stock companies	35.00	47.00	1.34	37.00	0.79	1499.70	1448.60	30.82	-565.28	-28.07	51.10	579.70	38.65	233.90	457.73	1078.74
enterprises with foreing invest.	15.00	4.00	0.27	1.00	0.25	0.30	0.20	0.05	0.12	150.00	0.10	138.70		116.90		0.75
social organizations	45.00	0.00	0.00	0.00							0.00	0.00		0.00		0.00
banks	0.00	0.00		0.00							0.00	0.00		0.00		0.00
insurance companies	0.00	0.00		0.00							0.00	0.00		0.00		0.00
associations, concerns	11.00	0.00		0.00							0.00	0.00		0.00		0.00
other unions																
farmers	0.00	0.00		0.00							0.00	0.00		0.00		0.00
budget institutions	27.00	9.00	0.33	6.00	0.67	5.10	3.40	0.38	1.70	100.00	1.70	2.40	53.20	0.80	47.06	10.20
other legal entities	10.00	5.00	0.50	3.00	0.60	0.40	0.10	0.02	-0.10	-50.00	0.30	0.40	100.00	0.30	100.00	0.20
Individuals - total	906.00	185.00	0.20	133.00	0.72	622.70	437.00	2.36	309.85	243.68	185.70	82.50	13.25	30.70	16.53	239.93
individual enterprises	577.00	181.00	0.31	131.00	0.72	107.50	73.20	0.40	39.48	117.07	34.30	82.50	76.74	30.70	89.50	233.35
collectiv societies	0.00	0.00		0.00							0.00	0.00		0.00		0.00
socien.with unlim.responsib.	0.00	0.00		0.00							0.00	0.00		0.00		0.00
citizens having taxable property	0.00	0.00		0.00							0.00	0.00		0.00		0.00
farmers	329.00	4.00	0.01	2.00	0.50	515.20	363.80	90.95	357.54	5707.95	151.40	0.00	0.00	0.00	0.00	6.58

5. SHRINKING TAX EVASION AS A POTENTIAL SOURCE OF THE STATE BUDGET ENHANCEMENT

Evaluation of tax evasion by regions - 2000 (thousand lei)

Jud. Ungheni

	Total	Subjected	Density of	Violations	ccurrence	Additional	Detected	Average	Net benefit	Penalties	Efficacy of	Collection	Collection	Collected	Collected	Total
	to controls	to controls	audits	detected	violations	payments	evasions	evasion	from evasion		evasion (%)	total	total %	penalties	penalt. %	evasions
Total legal entities and individuals	57760	861	0.01	561	1	3266	1667		657	1349	1598	1550	47	1258	79	5937
Legal entities -total	1446	480	0.33	355	1	3016	1564	3	563	56	1452	1431	47	1144	79	4266
including:																
state enterprises	62	40	1	27	1	210	63	2	-73	-54	147	138	66	117	80	97
joint enterprises	2	0		0		0					0	0		0		0
renting enterprises	0	0		0		0					0	0		0		0
cooperatives of all kinds	115	71	1	54	1	475	254	4	-39	-13	221	121	25	89	40	411
from them kolchozes	4	0	0	0		0					0	0		0		0
LTDs	619	231	0	152	1	1360	729	3	222	44	631	648	48	462	73	1955
stock companies	139	80	1	72	1	463	216	3	-50	-19	247	481	104	444	180	375
enterprises with foreing invest.	21	6	0	5	1	46	23	4	10	77	23	6	13	5	21	81
social organizations	232	8	0	4	1	3	1	0	1	1000	2	0	0	0		32
banks	0	0		0		0	0				0	0		0		0
insurance companies	0	0		0		0					0	0		0		0
associations, concerns	30	4	0	4	1	30	17	4	13	330	13	1	3	1	6	128
other unions																
farmers	7	4	1	3	1	26	11	3	-4	-25	15	2	8	2	14	19
budget institutions	142	31	0	30	1	393	248	8	162	189	145	32	53	22	15	1136
other legal entities	77	5	0	4	1	12	2	0	1	170	10	0	0	0		32
Individuals - total	56314	381	0	206	1	242	96	0	94	5755	146	119	49	114	78	1671
individual enterprises	2897	367	0	194	1	197	76	0	51	203	121	111	57	107	88	596
collectiv societies	10	4	0	4	1	4	3	1	1	86	1	0	0	0	0	7
socien.with unlim.responsib.	0	0		0		0					0	0		0		0
citizens having taxable property	0	0		0		0					0	0		0		0
farmers	53407	10	0	8	1	41	18	2	18	227494	24	7	18	7	31	1068

6. AGRICULTURE AFTER PRIVATISATION: LAND LEASE TAKE-OFF

Agriculture has always been a basis for Moldova's national economy. "Peasant sandals are the country's support," says Moldovan proverb. Majority of Moldova's native nation lives in the rural zones preserving Moldovan customs and traditions. The transition period and the crisis of the 90-s effected negatively the structure of the national economy. The total decrease in the gross domestic product in the year 2000 as compared to that of 1989 was equal to 34%. The share of industries (light and heavy industries, construction, transport) in the gross domestic product decreased, while the share of services has increased. The major contribution in the GDP (over 50%) is that of agriculture. Its produce (including the processed one) in many respects determines now the country's export potential.

The land reform started in the country as far back as 1992 (the next year after the declaration of independence of the Republic of Moldova). That was the time when household plots – 350 thou ha, or 10.3% of the total land fund were transferred into the citizens' private ownership. However, the private ownership introduced on the 1/10 of the total land area was evidently insufficient for creating on its basis a market economy in the agricultural sphere.

The new Constitution of the Republic of Moldova (1994) declared the country's economy as "market, socially oriented and based on the private and public ownership and free competition". According to the Land Code and based on the egalitarian principle of social justice, 1.5 million ha of agricultural land was to be distributed to about 1.2 million people in equal shares. This process sped up considerably in 1998 when the pilot project (kolkhoz "Maia", Nisporeni, 1997) acquired institutional forms as the National Land Program (NLP).

Data as of January 1, 2001 provided by the Statistics Department showed that with the NLP completion the number of persons having received in-kind land shares exceeded 500 thou people. They received over 701 thou ha of agricultural land. Another 450 thou land title holders owning 741 thou ha did not want to alienate the land and transferred it to (about 1.3 thou) economic entities mainly on the lease terms. Thus, *in the Republic of Moldova over 2/3 of agricultural lands are now private*. As long as the size of the land share is not very large (1.5 – 3.0 ha), it is evidently insufficient for the effective farming. The issue on the agenda now is consolidation of land use and formation of the land market.

Starting with 1999, and in 2000 especially when the number of land transactions grew up considerably, this tendency became rather evident. The main types of transactions at the land market in Moldova are sale/purchase, inheritance, exchange, donation, hypothecation, and lease.

For Moldova's rural residents having become again land shareowners after a fifty-year interval, this land share is the main source of income and land lease is considered one of the most mitigated forms of market relationships (both economically and psychologically). It is important that lease relationships due to their mass spreading create preconditions for forming the "infrastructure for peasants" – cooperatives and service organizations. It would be fair to ask what the nature of the practice forming in the lease relations is. How well are the procedures fixed by the law observed? How stable are the agreement relations and why do some lessors terminate the lease agreements? What is the payment form? What is the social portrait of lessees and what are the motives for leasing out land by peasants owning land? Is there any future for the land lease?

In order to get the answers to these questions some sociological surveys were undertaken (March 2001). The Land Lease Study was carried out by the Center for Strategic Studies and Reforms (CISR) supported through the funds provided by the USAID.

The Survey covered 326 villages in the country, i.e. 1/3 of Moldova's communities. 1476 land shareowners and 464 lessees were polled. Land privatization in the agricultural sector of the Republic of Moldova is coming to an end. After privatization rural landowners have three options in using the land: to farm their own land independently, to lease it out, alienate or sell it. The results show that the prevailing form of farming is lease. Based on the results of the sociological survey, a sociological portrait of lessees and lessors, the nature of contractual relations between them and the problems characteristic of both parties were described.

1. *Lessees were identified as people with higher social capital* – experience and knowledge needed for agricultural business. The share of lessees with higher education is 74.0%, with 64.0% of them having special agricultural education. Only 0.6% of lessees do not have education. The average age of lessees is – 47, the minimum – 22 and the maximum – 75.
2. *The sizes of the newly created farms are different.* However, 88.0% of lessees farm 100 ha and more each. Every fourth lessee has 501 – 1000 ha and every fifth one – over 1000 ha. The average size of land farmed by one lessee is 680 ha, which allows observing agrotechnical requirements in the agricultural production process. Thus, to a certain extent, lease resolves the issue of land parceling resulting from its privatization.
3. The survey shows that *the main reasons for the land lease are* impossibility to farm it without machinery – 62.4 %, and poor health accounting for 20.1%. The survey data disproves the opinion that majority of lessors is pensioners. They constitute only 20.6% of lessors, while people of the active age constitute 74.7%.
4. It was found out that *majority of agreements is drawn in writing.* However, many of them (15.0%) have not been registered anywhere, while 82.3% have been registered in the community mayors' offices and the National Land Cadastre (if the agreement periods are over 3 years). The agreement period of majority of lease agreements is one to three years (87.0%). 10% of agreements are five year long.
5. Land lease agreements are concluded with *three types of payments*: fixed one – 59.3%; as percentage of the gross harvest – 34.5% and mixed – 6.2%.
6. *Property (share) lease agreements are not widely spread.* Only 50.0% of property owners have such agreements at present.
7. *Lessors' and lessees' plans for the future are positive:* 79.4% of landowners have indicated their will to prolong lease agreements, which is explained by the lack of any other option for them. Majority of lessees (73.3%) also plans to prolong lease agreements. At the same time, 16.8% of them intend to buy out the land and make it their property.

Thus, the study results may bring us to the conclusion that land lease in the Republic of Moldova has set in rather quickly as a prevailing form of land agreement relationships and due to certain reasons it can remain such throughout a whole generation's life time.

