

Moldova



Following deadlock with Russia in 2003, a primary focus of Moldova's leading political party, the Party of Communists of the Republic of Moldova (PCRM), has been on improving the country's relationship with the EU. Nevertheless, depending on the evolution of the political and economic situation in Moldova, the EU option could recede and Russia could become more dominant. Tense relations with Romania, an EU member, will further complicate relations with the EU, after allegations by the Moldovan authorities that Romania stirred up trouble in Moldova following the election in April 2009. A long-term dispute over the self-proclaimed independence of the territory of Transdniestr is also unlikely to be resolved in the near future.

Moldova's population of 3.6 million has shrunk by 2.3% since 2005, largely due a migratory labour-force which in turn has created a simultaneous decline in both employment and the unemployment rate, which fell by 1.5 percentage points to 3.9% in 2008. One estimate shows 310,000 people (some 9% of the population) as working abroad in 2008. Although this migration was a driving factor in economic growth, by providing the financial resources that enabled rising consumption, it also threatened the fiscal sustainability of the social insurance fund, raised the labour costs and led to labour shortages in some sectors of the economy. However, the forced return of workers from those countries most seriously affected by the financial and economic crisis is expected to drive the unemployment rate up again in 2009, possibly to as high as 10%.

The global economic crisis has had an increasingly negative impact on the Moldovan economy. In recent years, private consumption has been its primary engine room, mainly fuelled by the inflow

of remittance funds from overseas workers to reach 113% of GDP in 2008. Recession in the EU has made this unsustainable, and the situation is exacerbated by the government's failure to stimulate the private sector through investments in education and infrastructure. As a result, Moldova appears to be one of the most vulnerable transition economies.

Growth in 2008 was impressive, however, with GDP up by 6.5% to EUR 4.2 billion, a substantial decline is now forecast for 2009, due to reduced private and external consumption and a scarcity of investment resources.

Investment levels increased significantly over the three years up to 2008, contributing positively to GDP growth. Unfortunately, this tendency ceased once the global financial crisis emerged in the Moldovan economy, and it is expected that investment resources will remain scarce in 2009-2010.