On the one hand, this can be explained by Bessarabian peasants' love for land that they have regained after a half-century interval. At present, majority of the rural population is below the poverty level and outside the money circulation sphere finding relief in the in-kind economic activity. Peasants will not part with their land soon because their land shares are practically the only source of sustenance.

On the other hand, lessees also confront with numerous restrictions. Meanwhile, the number of people able to buy large size land lots is not very big. For this reason, leasing land for the period of up to three years and using it for highly technical cultivated export crops (grain and technical crops) is most appropriate even for well to do lessees.

In the situation with lease, risks for lessees are minimized: the credit is quite justified the payment to the lessor is mainly in-kind, while the major bulk of products is supplied to the foreign markets bringing profit. The negative impact is that unlike the landowner, a lessee oftentimes behaves like a temporary land user not observing agricultural technology and thus damaging the soil fertility.

Recommendations based on the study outcome:

- a) to draft a model land lease agreement with more detailed explanation of the parties' rights and obligations, grounds for early termination of the agreement, terms for lost profit compensation due to early termination, and other aspects in the relationships between the parties;
- b) to work out two drafts of the property lease agreements:
 - on property lease;
 - on property lease with further redemption;
- c) to do a survey aimed at identification of reasons for considerable differences in the amounts of lease payments depending on the farm forms. Differences in the per hectare lease payments are fivefold and sometimes even higher; in 90.0% of cases the reason for the lessors' dissatisfaction with the agreement terms is low land lease payment. Based on this fact we can make a conclusion that lessees violate land shareowners' rights. When fixing the lease payment soil fertility and other factors are often ignored;
- d) to promote the development of leasing companies and cooperatives network aimed at the needs of both lessees and peasant farms working the land independently;
- e) to develop a targeted crediting system helping lessees redeem the land parcels;
- f) to speed up the drafting of the Law of the Republic of Moldova on Mortgage Lending;
- g) to make more active the awareness campaigns among lessees and lessors on the issues of lease relationships – time for concluding the agreements, type and form of the lease payments, rights and obligations of the parties, cases when lost profit is to be recompensed and other aspects in the parties' relationships.

In general, we should bear in mind that as long as land lease is going to remain popular on the land market of the Republic of Moldova for a long time, the state should assume the responsibility for creation of the lease-favorable surroundings. This should include a corresponding legal basis; bank, credit and tax relations; institutional structures, i.e. farmers' associations, cooperatives and small processing facilities; leasing companies and other service structures. All this will make the agrarian relations more civilized and acceptable both for rural residents including lessees and lessors and for the state as a whole.

7. SOCIAL VIABILITY - A PREREQUISITE OF ECONOMIC PERFORMANCE

Economic interest and quest of economic welfare are the major stimuli of joining human efforts together, per various fields of activity, at all the levels - individual, commune, national and international. Regardless to how we regard this factor – either as “economic rationale” or “basis determines superstructure” – important is to admit that social behavior is determined, with minor exceptions, by the economic status of a nation. Or, it is not difficult to perceive that crime rates are highest in poor countries.

A lot was written about the economic status of the Republic of Moldova, both in domestic and international mass-media, a good deal of them justifiably critical; national strategies have been developed, including per separate fields of activity, and more or less consensus-based conclusions have been drawn-up.

Although the share of education in GDP accounts for about 23%, and roughly 7% of the State Budget on yearly basis, which is higher compared to some western countries, judging by the wages/incomes profiled during the years per various categories of wage-earners in the national economy (Table 1), one could see also a reflection of outcomes of attitudes manifested in the Republic of

Moldova, among policy-makers; it can be regarded as a reflection of what is the set and ranking of social values profiled in their vision, whether they really have been devoted to their declared expectations, and, whether everything has been done adequately to reach the above. The social values profiled in society are mostly stemming from the promoted policies, at national level, and have a tangible impact on a social majority. In this context it is worth mentioning, that after early 1990's policy makers have repeatedly stated education as national priority. However, was it really so?

Excessive focus on monetarist policy and attempt to make a “magic rod” of that, as well as decentralization without sufficient investments in raising social cognition relevance, in the Moldovan strive of shifting to market economy, lead to consequences that undermined, *inter alia*, the most important factor for an eventual economic growth – *human and social capital*, or *social viability*, as a pre-requisite for economic growth and sustainability. The Moldovan case was a vivid attempt of leaving economy vulnerable to the ups and downs of free markets. Yet,

Table 1. Average monthly wages and wage arrears, MDL, Dec. 2000.

	Average nominal wage, lei (1-12, 2000)	Wage new arrears in Dec. 2000 (% of monthly wage bill)
TOTAL – National Economy	407.00	47.4
Education	250.30	66.6
Health care & social assistance	227.60	77.1
Agriculture	243.70	42.8
Manufacturing industry	693.80	49.7
Electric energy, gas & water supply	721.60	48.4
Constructions	586.90	58.9
Wholesale and retail trade	363.00	29.1
Transport and telecommunications	638.80	36.9
Financial activity	2355.40	0.07
Real estate activity	557.00	31.5
State administration	516.80	67.6

Source: Moldovan Economic Trends. Quarterly issue, October-December 2000.

the government should have influenced economic performance through policies and spending programs⁸, in this context *investments in education* being of crucial importance.

Regardless to financial constraints prevailing almost everywhere in the world, the Report of Reforms at Compulsory Educational Level in the European Union (1984-94), states that in the EU "...fundamental financial responsibility continues to devolve upon the state authorities..." (Pepin *et al.*, 1996, p. 29)⁹.

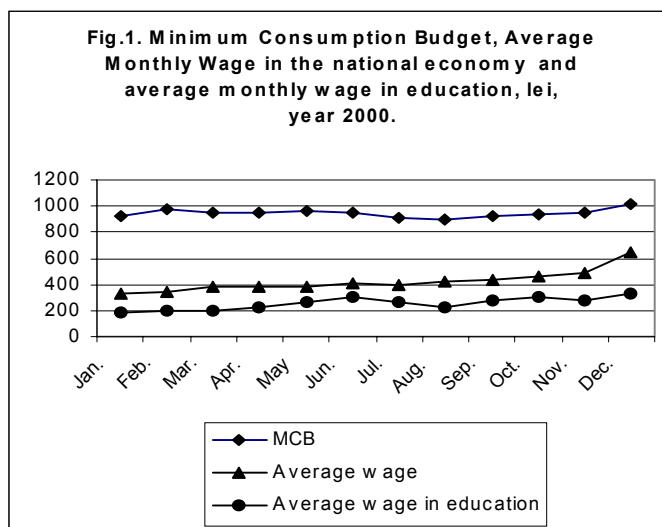
The period of transition to market economy initiated in the Republic of Moldova was commenced based on many slogans contributing to building up euphoric enthusiasm - public officials have been promoting policies that made people believe they would be able to shift to the new pattern of social-economic relations within several years, whereas the importance of initiating and supporting a proper adjustment and enhancement of societal cognitive paradigms was missed. The public leaders and people at large perceived the emerged opportunity of doing something better, compared to what they had reached previously, yet, the erroneously scheduled sequence of actions and anxiety to reach that fast, made them think the transformation was possible based on old societal skills, old cognitive paradigms and pre-independence era styled attitudes towards education as "consumption / non-productive sphere", rather than treating that through the angle of its *major economic importance*.

Since early 90's many efforts have failed, and huge amounts of available assets were misallocated or wasted, mostly because policy makers thought the societies could catch up "by doing". The real attitude of state officials towards education as generator of *economic added value* and importance of profiling a *knowledge-based economy* is mirrored in on-going cuts of funding to education sector and, not less important, by the *state of teachers* as a key factor of an education economy¹⁰.

Because of small *teachers' salaries* (average 250 lei \approx 19 USD per month), and accruing teacher salary non-payments, in 1999 there were 2200 vacancies at secondary level. Among foreign language teachers the vacancies account for about 40%. There are 4800 teachers carrying 1.5 teaching loads, and many teaching positions are occupied by pensioners. In schools "staff aging" is taking place fast, which has a negative impact on the quality of education.

In 1998 of 2.7 thousand young-teacher graduates only two thousand were assigned to school-jobs, and only 31% of them reached the destination. The private educational system at primary, general secondary, gymnasiums and lyceums enroll only 0.4% of schoolchildren, the tuition fees varying between 1 to 10 thousand lei (\approx 100 - 800 USD) per annum.

Also, Fig. 1 displays, that the *status*



Source: *Moldovan Economic Trends, Quarterly issue, October-December 2000.*

⁸ See "Keynes in Bloomsbury: The Economist Gets Creative", at http://216.33.236.250/cgi-bin/linkrd?_lang=EN&lah=4e508fee09eb1c8edf7f1070ee716e59&lat=994147533&hm__action=http%3a%2f%2fwww%2ezooba%2ecom%2femail%2easp%3fu%3d1142419%26c%3d2%26d%3d1068%26t%3d7%2f3%2f01%26p%3d1 for a discussion (3 June, 2001).

⁹ Pepin, L. *et al.*, (1996). A Decade of Reforms at Compulsory Education Level in The European Union (1984-94), EURYDICE, The Information Network on Education in Europe, 1996.

¹⁰ See Table 1 for a discussion.

of educational personnel keeps worsening teaching' incentives. Hence, if the gap between Minimum Consumption Budget (MCB) and nominal average salary in the national economy has slightly diminished, the gap between the MCB and average monthly wage in the educational system keeps being considerably disadvantageous for further performance of the *educational industry*, and in Dec. 2000 the salary was worth a mere 32.6% of the MCB. In comparative terms, the average wage in the educational system on that date accounted for only 36% of the average wage in manufacturing industry, 42.6% - in constructions, 69% - in wholesale and retail trade, 10.6% - in the financial activity, etc. (See Table 1 for a discussion).

The huge financial problems accrued in the educational system could not avoid emerging corruption in this field. As of today, "About 81.5% of the households think that corruption in the educational system is likely to happen always, very often, or at least frequently." (Carasciuc, 2001, p. 46)¹¹. The fact of corruption in educational establishments has been admitted as "extending phenomenon" by the Ministry of Economy and Reforms¹². Unfortunately, corruption in this *strategically important* field has a negative impact on the evolvement of young generation's consciousness.

Quite a few new economic initiatives and ideas could not reach perceptive enough societal milieu, because the irrelevant education provided to the people previously could not generate growth-fostering initiatives, including in economic undertakings.

Also, the situation of the Republic of Moldova and its economic trends since early 90's proves that one of vitally important driving forces for shifting to democracy and market economy – the *adult education sphere*¹³ – is still beyond due considerations and any official initiatives of the government, at this time due to huge financial hardships encountered by the country.

In the period of fast hi-tech development throughout the world, and severe demographic problems on the other hand, due to "rapidly changing and aging societies" (Note by the Secretariat, 2001)¹⁴, a fact admitted even in many developed countries of OECD (*ibid.*), not to speak of the developing countries like Moldova, formally organized education and/or training becomes more and more important at all age stages, *i.e.* "from childhood to later phases of adult life" (Tuijnman, 1986, p. 74)¹⁵.

Nowadays one of the key priorities of the OECD Ministerial Council is "To develop an initial set of indicators of human capital investment based on existing data, analyze where significant gaps remain in internationally comparable data [and] identify the cost of development of data collection for new measures and performance indicators" (Note by the Secretariat, 2001).

At present, the following main indicators are available, on three aspects of human capital: the "stock" held by the population,

the rate at which it is being added to through human capital investment, and

the returns to this investment in terms of measured benefits relative to costs (*ibid.*)

It is commonly known that historical background turned to be particularly difficult for the Republic of Moldova. Its placement at the crossroads of eastern and western cultures, subjected its people to a long lasting and exhausting struggle against foreign interests in the region, in order to maintain their cultural and political sovereignty.

Yet, historical background in the region, and current undermining exogenous factors, should not be regarded as an excuse for admitting procrastination of a state of affaires inherited from the past, but rather a stimulus for constant "cutting-the-edge" in paving the way of Moldovan nation

¹¹ See Carasciuc, (2001), "The extent of corruption in the health sector", in the Survey *Corruption and Quality of Governance*, January 2001, p. 50, for a discussion.

¹² Ministry of Economy and Reforms. "Chapter 5.4, Education" in *Analytical Report on the Social-economic Developments in the Republic of Moldova in the first quarter of 2001*, April 2001.

¹³ Except for some professional re-profiling among certain profession categories.

¹⁴ Note by the Secretariat, (2001). *Human Capital Investment: Report to the OECD Council*, Short Paper, Apr. 22, 2001.

¹⁵ Tuijnman, A. (1986). "Recurrent Education and Socioeconomic Success: A Theoretical and Longitudinal Analysis", Institute of International Education, Stockholm University, Sweden.

in a manner chosen and followed based on its own will, based on duly shaped awareness. In this context the *educational industry* as human and social capital generator turns to be the most important pillar for further evolvement.

According to statistical data of the *last census* (1989) the literacy rate of the adult population accounts for 96.4%. About 4/5 of the population aged between the age span 25-40 has completed secondary or higher education. However, it is misleading to forget, that during soviet times the overwhelming majority of currently adult population did not study at least an “*ABC of market economy*”, although market economy and democracy have been declared as targets of most post-soviet and socialist countries, Republic of Moldova including.

Although there are several illusory signs of economic stability (*inter alia* a relatively stable national currency), now the society is struck by a severe shrinkage of purchasing power, which considerably hinders the access of the population to education. Yet, it is commonly known that lack of access to *qualitative relevant education* engenders deeper pauperization.

Teacher training graduates quit working in educational establishments, and again, the newly established government debates on resorting to soviet styled manners – three years of mandatory employment in education for young teachers. This half-measure may have some “positive” outcomes, yet – can one mention about sustainability in a situation when wage-less activity of the latter will severely undermine educational quality? According to Table 1 wage arrears for education sector employees continue to be among the biggest in the national economy.

The assistance provided by international donor agencies (TACIS, USAID, WB, JICA, etc.), is mostly focused at top- and medium-managerial levels, on setting up consulting industry, etc., however, there is still a considerable share of *educationally marginalized population*, (EMP) *i.e.* individuals who are not attending any type of formal education, which according to the data of the Household Budget Survey (HHBS) (for 9 months of 2000) accounts for about 80.1%. Although the share of refusals to participate in the HHBS sample accounted for about 15%, which is a considerable detail when considering the data thereof, the share of EMP is still unjustifiably high for making possible avail of adequate societal capacities, and hence sound social capital, for smooth transformations and reaching sustainable development.

A reasonable self-criticism should help us admit, that outcomes are tangibly perceived of the former “Soviet education system [which] provided quite appropriate academic knowledge, but did not stimulate seeking of one’s own way of thinking”¹⁶ for a social majority; it was excessively focused on knowledge of facts versus critical thinking, not to mention with regard to economic initiative, in a market economy or competitive environment.

Hence, a considerable educational effort, based on *scientifically debated conclusions*, rather than propaganda, would be of vital importance to help adult population be aware, that the soviet economy could not be sustainable, that it was an activity of extorting mineral resources for satisfying living needs and, that soviet economic science and education until early 1990’s were mostly propagandistic tools in the hands of that time politicians, who aimed to profile a societal docility, which ultimately destroys social viability.

In the important mission, of raising social and human capital, there is no other institution better equipped to impart knowledge than the school (Husén, 1997, p. 204)¹⁷.

Besides, it is high time to admit, that in a society striving to reach welfare and sustainable economic self-sufficiency, *scientifically debated conclusions should be the main guidelines in profiling social attitudes and behavior*, both in terms of economic or non-economic regards. It is of crucial importance in up-keeping and enhancing social capital/cohesion for economic

¹⁶ *Monitoring Learning Achievements. Primary School Survey*, by Sange Agency, Ministry of Education and Science of the Republic of Kazakhstan and UNESCO Office in Kazakhstan, May-June, 1999, p. 5.

¹⁷ Husén, T. (1997). “An agenda for the education of the world citizens”, in *Prospects, quarterly review of comparative education*, Vol. XXVII, No. 2, June, 1997.

attractiveness of eventual Foreign Direct Investments (FDIs). Otherwise the society, in the longer run, runs across hardships that cause huge waste of efforts and time.

The sector of small and medium enterprises (SMEs) in the RM employs 705 thousand individuals, which accounts for 39% of the overall labor force. Yet, most of these individuals consider their involvement in this sector as a source of survival, rather than enterprises set up for sustainable economic performance, due to severe problems caused also by inadequate legal environment at the national level and societal unawareness of the true role of the state in a democratic society. Hence, the SMEs sector encounters considerable difficulties in their activity due to excessive number of controls on behalf of the state auditors. Only in the second semester of 2000, there were effectuated 500.000 visits, which is on average 2.7 visits per each enterprise. It has been stated that the bigger is the enterprise the bigger the number of visits on behalf of state auditors (1st ESYB, 2000, p. 195)¹⁸.

A considerable problem is the fact that in the structure of unemployed population the share prevails of most productive age category (30-40 years old), and teenagers (16-24 years old) account for 70% (!) of the total unemployed (1st ESYB, 2000, p. 202). Besides, both “central and local public office holders, and employers gravely violate the rights to salaries of the employees. If in 1993 the arrears accounted for 3.4% of the annual salary fund, in 1994 they accounted for 12.1%, whereas in 1999 this figure accrued to 22.3%” (1st ESYB, 2000, p. 203). Building-up capacities of the employees mentioned above, in making defensible decisions, can be conducted only by way of educational undertakings.

A major argument why focus on education economy should be enhanced in the Republic of Moldova is the *excessive dependence of population on agricultural sector* and, hence, on weather conditions, whereas this republic is highly vulnerable towards severe droughts, floods and hail rains¹⁹. It is very concerning the fact that only 1.2% of employers run their businesses in the industrial sector.

Although in the first quarter of 2001 the volume of industrial output was higher by 3.1% vs. the same period of the previous year (MERM²⁰, 2001, Ch. 3.1., *Industry*), there are considerable problems that may undermine reaching sustainability, due to, *inter alia*, missing proper links between the industrial sector and educational industry. Still too many vocational schools employ the didactic premises at less than 50% of their capacities and no measures are undertaken in restructuring these educational settings (*ibid.*, Ch. 5.4., *Education*). Also, the share of profitable enterprises from the overall industrial complex accounts for only 38%²¹. Over and above, the state authorities do not take due control on observing the stipulation from the “Education Law” with regard to transferring the stipulated 2% of the enterprise labor retribution fund, in addition to financial means required for its own staff²², designed for funding vocational education, which should be of strategic importance for further evolvement of the Moldovan industrial sector. On the other hand it is a displaying fact, that law enforcement in Moldova still leaves much to be desired.

An Opinion Poll carried out by Development Alternatives, Inc., in 2000, discloses the fact that in the Republic of Moldova major part of enterprises employ 12 employees each, *or*, small businesses - 6 employees on average, and medium enterprises – 120 employees (1st

¹⁸ Activitatea Antreprenorială în Economia de Tranziție și Piața Muncii, în Republica Moldova-2000, Piața Muncii și Dezvoltarea Socială, 1-ul Anuar Economic și Social (Entrepreneurial Activity in the Transition Economy and Labor Market, in *Republic of Moldova-2000, Labor Market and Social Development, 1st Economic and Social Year-Book (1st ESYB, 2000)*, by Institute of Labor of the General Federation of Trade Unions of the Republic of Moldova, Chisinau, 2000, p. 194.

¹⁹ See also “Assessment of the Negative Impact of the 2000 Drought in the Republic of Moldova”, at <http://www.un.md/CISR/cont-drought.html>, 19 Feb., 2001.