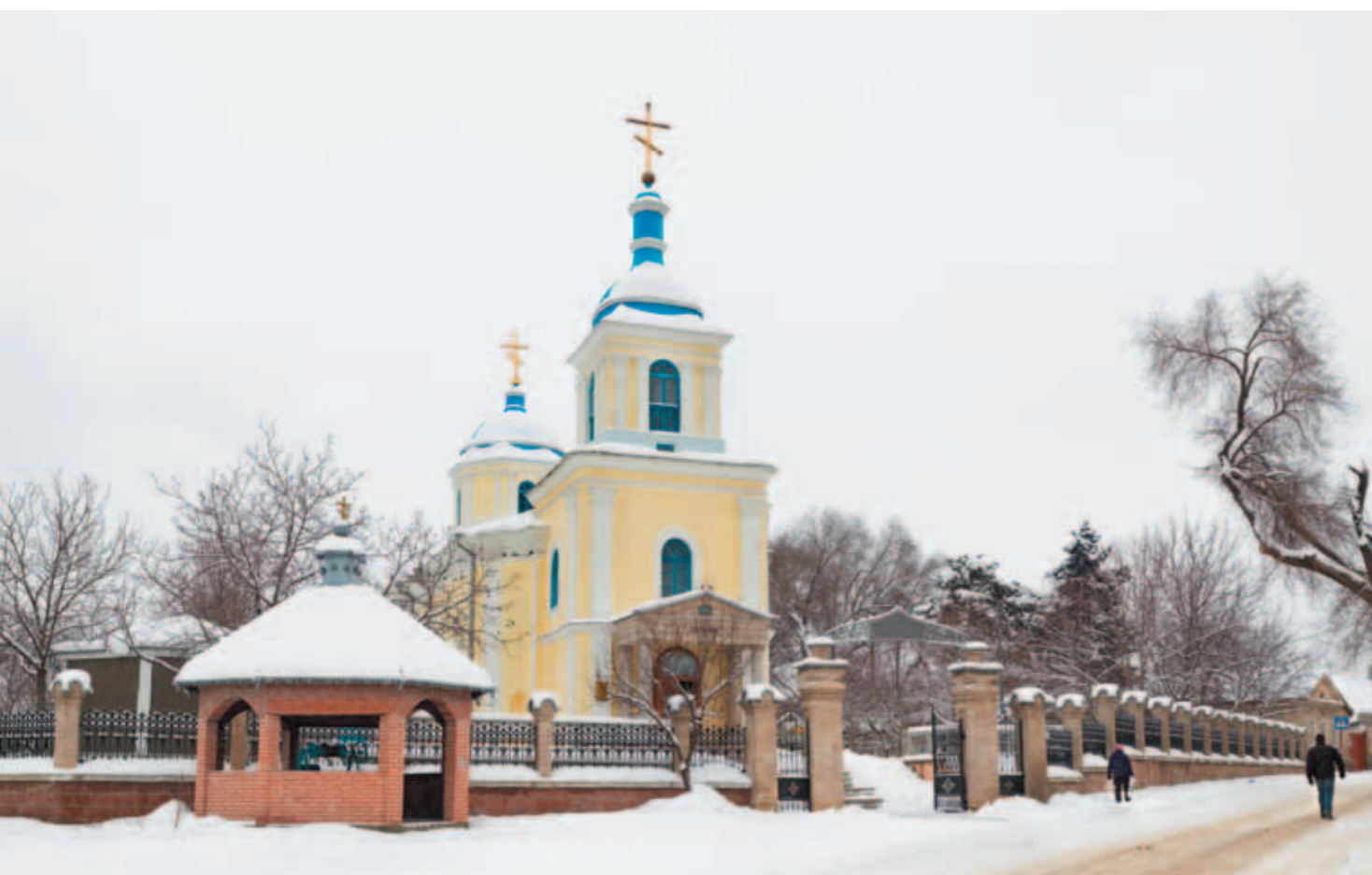
Under these harsh economic conditions, companies are expected to make better use of existing capital and labour and to achieve higher productivity.

The country's currency, the Moldavian Leu, strengthened for much of 2008 before starting a decline in September 2008 that in early 2009 forced the National Bank of Moldova (NBM) to intervene more strongly in order to limit its further weakening. In the face of significantly falling inflation during 2009, however, it is expected that the NBM will be able to boost the liquidity of commercial banks and encourage lending by reducing interest rates.

Average annual inflation is expected to fall from 7.3% in 2008 to a maximum of 4% in 2009 and 2010, as oil and food prices decline.

Although the current account deficit is forecast to narrow during 2009 and 2010, it will remain substantial. Inflows from FDIs and private-sector borrowings are likely to be negatively affected by the poor global economic environment. Following a slight decline in exports (down by 1.3% to EUR 1.7 billion) and imports remaining unchanged at EUR 3.7 billion in 2008. Both exports and imports fell sharply in the first quarter of 2009, driven by recession in Romania, Italy and Germany, the three primary markets for Moldova's relatively limited export base.

The budget deficit is expected to widen to around 3.5% of GDP in 2009 under the impact of economic recession, before narrowing in 2010.