²⁰ MERM – Ministry of Economy of the Republic of Moldova (2001). *Analytical Report on the results of social-economic development of the Republic of Moldova in the first quarter of 2001*. Chisinau, 2001.

²¹ See “Only 38% of industrial enterprises are profitable” in *Jurnalul Național* daily, 18 June, 2001, for a discussion.

²² See the Education Law, dated 21 July, 1995, Art. 21(7), for a discussion.

ESYB-2000, p. 195). This fact advocates that implementing the adult education practice is of crucial importance.

A very revealing document, on views, values and *attitudinal skills* profiled in the society during the prior and recent decades transformations, and also persuasive in terms of the need of running an newly shaped educational industry, is the Public Opinion Barometer (POB)²³, which provides also very concerning factual trends:

- 79% of the questioned population considers that the direction of reforms in Moldova is wrong²⁴;
- 53% of the questioned regard themselves not very satisfied by their living standards, 35% totally unsatisfied, and only 1% - very satisfied;
- 36% consider their living somewhat worse than in the previous year, 11% - much worse, and only 1% - much better than in the previous year;
- 67% of the respondents consider that poverty is occurring in Moldova because the *state does not help them sufficiently*²⁵, and only 9% consider there are some other reasons;
- some 69% of the population attach their future problems to state entity as such, rather than trying to resort to their own abilities and undertakings.

All of the above are another evidence that educational undertakings for the adult population are of major importance in building capacities for diminishing their excessive dependence of state officials errors, in terms of reaching social-economic welfare.

Moldova's foreign debt according to recent data accounts for about 120% of the GDP, and, although much discussion has been made on alleged economic improvements in the RM, by previous cabinet of ministers²⁶, the real trend of incomes of population continues to diminish. "The real wages, for instance, of medical and office holders of the social sphere shrank by 8.5%, and in the public education sector - by 2.1%"²⁷. All the facts and trends mentioned above lead to drafting the *conclusions*, as follows:

- The Republic of Moldova, should undertake more and more actions, through research and policy-makers joint efforts, in relating education to the national economy.
- Efforts should be designed to considerably enhance the relevance of societal economic cognition in the Republic of Moldova, which will serve as a part of an "abridged" transition to market economy and democratic values in a profiling market economy. Or, the human capital theory proves that investing in human and social cognitive skills, adult layers of population being indispensable, considerably enhances both measurable and non-measurable individual and societal benefits.

²³ Public Opinion Barometer. Opinion Poll carried out in the Republic of Moldova, on the request of the Public Policies Institute, by Taylor Nelson and SOFRES, Bucharest, Romania, January, 2001, at <http://www.ipp.md/publications/bop2001.html>, (ppt. format), 20 January, 2001.

²⁴ *Wrong* in this answer may have at least several interpretations – (i) either people are not satisfied by the fact that, despite all, still real steps have been undertaken towards social shifting to democratic values, and they cannot fully benefit of that due to improper manifestations among government structures (e.g. corruption), (ii) they became concerned that they cannot handle in a freer society, say, they are uncertain in making choices independently, or (iii) because people cannot admit that as social subjects, they have not enough capacities to claim to be provided comprehensive and veritable information and make best economic and social/public choices, based on information they are provided, etc.

²⁵ Lack of capacities to rely on individual abilities first and of familiarity of the true role of a state.

²⁶ A new cabinet of ministers has been very recently assigned.

²⁷ Petrusin, O., Real Sector Expert, Center for Strategic Studies and Reforms, in "Moldova – under the fog...", interview in the *Argumenty I Fakty, (Arguments and Facts) newspaper*, dated 14th February, 2001.

- The educational efforts should be designed for both population that is not involved in any type of formal education (non-managerial population) and other societal categories volunteering to attend such training.
- Social awareness should be widespread, that in any event, no reform can succeed without the co-operation and active participation of teachers (Delors *et al.*, 1996)²⁸, and surely, it is extremely difficult to initiate educational reform or to improve the quality in a country that possesses demoralized teachers (Power, 1997)²⁹. In the Republic of Moldova teachers' salaries in average terms are the least among other categories of wage earners in the national economy.
- The education economy should set the aim to re-establish and adjust the pro-market educational relevance of the secondary level curriculum and adult population in the Republic of Moldova, in compliance with the current societal needs, build-up the capacities for further elaboration and extension of the life-long learning practices, and enhance self-learning capacities for a societal majority of the Republic of Moldova.
- It is badly needed that educational mission of the education economy in the Republic of Moldova be designed and focused on objectives to address the issues as follows:
 - promote the awareness, that a properly designed educational industry (comprising primary, secondary, tertiary, post-graduate and adult education) in a country with critical lack of natural resources and heavily dependent on weather conditions, is a factor of utmost importance, that could substantially contribute to completing the integrity of further socio-economic policies in Moldova;
 - contribute to building-up basic learning competencies in economics and/or social economics, among societal values, as well as skills that would differ from the previous ones; improved manners of doing, that would contribute to shrinking the disjuncture between newly shaped demands and old manners of working;
 - contribute to promoting an alternative, similar to OECD countries' culture of learning, participatory attitude in unveiling attempts of self-interest prevailing upon societal interests³⁰, as an important variable for further smooth transformations and economic performance;
 - on-going improvement of societal attitudinal skills;
 - promote and shape sustainability of new forms of democratic organization among adult people;
 - improve societal multidimensional skills of analyzing the course of events;
 - contribute to profiling a society that should encourage and support pro-cohesive social policies at national level, rather than confrontational;
 - contribute to diminishing the incidence of skill misuse;
 - essentially contribute to keeping the society functioning;
 - build up the abilities of rational choice under *uncertainty* and *ambiguity* in anticipating future consequences;
 - raise awareness of the importance of access to sound and comprehensive information³¹;

²⁸ Delors *et al.*, (1996). "Learning: The Treasure Within". Quoted in Bohla H., (1997) "Adult education policy projections in the Delors Report", *Prospects, quarterly review of comparative education*, Vol. XXVII, No. 2, June, 1997, p. 27.

²⁹ Power, C. (1997). "Learning: a means or an end?", in *Prospects, quarterly review of comparative education*, Vol. XXVII, No. 2, June, 1997, p. 192.

³⁰ See Gurin V. *et al.* (2000). *Corupția (Corruption)*, ARC Printing House, Chisinau, 2000, and many other articles about corruption, for a discussion.

³¹ Nowadays the possibility of developing societal analytical skills, even among the students of higher educational establishments, is highly impaired due to high rates for getting data, which is commercialized by the only state monopoly – Department of Statistical and Sociologic Analysis.

- enhance societal ability in making better defensible decisions based on the available information;
 - dissipate societal disappointment and improve the behavior as a whole;
 - considerably contribute to disentangling the daily problems society comes across;
 - diminish the lack of access to alternative education among the adult population, implied by severe shortage of funding to education in general;
 - contribute to enhancing the social capital as a whole;
 - build-up social demand for accountability and transparency;
 - contribute to building-up a viable middle class;
 - provide for a better sense of self-reliance and human control over their own and their children's destiny.
- Once educational inputs, and namely: money, time of teachers and students and other staff, books, materials, equipment, and buildings can have alternative uses, or devoted to other economic activities, and, since resources are limited, this means that alternative opportunities for using these resources must be *sacrificed*, or *forgone* in favor of education.

General conclusion. The Republic of Moldova reached the situation when it does not have desired “room for maneuvers”, but there is still a material chance – to really re-rank the social values in the context of social policies and admit that investing in *market and democracy relevant education*, at all social levels, is the only “runway” in the desperate attempt to “take-off” in the unstable world and perpetual quest of economic self-sufficiency.

8. POLITICAL BACKGROUND FROM THE BEGINNING OF 2001

The political year of 2001 has begun with an event of a great importance – dissolution of the Parliament and announcement of pre-term parliamentary elections. President's decree on the Parliament's dissolution concluded previous year's series of events that have created the atmosphere of rivalry and animosity between main political forces. These circumstances imparted a negative character to the election campaign that resulted in a quasi-total collapse of democratically oriented formations and triumphal return of the communists to the power.

It is a twist of fate that the new pro-communist Government ordered the celebration of the 10th anniversary, on the 27th of August, 2001, with a military parade, of declaration of the independence of the Republic of Moldova, while all these years the communists mourned over the “destruction of the social Motherland” – the USSR.

Events that determined pre-term parliamentary elections

Political instability has set in the Republic of Moldova just a year later after the previous Parliament had been elected. Parliamentary majority of the Alliance for Democracy and Reforms (ADR), which was formed of several non-communist oriented formations and held 60 mandates out of 101, from the very beginning proved to be extremely heterogeneous, torn by internal fights for distribution of the main posts in the Parliament and Government. Such behavior was caused by the difference of political and economical interests of the main forces represented in the previous Parliament precedent and presidential structures. Due to this, the last 4 years were practically lost from the point of view of reforms, the fact that was confirmed by representatives of international financial organizations as well. Efforts of the former president, Petru Lucinschi, to promote a law that would delimit more strictly powers of the Government offering it more independence from the Parliament in order to promote a more effective economic policy started the outright conflict between the President and the Parliament. This situation was confirmed by a report of the Constitutional Court on execution of constitutional jurisdiction in 2000. As an answer to the rejection of the presidential initiative by the Parliament, the former President, Petru Lucinschi, initiated a campaign for modification of the Constitution through a national referendum. The project proposed by him was providing for that the President of the country would have the right to: name and dismiss members of the Government without approval of the Parliament; run the country on the basis of decisions-laws emitted by the Government, threatening the Parliament with dissolution in case it does not accept them; dispose of control over appointments in justice bodies through the Superior Council of Magistrate, which he was supposed to be in charge of. This antagonized the whole political class. That is why a group of 38 deputies elaborated a project of the Constitution's modification meant to change the form of government from semi-presidential into a parliamentary one. In the rivalry between the President and the Parliament for modification of the form of government the latter scored the victory. On the 5th of July, 2000, the Parliament passed the amendments into the Constitution and Moldova became a parliamentary republic. It is worth mentioning that in the report of the legislative body on the necessity of amendment of the Constitution it is said that “the President of the country threw down the gauntlet to the Parliament, when he initiated the procedure of review of the Constitution, which the deputies picked up”. This makes evident that squaring of political accounts played a decisive role in the area of maximum sensibility for political stability of the country.

The main amendments to the Constitution referred to: procedure of the presidential election, which is supposed to be elected by the deputies with a majority of at least 3/5 of votes; provision of the Government with powers referring to administration of public problems through investing it with the right to issue orders in given areas that are not object to regulation through

organic laws; right of the Government to assume responsibility for a programme or law that actually is equivalent to expression of vote of confidence.

After the Constitution was modified ordinary elections of the President of the country were set on the 1st of December, 2000. Results of elections of the 1st of December were not confirmed by the Parliament, and repeated elections were provided for. In the process of the repeated elections none of candidates obtained the necessary number of 61 votes; the candidate from the Communist Party (CP), Vladimir Voronin, missed just 2 votes to get elected. New elections set on the 21st of December were blocked due to the political decision of non-communist fractions and parliamentary group of Christian Popular Democratic Party (PCPD). In these circumstances the President, Petru Lucinschi, has addressed to the Constitutional Court (CC) for determination of circumstances that justify dissolution of the Parliament. On the 26th of December, 2000, CC has stated that in the situation, which has created, dissolution of the Parliament is justified.

Pre-term parliamentary elections of 25th of February

Pre-term parliamentary elections of 25th of February, 2001, went off according to stipulations of electoral legislation without any significant abuses from the authorities or electoral rivals. Such conclusion was made by the OSCE mission, International Foundation for Electoral Systems (IFES) and local observers that supervised the elections. Main objections of observers referred to status of independent candidates that were in a disadvantageous situation compared to political parties due to the electoral limit of 3%, limited access to financial resources and mass-media. Another problem mentioned by international observers was related to completion of voter's lists. The Republic of Moldova does not have the necessary resources for composition of a unique civil register with different degrees of protection of the information, which would be available to electoral committees responsible for drawing up of voter's lists. That is why this problem will provoke conflicts in the future. Finally, problem of delimitation of exercise of powers of officials-candidates, of actions related to electoral agitation was considered extremely sensible.

There were 27 electoral candidates – 17 parties or electoral blocks and just 10 independent candidates. Electoral campaigns conducted by electoral rivals had in most cases a negative character due to the fact that exposure of opponents' flaws prevailed over the expression of own virtues. But, one can state a relative improvement of the quality of electoral messages and platforms. Even if trends of electoral behavior of citizens were evident from the precedent electoral statistics and opinion polls' results, final results of the elections were astonishing both for experts and participants. Just two parties and one electoral block out of 27 candidates accumulated more than the necessary number of votes (6%) to get in the Parliament: thus, CP accumulated 50.07%; Braghiș Alliance (AB) – 13.36% and PCPD – 8.24%. Other 24 candidates, which were not able to pass the electoral limit, accumulated together 28.23% of votes. These votes were distributed among 3 victorious formations proportionally according to the distribution method of d'Hondt. As a result, CP obtained 71 mandates, AB – 19, and PCPD – 11. The victory of the CP was absolute – it gained parliamentary majority that exceeds the qualified one (68 mandates) necessary for modification of the Constitution.

According to the stipulations of the Constitution amended on the 5th of July, 2000, the Parliament elected the CP leader, Vladimir Voronin, as the President of the Republic of Moldova, on the 4th of April, 2001. The assumption of the office took place on the 7th of April, at the same time with the oath. On the 19th of April, the new composition of the Parliament expressed the vote of confidence to the Government headed by the Prime Minister Vasile Tarlev. The new Government was not constituted on the basis of political membership. Only three members of the Government are members of the CP. The programme of actions of the new

cabinet was named “*Revival of economy – revival of the country*” and contains provisions that coincide those of the electoral programme of the CP only partially.

Electoral programme of the new government and prospective sources for its implementation

After the political authority was taken over by the CP on all levels, it confirmed on different occasions that it will make efforts to meet electoral obligations. These obligations contain in the *economic field*: stage-by-stage restoration and development of the real sector of the economy in agriculture and industry; promotion of the role of state property in strategically important branches of the national economy.

In the political field: fight criminality and corruption; revocation of immunity of high state officials, the Parliament’s deputies, the Government’s members, judges; promotion of the “right of the Moldovan people to its historical name - Moldovans, name of the official language – the Moldovan language”; accordance of status of the second official language to the Russian language; peaceful and definitive solution of the Transnistrian conflict; review of the administrative-territorial system of the country, restoring status of raions; examination of the possibility of joining of the Republic of Moldova to the union of the Russian Federation and Byelorussia.

In the social area: creation of a new social assistance system that would provide for a merited living of citizens; twofold increase in pensions, as well as budget sphere wages (teachers, medical staff, culture sphere, etc.); twofold increase in work places in the national economy; introduction of tight control over prices for energy resources, public services, principle food products, essential goods and medicines; restoration of the health-care system created in the Soviet times; expansion of categories of citizens enjoying free medical assistance; enlargement of possibilities of the young people to obtain free education and work places; indexation and stage-by-stage return of deposits “stolen by the regime of democrats from the population in 1990-1992”.

In order to implement provisions of this electoral programme the CP intends to double inpayments into the state budget. The CP considers that principle sources that can provide for doubling of the state budget incomes are: accelerated and large restoration of production in the real sector of the economy; increase of tax collection; elimination of contraband with oil products, alcoholic and tobacco products; introduction of the state monopoly on production and distribution of alcoholic and tobacco products; establishment of state supervision over the formation of prices for energy resources that Moldova is buying (natural gas, electric energy, petrol and diesel oil); reduction of „state machinery” and expenditures for its maintenance.

After the CP has made such promises during the electoral campaign, it is no wonder that it obtained the absolute majority of votes.

Positive aspect of the communist takeover consists of the fact that now there is a political force, which assumed full responsibility for government of the country. But there are, however, reasons to believe that the CP did not expect a victory of such proportions. That is why, after feeding the population with nostalgic expectations during the electoral campaign, it now attempts to alleviate the character of electoral promises saying that they promised that will try to solve these problems as far as possible.

At the same time, one can easily observe that the electoral programme of the communists contains a series of promises whose implementation can cause rise of new social and political conflicts. It is obvious that attempts of the CP to meet the electoral obligations contradict regulations of the memorandum signed with the International Monetary Fund (IMF) that could have extremely dangerous results for the economic and financial stability.

Therefore, there is a risk that failure in economic and social areas will make the new rulers concentrate their attention upon some problems (linguistic, historical or ethnic) meant to direct social protest into such a channel that would later justify application of authoritarian measures. Signs of this can be seen already.

Successes of the new government

Due to the fact that the President of the country, Vladimir Voronin, is the leader of the ruling party, successes or failures of any public institution is associated with his name. Therefore, the President of the country marked out three problems that the new government is supposed to proceed to first of all. The case in point is restoration of the real sector of the economy, fight against corruption and solution of the Transnistrian conflict.

Success of solution of the first two problems directly depends on efficiency of the Government's activity, and the third one - on the activity of the President. But one can state that activity of the Government headed by Vasile Tarlev have been rather pale during the first three months. Due to the changes in the personnel the Government presented to the Parliament practically no drafts of laws of major importance designed to promote implementation of governmental programme. The most important projects drafts presented by the Government referred to modification of the Law on Budget in order to meet some electoral promises with social character; accordance to the Government of right to issue orders in the field of food security, etc. A number of drafts elaborated by the Government was rejected or their examination was postponed due to the fact that they contained scandalous provisions, such as formation of a non-constitutional body, the Government's presidium, which would have right to issue decisions; transfer of privatization process out of the supervision of the Parliament and accordance to the Department of privatization of powers to decide when and what will be privatized, all that would require verification of constitutionality of these innovations by the CC.

In general, economic policy of the new government remains unclear, coming to establishment of the fact that without investments the economy will not be able to revive and, respectively, appeals addressed to local and foreign businessmen to invest into the country's economy. This was mentioned by participants of the Congress of Moldova's businessmen (16 June, 2001). Thus, representatives of the local business demanded from the Government concrete actions, namely: provision of that volume of taxes does not exceed 30% of incomes; that taxes for those, who fulfill their fiscal obligations, are reduced; and VAT is fixed up to 10%. For the time being, however, the Government did not respond to these requests, although affirms that it is aware of the fact that it is impossible to revive the economy without investments of the private sector.

As regards the Parliament's activity, this can be considered rather intensive. Thus, there was a number of legislative acts passed during the first session, which to a certain extent concur with the electoral promises of the ruling party.

It is evident that the most important legislative acts referred to the economic and financial fields. Among them, one can mention Law on joining of the Republic of Moldova to the World Trade Organization (WTO), which provides for: the Republic of Moldova joins Marrakech Agreement (15 April 1994) on formation of the WTO and ratifies the Protocol of joining the Agreement; import customs duties of the Republic of Moldova will not exceed the level specified in the annex to the Protocol of joining; the Government of the Republic of Moldova will form a body that will regulate activities related to the implementation of obligations the Republic of Moldova has assumed to the WTO and will insure protection and realization of the state interests within the organization; the Government of the Republic of

Moldova will publish periodically modifications pending in the import-export regime as the result of application of the obligations the Republic of Moldova has assumed on the basis of Agreement on formation of the WTO.

Another law of a great importance passed by the Parliament was the Law on modification of clause 51st of the Law on Budget for 2001, which allowed the National Bank of Moldova to give credits to the Government in order to pay external debts. The law in question was passed to avoid declaration of insolvency of the Republic of Moldova. Among laws with economic character, the Law on amendments of the Law on Joint Stock Companies, Law on Free Economic Zones, etc. were reexamined and passed.