Moldova	2005/2007 Average Values	2007-2008	2008
	Change (%)	Change (%)	
Population (mil.)	0.0	-0.1	3.8
Average monthly gross wage (EUR)	10.9	17.7	616.0
EUR Exchange rate vis-à-vis	-0.3	-0.2	1.9
USD Exchange rate vis-à-vis	-2.7	4.3	1.4
	Real change (%)	Real change (%)	EUR mil.
GDP	5.4	6.5	4,163
Private consumption	15.0	27.5	4,156
Public consumption	29.4	8.5	882
Gross fixed capital investments	32.6	-14.7	1,053
Exports (goods and services)	10.7	-1.3	1,659
Imports (goods and services)	21.4	0.0	3,718
	Nominal change (EUR mil.)	Nominal change (EUR mil.)	EUR mil.
Trade balance	-359	-73	-1,712
Current account balance	-147	-251	-726
General government balance	-4	7	0
General government gross debt	-17	-43	864
External debt	-5	-55	622
Foreign currency reserves	186	285	1,196
	Percentage point change	Percentage point change	%
Economic activity rate	-2.2	-3.4	47.0
Unemployment rate	-0.9	-1.5	3.9
CPI rate (previous year = 100%)	0.2	-5.8	7.3
Central bank interest rate	0.5	-2.0	14.0
1-year yield on Treasury Bill	2.0	2.9	19.8
10-year yield on Treasury Bond	n/a	n/a	n/a

Sources used: Reuters EcoWin Pro

Contacts

Moldova

Office Managing Partner

Maksim Caslli
+40 21 2075 217
mcaslli@deloittece.com

Function Leaders

Santiago Pardo
Audit
+40 21 2075 492
sapardo@deloittece.com

Alexandru Reff
Tax & Legal
+40 21 2075 248
areff@deloittece.com

Maksim Caslli
Consulting
+40 21 2075 217
mcaslli @deloittece.com

Hein Van Dam
Financial Advisory
+40 21 2075 230
hvandam@deloittece.com

Industry Leaders

Mike Jennings
Financial Services
+420 246 042 576
mijennings@deloittece.com

Vladimir Vanek
Energy & Resources
+420 246 042 361
wanek@deloittece.com

Dariusz Nachyla
Technology, Media & Telecommunications
+48 22 511 0631
dnachyla@deloittece.com

Diana Rogerova
Real Estate
+420 246 042 572
drogerova@deloittece.com

Martin Buransky
Public Sector
+420 246 042 351
mburansky@deloittece.com

Country Review Analysts

Tomasz Ochrymowicz
+48 22 511 0456
tochrymowicz@deloittece.com

Rafal Antczak
+48 22 511 0043
rantczak@deloittece.com

Clients & Markets

Matthew Howell
+420 234 078 558
mathowell@deloittece.com

Patricia Ilisiu
+40 21 2075 488
pailisiu@deloittece.com

"Deloitte" is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management, and tax services to selected clients. These firms are members of Deloitte Touche Tohmatsu, a Swiss Verein ("DTT"). Each member firm provides services in a particular geographic area and is subject to the laws and professional regulations of the particular country or countries in which it operates. DTT helps coordinate the activities of the member firms but does not itself provide services to clients. DTT and the member firms are separate and distinct legal entities, which cannot obligate the other entities. DTT and each DTT member firm are only liable for their own acts or omissions, and not those of each other. Each DTT member firm is structured differently in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in their territories through subsidiaries, affiliates, and/or other entities.

Deloitte Central Europe is a regional organization of entities organized under the umbrella of Deloitte Central Europe Holdings Limited, the member firm in Central Europe of Deloitte Touche Tohmatsu. Services are provided by the subsidiaries and affiliates of Deloitte Central Europe Holdings Limited, which are separate and independent legal entities.

The subsidiaries and affiliates of Deloitte Central Europe Holdings Limited are among the region's leading professional services firms, providing services through more than 3800 people in more than 30 offices in 17 countries.

For regional projects and projects requiring regional resources, the services are provided by Deloitte Central Europe Limited, which is an affiliate of Deloitte Central Europe Holdings Limited. Deloitte Central Europe Limited is one of the leading professional services organizations in the country providing services in tax, consulting, risk management and financial advisory services.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 165,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from cultural diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

This publication contains general information only, and none of Deloitte Touche Tohmatsu, its member firms, or its and their affiliates are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

None of Deloitte Touche Tohmatsu, its member firms, or its and their respective affiliates shall not be responsible for any loss whatsoever sustained by any person who relies on this publication.