Although the economic situation of the country is very hard, the new government has tried to demonstrate social orientation of its activity. Thus, an organic law on additional social assistance for disabled veterans, participants in the WWII and their families was passed. According to this law, the respective categories of persons will enjoy financial extra payments. The cost of implementation of the law this year is estimated up to about 65 billions MDL, of which only about 30 billions can be allocated from the existing internal reserves and the rest is presumed to be paid out later. Because of this, the Government was forced to present proposals on modification of the Law on Budget for 2001, where expenditures and sources for their defrayal were to be stipulated for. Later, Law on amendments into the Law on social guarantees for members of the Government in case of dismissal, reorganization of the Government or termination of its mandate was passed. By means of the respective amendments additional rights of former members of the Government were ensured so as they could enjoy pension increase. Adoption of this law with the social character that requires additional expenditures has complicated even more relations of the Republic of Moldova with international financial organizations, first of all with the IMF and the World Bank, which expressed displeasure regarding promotion of a social policy not provided with necessary resources.

Another demonstration of the new government's social orientation is revision of clause 40th of the Labor Code, according to which when canceling a labor contract on its initiative, administration is bound to ask for consent of the trade union.

An area of the new government's activity that stirs interest of the public opinion is related to so-called "consolidation of vertical line of power". The new authorities consider that this will be able to help them in their efforts to establish order in law compliance, as well as in fight against corruption. With this end in view amendments into the Law on local public administration and Law on local public finances were introduced. The essence of the modifications is in the fact that general financial departments were transferred into subordination of prefectures of administrative-territorial units of the second level. Thus, prefects became the principle managers of credits and will be able to control distribution of financial means and transfers from the state budget to the local ones. Fractions in opposition declared categorically against estimating modifications in question as an encroachment upon the principle of local financial autonomy. Furthermore, the Parliament passed decision on formation of a Committee for elaboration of modifications of laws on local public administration and administrative-territorial system of the Republic of Moldova. The Committee was invested with powers to examine correspondence of the legislation and drafts to the Constitution and the European Chart of Local Administration. Thus, the new authorities found a ground justifying announcement of pre-term general local elections, whose goal is to change the active local authorities that are considered to be obstructionist towards the central authority controlled by the CP. It is interesting that Law on amendments into the Law on notaries was passed in the first reading, according to which secretary of local administration will have right to certify transactions of alienation of agricultural lands, immovables and testaments. Adoption of such law makes review of the administrative-territorial system of the country useless and could solve a lot of problems

for inhabitants of small rural settlements. At the same time, though, there are certain dangers related to the lack of legal education among secretaries of local administration, lack of supervision over their activity and imperfection of property register in rural localities.

As regards fight against corruption only creation of an Anti-corruption Committee under the President and meetings of the President Voronin with public prosecutors and officials of the Ministry of Internal Affairs had resonance, when the President made very tough declarations towards them affirming that he will determine the corrupt persons and it is better for them to leave law enforcing institutions voluntarily. For the time being, however, it is unclear how corruption can be eradicated legally if those who are suspected of this scourge are the same that are supposed to fight it. Moreover, there is even intrigue in the fact that the country's President attempts to fight corruption in the ranks of his own party. Voronin announced this at plenary session of the CP in June, mentioning that those corrupt in the party will be punished more severely, although the penal legislation does not stipulate for a special treatment for certain categories of citizens. It is interesting that the respective declaration of the President took place immediately after adoption of the Law on joining of the Republic of Moldova to the Group of States against Corruption (GRECO).

In his efforts aimed to fight corruption and construction of the "vertical line of power" the President intends probably to base himself first of all on the Service for Security and Information (SSI). Representatives of the opposition consider that it is the cause why the Parliament modified the Law on the Service for Security and Information, excluding provisions referring to formation of a special committee and execution of parliamentary supervision over special services. This is intended, probably, to reduce number of persons that will have access to documents of this institution. Accordingly, decision of the Parliament on formation a special committee for supervision over special services was abrogated.

Even activity of the Ministry of Defense did not remain out of the new power's attention. This activity is of interest for the public opinion, especially, on account of the scandal emerged between the Ministry of Defense and SSI during the electoral campaign of the current year. Thus, the Parliament accepted proposal of the Government to modify the Regulations on procedure of commercialization of military equipment, arms and other military facilities the Armed Forces dispose of. The essence of modifications is in redistribution of financial means obtained as a consequence of commercialization of the neutralized assets (80 % into the state budget and 20 % - on the account owner of the respective assets' owner).

A special attention was paid to the problems of access to information and financing of mass media. Legislative acts existing in this area have caused protests of the opposition, being a very sensible issue. Thus, Law on amendments into the Law on Press stipulates for prohibition of financing or any other form of support of periodicals by governments of foreign states. The exception was made only regarding publications for children, with scientific and didactic character and those of creative unions.

During the years of independence of the Republic of Moldova mass media found in the state property were objects of increased attention due to the fact that they have capabilities to cover the whole country's territory. The previous governments abused their control over them in political purposes. The new authorities manifest the same type of interest for these mass media. Thus, the Parliament adopted Law on modifications of the Law on mass media, according to which the president of the State Company Teleradio-Moldova is appointed by the Parliament for a period of 5 years and can be dismissed by the Parliament on its initiative or proposal of Coordinating Council of Mass Media. The law foresees, as well, that assistants of the president of the State Company Teleradio-Moldova will be appointed by the Coordinating Council of Mass Media on proposal of the above-mentioned company's president. Newspapers consider that

through these modifications the harmful practice of the ruling party monopolizing access to the mass media using financial and administrative instruments is being consolidated.

After the experience of constitutional modifications of the previous year, this year this activity is being watched closely by the public opinion. Towards the end of the summer session the Parliament passed the draft of Law on modification of the Constitution of the Republic of Moldova, through which amendment of clauses 24, 25, 30, 54 and 55 of the Constitution is planned. If as for modification of the clause 24 of the Constitution (according to which exclusion of provisions on capital punishment is proposed) there were no substantial objections, then as regards other clauses different opinions exist. In short, these modifications can limit human rights. Although there is a positive report of the Constitutional Court, a lot of experts affirm and produce conclusive proofs that enlargement of the term of detention (from 24 up to 72 hours) and establishment of a possibility of deviation from inviolability of privacy of correspondence would constitute factors that diminish considerably the existing system of constitutional guarantees. Abuse of police bodies was frequent even under the legislation in force, and the modification can favor their future intensification.

It is worth mentioning that the Parliament passed Law on amendment of the Law on international treaties of the Republic of Moldova, according to which obligatory consultation of parliamentary committee for external policy in case there are any negotiations of bilateral treaties pending to be ratified by the Parliament. This is of interest because adoption of the law in question conforms to the policy of realization of the parliament's prerogatives within the parliamentary form of government. Through the obligation of consultation a mechanism of parliamentary supervision over external policy issues and executive power promoting external policy of the country can be realized.

Discrepancy between principles declared by the ruling party and its actions

After establishment of the new authority a discrepancy between pro-communist rhetoric and its actions became evident. Indeed, the CP insists that it is faithful to Marxist-Leninist ideals, but, at the same time, affirms that times of class struggle and dictatorship of proletariat have passed. In addition to this, the Moldovan communists affirm that they recognize institution of private property. Besides, if we take a look at the list of candidates that the CP nominated for the last parliamentary elections, we could notice that there are no workers or peasants, but a lot of private enterprises' leaders. And a logical question arises – what is communist in this party except for the rhetoric? Thus, it is no wonder that more and more accusations of the ruling party emerge of being rather bourgeois, opportunist and socio-democratic by nature. But that is not what worries, but exploitation of nostalgic expectations of the citizens, failure to realize of which can cause political instability.

The last plenary session of the Central Committee of the CP (23 June, 2001) revealed a number of problems that provoke displeasure and misunderstanding within the party. Leaders of the CP tried to explain these phenomena in psychological terms pointing at periodical lability of dominating in the party state of opinion. Thus, it was stated that transfer from euphoria caused by proportions of the electoral victory in February 2001 to apathy caused by socio-economic and political realities that the ruling party undertook to bring to conformity with its electoral programme produces state of frustration that manifests itself through the “syndrome of permanent opposition”. This syndrome cannot be overcome not even after the half of a year after the coming of the CP to power.

Duplicity of policy promoted by the new authority can contribute to that the “syndrome of opposition” will manifest itself not only to non-communist political forces but the political course promoted by the leadership of the party as well. On the one hand, implementation of the electoral programme of the CP is impossible without provision of a continuity of the previous

governments' policy, including through cooperation with international financial organizations. On the other hand, ideological clichés of the CP confirmed at the recent congress in April directly contradict principles promoted in memorandums signed by international organizations with the Republic of Moldova. That is why the CP took up a very deleterious tactics of telling every partner in negotiations things the latter would like to hear. Consequences of such tactics can lead to the loss of confidence in everyone's opinion. Indeed, after the victory in elections the communists permanently changed their political message. International financial organizations (IMF and WB) from "instruments of the world's imperialism" turned into negotiating partners who the communist leadership intends to collaborate with. The same refers to the WTO. At the CP congress in April the WTO was labeled an instrument of promotion of the globalization that also is considered to be an instrument of the world's imperialism, but after just a month documents on joining this organization were signed. Exactly the same procedure took place as regards the Pact for Stability in the South-East Europe. Assuming the obligation to examine possibility of joining the Russian Federation – Byelorussia union, the communists joined the Pact for Stability, about which just a few months ago they were saying that would accept it only under the NATO gun point.

The last evolutions in the socio-economic area and in that of the external debt service of the Republic of Moldova made the leader of the communists come out with very tough declarations concerning the IMF, practically blaming it for the precarious situation in the economy that has created to a large extent due to exorbitant debts of Moldova. This kind of declarations of the communist leadership aggravates seriously the process of recommencement of negotiations with the IMF and WB that want to make certain that provisions of the memorandum, signed with the Republic of Moldova in December of 2000, will be fulfilled. International crediting organizations have all the reasons to take an interest in the new authority's intents. The problem is that same things are seen differently by the communists depending on who is in power. Thus, legislative acts referring to privatization of wine and tobacco industry enterprises stipulated for in the memorandum with the IMF/ WB were appealed against by the communists in the CC, and immediately after the victory of the communists the CC declared itself incompetent to decide on constitutionality of such acts although it previously issued decisions regarding the privatization process. Interestingly, that the communists did not insist any more on the revision of constitutionality of the respective acts, and now are forced to obey to the rules of play and promote the privatization according to the memorandum's provisions.

Therefore a question arises – whether has privatization a political color or not? Or have the communists forgotten that it was their political partner, the Agrarian Democratic Party (ADP), who they made alliance with during the electoral campaign of 1999 and whose leader, Anatol Păpușoi, which holds now an important post in the Government, had played the main role in promotion of the privatization beginning with 1994 and had accumulated the largest part of the external debt (1992 –1996)?

Now, the situation related to execution of the budget (only 85% of the planned inpayments) and observance of obligations related to payment of the external debt (\$81 billions USD just this year) is extremely difficult and solvency of the Republic of Moldova depends on negotiations with the IMF. It is obvious that in case of failure of the negotiations with the IMF the Republic of Moldova will be declared insolvent. The problem is that the next year Moldova will have to pay external debts estimated approximately up to 2/3 of the budget's inpayments, and restructuring of the debts will directly depend on success of the negotiations with the IMF and WB.

According to all this, the fact becomes evident how serious the ruling party is; almost a half of a year after the electoral victory has passed and its parliamentary capabilities are still

weak, it does not know the “bourgeois” legislation of the country and after all this time has just realized that must obey to the memorandum signed with the IMF and is just beginning to negotiate its modification?

After promotion of such policy it looks like there are reasons for the “apathy” in the ranks of the CP to appear, the fact that was pointed to at the June plenary session of the CP. That is why the leader of the party, Vladimir Voronin, willing to anticipate critics let know his colleagues that he is not pleased with their parliamentary and local activity as well. Thus, he criticized formation of a parliamentary fraction council having laid emphasis on that the deputies’ mandates were obtained by the members of the fraction due to the their inclusion into the party’s list, so, the party discipline has to remain the basis of its activity. This shows that Voronin did not like formation of a body that could be to a certain extent independent from the Central Committee and wants to retrieve the control over activity of the parliamentary fraction through the Central Committee. In case of rise of possible crisis situations in the parliamentary fractions there is a security belt: 49 of 71 of the communist deputies are members of the Central Committee of the CP. The CP intends through the party structures to solve the problem of personnel that are to take up important public posts. Meanwhile, however, the new power confronts large problems without personnel qualified enough to replace 80% of public officials, which activated during the previous governments and are now suspected by Voronin for “sabotaging” of the new government’s efforts.

Displeasure expressed by territorial organizations of the communists made the leader of the party to remind his colleagues on the territory of that before criticizing cadre policy at the central level it would be better to improve their own cadre policies on local territories. Thus, at partial mayor elections that took place during 24th June – 1st July, in 11 localities, the communists won only in 4. In rural some localities communist candidates obtained 8–9 times less votes than at the parliamentary elections of 25th February. This is a very worrying sign. Also at the plenary session Vladimir Voronin anticipated critics from dogmatic wing of the party discontent with the political course promoted by the leadership of the party, laying emphasis on that the internal socio-economic policy is not supposed to contradict the logic of the situation and international relations.

Authority - opposition relations

Obtaining of the constitutional majority by the CP at the parliamentary elections of 25th February was qualified by observers an utter collapse of the Moldovan multi-party system. Presently, there is no opposition force whose activity could directly influence the policy promoted by the new authority. Moreover, public opinion cannot follow anymore debates over the most important problems due to the fact that the communist majority in the Parliament adopts the most important decisions at sessions of the fraction or plenary sessions of the CP, which are only put to the vote at plenary sessions of the legislative body.

In these conditions possibilities of the opposition to influence the policy of the CP are very small. However, political forces in opposition can implicitly influence behavior of the communists not to allow abuses in limitation of some fundamental political rights that arise from international obligations of the Republic of Moldova. But now it is too early to speak of any serious opposition. In the first place, because the communist “monolith” is confronting three (!) “oppositions”: parliamentary, in the form of PCPD; “constructive” of the Braghiș Alliance; and extraparlimentary in the form of the Democratic Forum of Moldova (DFM) formed in May, 2001, of 7 parties that accumulated between 1-6% of votes at the last parliamentary elections.

It is worthy giving a short description of these “oppositionists”, which we could arrange conventionally from the Left, right after the CP, to the Right in the following order: AB, DFM, PCPD.

So-called “constructive opposition” of the Braghiș Alliance is, for the time being, very weak due to internal difficulties. It was formed as an electoral entity with a status of “power formation” supposed to play an important role in composition of the new authority that was to establish itself after the elections. Obtaining of the constitutional majority by the CP made goals of the AB become out-of-time. Amorphous structure of the AB does not allow generation of new political coherent strategies, although the AB includes a number of deputies with a very important political potential.

DFM was formed in the hope of that its rating could have proportion of the total percentage of all its components at the recent elections – 20.5%. The cumulative result could really be significant, but given the current situation formation of a new alliance of heterogeneous political forces can be useful only for *“elaboration and bringing to attention of opinions and common political positions of the extraparlimentary opposition towards the policy promoted by the communist authority”*. After formation of the DFM its leaders made different declarations concerning possible evolutions: fusion of the DFM components into two parties – of the center-right wing and, respectively, of the center-left wing; unconditional fusion of small parties with those large enough, although difference between electoral power of the most and the least powerful formations within the DFM is just 4%; common participation in the local pre-term elections, etc. As for the rest, during the time that passed after its formation, the DFM did not undertake anything to establish a common platform for its activity as the extraparlimentary opposition.

Parliamentary opposition in the person of the PCPD determined as its goal the monitoring of the ruling party’s activity through mechanisms of parliamentary supervision. Presently, the PCPD is the only formation of the right wing that meets requirements to be qualified as a political party and that can claim to a relatively stable political future. Permanent care for motivation of its members, Christian-democrat doctrine meant to bind together the party’s ranks and political message addressed to potential adherents are three pylons that make the PCPD have a stable rating during the last 7 years. Recent congress held in May is an illustration of the fact that this formation is capable of lucid analyses and able to express coherently its goals. One should mention though that calculations of the PCPD, when it contributed to destruction of the ADR together with the communists, seems to be a wrongful one. Sharp critics of the ADR for real or imaginary sins were favorable to the communists whose rating increased by 20% during the period after the general elections of 1998, while the PCPD rating increased just by 1%. This makes, for the time present, impossible the alliance of the PCPD and the DFM.

Being desperate, three opposition forces engaged in the process of monitoring of the CP’s activity do not undertake anything in order to unite the right wing political forces, although, in their opinion the communist government can lead the country towards an economic catastrophe, which will have features of the “Bulgarian syndrome”. So an eventual collapse of the ruling party would not result in its replacement by any right-wing force capable to solve problems the country is confronting.

Efforts to solve the Transnistrian conflict

After the new President of the Republic of Moldova adjured on the 7th of April, new efforts aimed at solution of the Transnistrian conflict were undertaken. On the 15th May, the President Vladimir Voronin issued a decree on solution of the Transnistrian conflict. It contains elements of a new strategy that the new government intends to apply during negotiations with separatist leaders from Tiraspol.

The decree provides for that the solution of the Transnistrian conflict is a task of primary importance of the public authorities of the Republic of Moldova. Solution of this problem presumes elaboration and adoption of a special legal status of localities from the left bank of the Dniestr on the basis of principles of the territorial integrity and sovereignty of the state. In order to realize these tasks it is planned to adopt decisions meant to increase mutual confidence of parties in conflict. It is intended to restore unique legal, economic, social and defensive space. The President Voronin let to know that he will apply the tactics of small steps and reasonable compromises to achieve strategic goals.

Voronin's decree refers to the solution of the conflict on the basis of principles of sovereignty and territorial integrity of Moldova, but there is no reference to the unitary character of the state stipulated for in the Constitution. Therefore, one can surmise that solution of the conflict can take place according to so-called "Primacov's plan". This plan, according to Evghenii Primacov empowered by the president of the Russian Federation to represent this country in the process of regulation of the conflict, foresees "elimination of extremities". That is, the unitary character of the Moldovan state, on the one hand, and Transnistria's independency, on the other.

Initiatives of the President Voronin to speed up the solution of the conflict have confronted with a number of obstacles created by the administration of Transnistria. Immediately after the meeting with Vladimir Voronin on 16th of May Smirnov sent an address to the RM, where he requests that the latter would unilaterally declare inadmissibility of withdrawal of the Russian troops from the region until a multilateral treaty on guarantees granted to Transnistria is signed and mechanisms of its implementation are established. Smirnov motivated his initiative through that Russia in Istanbul has assumed obligations that contradict those obligations that it assumed in Odessa in 1998. Thus, leaders from Tiraspol consider that Russia's obligations assumed towards Transnistria at an ordinary meeting has a higher value than those assumed within an international treaty that already took effect. It is a question of a political and military dimension of the Chart for European Security adopted at the summit in Istanbul, whose basis consists of the Treaty on Conventional Armed Forces in Europe.

However, there are signs that things work towards a certain direction determined by international state of affairs. From this viewpoint, several important issues can be mentioned. First of all, one can observe that separatist leaders from Tiraspol in their declarations look disappointed by Moscow as regards perspectives of solution of Transnistrian conflict. It is an indicator that position of the main mediator is changing. Secondly, the recent protocol agreement on utilization of immovable armament kept in Transnistria signed by representatives of the ministry of defense of the Russian Federation, OSCE and administration from Tiraspol confirms assumptions that process of solution of the conflict has a certain vector of development.

To strengthen his positions in negotiations the leader from Tiraspol, Igor Smirnov, made public declarations that he will negotiate with Chisinau only on the basis of equality of parties engaged in the process of construction of a "common state", which is supposed to be formed of two equal subjects of the international law, and that he will leave his post only after the Transnistrian state is recognized. It is important that Smirnov repeated the respective declarations at the beginning of his campaign during presidential elections in Transnistria.

This means that until the elections in December there are very few chances that he will make concessions, just because of a simple motive that he is forming his electoral message on the basis of the respective promises. From these considerations, on the eve of elections Smirnov decided to remove out of the competition political parties that could be his rivals and would be willing to continue dialogue with Chişinău from other position. Therefore, Transnistrian justice liquidated three political formations of communist orientation registered there.

If Smirnov is reelected in December, then his election will influence the process of negotiations negatively, especially when the President Voronin declared that it is impossible to negotiate with Smirnov and the latter must be replaced. However, Vladimir Voronin claims that he still has a room for maneuver to produce some surprises that would determine Tiraspol to negotiate constructively. Such surprise arose in Strasbourg where Voronin declared that without a support from Europe it will be difficult to promote implementation of democratic values in Transnistria. And coming back home he again expressed himself again internationalization of the Transnistrian conflict. Leaders from Tiraspol consider that room for maneuver the President Voronin is speaking about consists of a economical blockade of this region.

A number of experts affirm that solution of the conflict could have an economical dimension. It is becoming more and more evident that in the Transnistrian region a process of privatization with participation of foreign capital is developing. That is why businessmen from the West and Russia that have economic interests in the region want establishment of political stability. One of the key problems, which can emerge in process of regulation of the conflict, can refer to legalization of the privatization process in the region.

In this context, it is worth mentioning that separatist leaders from Tiraspol affirm that one of basic aspects of relations between Chisinau and Tiraspol concerns regulation of relations of property on assets on the Transnistria's territory. That is why, they maintain, the regulation of property relations and accordance of guarantees to the Transnistrian region, can be essential conditions for acceptance by them of the "Primacov's plan" of federalization of the Republic of Moldova, so as a single subject of the international law would exist, a unique national currency, and a unique system of law enforcing bodies. But in order to achieve this structure of the Parliament and executive power will have to be reviewed, i.e. the Constitution of the country.

Thus, the new power spent the first half of 2001 searching for ways of practical solution of key problems of the country. the main difficulty consisted in that how to bring together pre-election rhetorics and realities. There are still few results. it looks like decisive events are to arise in the autumn and at the beginning of the next year.

ANNEX**EXPECTED 2001 ANNUAL TOTALS^{*}**

Main indicators of economic development of the Republic of Moldova:

Indicators		1998 actual	1999 actual	2000 actual	2001 planned
Gross Domestic Product (current prices)	billion lei	9.1	12.3	16	19.3
% change on previous year (comparable prices)	%	93.5	96.6	101.9	107
Customer price index:					
average annual	%	108	139	131	113
at the end of year	%	118	144	118	110
Exchange rate:					
average annual	lei/USD	5.4	10.5	12.4	13.2
at the end of year	lei/USD	8.5	11.7	12.4	13.8
Export	billion USD	632	464	471	575
Import	billion USD	1024	588	777	821
Trade balance	billion USD	-392	-123	-305	-246
Industrial product value (current prices)	billion lei	6	8.2	10.2	12.3
% change on previous year (comparable prices)	%	85	88.4	107.7	108.1
Agricultural product value (current prices)	billion lei	4.8	5.1	8.1	10.1
% change on previous year (comparable prices)	%	88	92	97	115

The so optimistic forecast is based on the positive tendencies of the national economy development in the first half year: there was an increase in the volume of exports, industrial product production, commodity circulation and paid services, turnover of goods and building and assembly jobs. Was an increase in real salary, decrease of the inflation rate and stabilization of the national currency exchange rate on the acceptable level. In the same time there are some negative aspects: an essential progress in the agriculture wasn't registered, the stagnation was kept on the equity market, practically were stopped influx of foreign investments and the process of privatization.

Nevertheless, the majority of indexes inspire us with optimism. Thus, *inflation* rate in June 2001 year decreased by 0.5% in comparison with May. Such a price reduction is observed for the first, time since 1998 year, when the last time was registered deflation (in June – August). Subsequently, as the result of the regional financial crisis in Russia, that affected Moldova, we observe only growth of prices.

As the result was increasing of prices by 14% during the January – June period of 2001 year in corporation with first six months of 2000 year, (the same index in 2000 year was 37.5%, in 1999 year 29%, in 1998 – 7.9%).

^{*} Source: Government of Moldova, July data

Inflation flow in 1997-2001 years, %

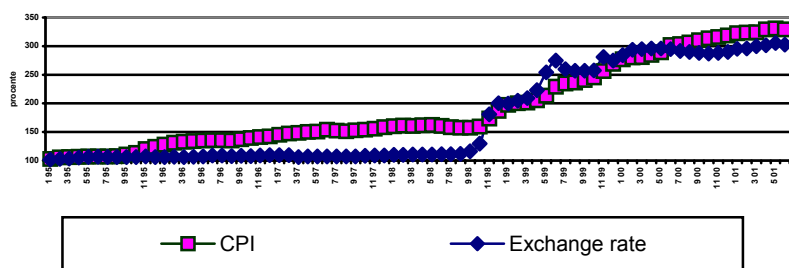
Year	To the change on previous month												First six month	Average annual index
	January	February	Mart	April	May	June	July	August	September	October	November	December		
1997	1.9	1.4	1.0	0.8	0.6	2.0	-1.0	-0.8	1.2	0.9	1.1	1.5	12.3	12
1998	1.3	0.4	-0.1	0.7	0.2	-1.1	-1.4	-0.6	0.2	1.4	8.6	7.8	7.9	8
1999	5.4	1.5	0.6	2.0	4.1	7.2	2.5	0.7	1.7	2.1	4.3	5.0	29.0	39
2000	2.9	1.3	0.1	1.6	1.4	4.4	0.7	0.8	1.4	1.0	0.8	0.8	37.5	31
2001	1.2	0.3	0.3	1.5	0.5	-0.5							14.4	13 *

*) expected

National currency *exchange rate* (lei), during January – June period current year, was modified within the next limits: from 12.38 (01.01.2001) to 13.1 lei (22.05.2001) for 1 US dollar, and from the beginning of year it increased by 4%.

During January – June 2001 year, the average exchange rate was 12.82 lei for 1 US dollar, in comparison with the first six month of the previous year it increased by 2.4% (the same index in 2000 year was 28.8%, in 1999 year 106.2%, in 1998 year – 2.3%).

Customer price index and exchange rate



Today situation on the currency market and behavior of the customer price index are similar with the situation in the first half of 1998 year. It gives us a possibility to make a conclusion that economy was stabilized, going out, after three years, from the zone of consequences of the regional financial crisis of 1998 year.

External trade. External trade value for period of January – June, 2001 year is 704 million US dollars, 20% more than the same period of the last year. Export grew faster than import that led to decrease of negative trade balance by 24 million dollars.

Export and import during the first six month of 1997-2001 years, million US dollars

	1997	1998	1999	2000	2001
Export	338	358	192	219	290
Import	556	557	248	368	414
Balance	-168	-217	-56	-149	-124

The tendency of decreasing of export volume appeared in the middle of 1998 year and continued during 1999 and 2000 years. By the beginning of 2001 year a new tendency of increasing of monthly export value appeared.

That allows us to expect export growth at least to the level of 1998 year.

Export and import in 1997-2001 years, million US dollars

	1997	1998	1999	2000	2001 (planned)
Export	875	632	464	472	575-650
Import	1172	1024	578	777	820-920
Balance	-297	-391	-123	-305	-245-270

The income of consolidated budget represents 1895 million lei, that is by 13% more than in the same period of the last year, that is comparable with the growth of the consumer price index for the same period (14%).

During January – June period of 2001 year industrial enterprises (of all forms of property) executed products on 4.4 billion lei, or by 12% more than during the respective period last year (in comparable prices).

**Volume of industrial products production (comparable prices),
% change on corresponding period of the previous year**

	1997	1998	1999	2000	2001
first quarter	86	103.4	72.9	103.3	103.1
first six month	88	102.3	74.8	103.6	112.1
9 month	97	94.3	87.2	102.0	
year	100	85.0	88.4	107.7	

Slump of industrial production that continued during the 1990th, in the beginning of 2000 year was replaced with small growth, that continues till present day. But the production level of the first half of 1998 year is not achieved yet.

Agricultural production level in the first half of 2001 year was decreased, in comparison with the similar period of the last year, by 6% (in 2000 year – with 10%). The main reason of this is reduction (by 7%) of cattle breeding production. In our Republic 2/3 of agricultural production represents plant growing (that gives considerable results mainly in 2-3 quarters), and if we take in consideration favorable natural conditions of the last year, we can expect that this branch will finish year with positive results.

Dynamics of other indexes of economic development in the first six months of 1997-2001 years is given in the next table:

(% change on corresponding period of the previous year)

	1997	1998	1999	2000	2001
Volume of retail turnover	116	89	67	102.4	118.1
Volume of paid services provided to the population	96	106.5	77	97.9	112.1
Volume of goods transportation	87	122	67	85	...
Capital investments	96	100	90	87	92

Further to this, we will mention that real average monthly wage, during the January – May period, increased by 13% (during the same period last year - it decreased by 3%). In the same time were reduced the budget wage debts and situation with pension payments became normal.

Finally, as the result of growth in the main branches of economy, Gross Domestic Product in the first quarter of 2001 year increased by 2.6% and in the second quarter, according to the previous estimation, – by 3%. Reasoning from the fact that in Moldova second half of the year, as a role, is more “productive” than the first one (because of food industry attachment), we can forecast 7% of Gross Domestic Product growth during the year.