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Real Economy is a monthly economic review, tracking the most important economic evolutions and policy developments in Moldova. Its readers are policymakers, CEOs of domestic and international companies and banks, representatives of the international institutions and foreign embassies, political parties and economic journalists.

Acronyms and abbreviations: y-o-y - year on year; q-o-q - quarter on quarter; m-o-m - month on month; e-o-p - end of period; Q4:07 – fourth quarter 2007; Jan:09 – January 2009; NBS – National Bureau of Statistics; NEA – National Employment Agency; NBM – National Bank of Moldova; MDL – Moldovan leu (national currency); BEM – Banca de Economii; p.p. - percentage points.

EXPERT-GRUP is a Moldovan independent think-tank whose mission is to create a working environment in which free and non-trivial thinking thrives in order for the institution to be a leading source of unbiased economic analysis and to effectively advocate for innovative ideas and solutions to the economic problems that Moldova encounters along its path of economic transformation, societal development and European integration.

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■ Evolution of the Economic Leading Indicator

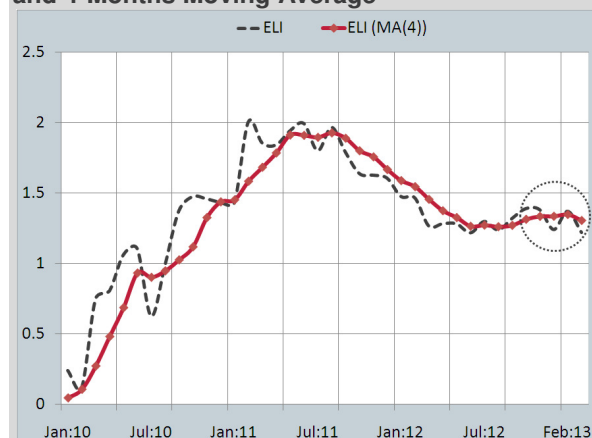
In Feb:13 the Moldovan economy remained volatile with relatively gloom immediate prospects. The Economic Leading Indicator (ELI) slightly decreased compared to Jan:13, owing to the negative contribution of all but one components of ELI: total exports are healing for the second month of the current year (+25.9% in Feb:13). This is the result of arithmetic factors (lower comparison base previous year) and a tremendous growth in demand from the “other countries” (mainly, Turkey). Exports were the most resilient among other economic leading indicators, with the growth almost equal for CIS (+19.9% y-o-y) and EU (+17.2%, y-o-y).

The growth was also similar for remittances originating from EU and CIS countries. Total remittances remained volatile, but still on a recovery trend, lowering their growth from 22.6% in Jan:13 to 9.7% in Feb:13, y-o-y. Money in circulation grew at a healthy rate (+23.2% y-o-y), though a bit slower as compared to the previous month. The persistency of such a robust growth can be explained by the accommodative stance of the monetary policy amid low opportunity cost of holding money and modest inflationary pressures.

The most worrisome signs are coming from the banking sector. Lending remained tight: total new loans declined by 25.8% y-o-y by the end of Feb:13, owing to both supply side (banks' reluctance) and demand-side factors (postponement of investment plans). The main contribution came from the corporate loans which slumped by 32.8%, whereas the credits granted to households grew at an impressive rate of 33.2%, y-o-y. As a result, the share of loans in banks' portfolios shrank to 57.5% (63.9% in Feb:12). In order to mitigate the repercussions on banks' profitability, banks compensated this decline with higher banking spread, which was additionally fueled by the uncertainty surrounding the Moldovan economy.

For the following months, the biggest challenge will be to consolidate the macroeconomic stability amid escalating political tensions and to solve problems at Banca de Economii. At the same time, the economic recovery anticipated for the current year will be mostly driven by the compensatory growth in agriculture and a resilient dynamics of exports. Other sources of growth, so far, remain anemic.

Chart 1. Economic Leading Indicator, raw data and 4-Months Moving Average



Source: EXPERT-GRUP calculations based on NBS, NBS and Logos-Press;

■ Key economic figures and data

Agriculture. According to recently released statistical data, in Q1:13 the agricultural production has registered a 1% decline y-o-y, mainly on the account of the livestock sector. The slaughtering of the livestock has been of smaller scale than we expected, but the shortage of fodder reflected into the production of milk (-7%). In general, the corporate segment of the agricultural entities seems to fare much better than the peasant farms, which bore the brunt of the drought in 2012.

Industry. After a disappointing start in Jan:13, next month Moldovan industry improved significantly, posting a 1.5% y-o-y growth rate. Mining and manufacturing sub-sectors both registered positive trends, whereas the energy sector, no surprise, continued its free fall. The “traditional” industry – foodstuffs and beverages – remains steady (+5.6% y-o-y), whereas those sectors which are part of European supply chains – textiles, clothes, footwear and others – continued suffering decline, with outputs declining between -30 and -10% y-o-y.

Services. The most recent data are only available for the transport sector, which, nonetheless, are encouraging. In Q1:13 the total volume of cargo transported increased 18.5% y-o-y, with railroad transport recovering fast and targeting a higher share of the market, which in 2008 was higher than that of automobile transport. This growth is consistent with the recent growth in exports and may vanish if the economic conditions abroad worsen.

Households’ income and expenditures. In Mar:13 the average nominal wage increased by 6.8%, while adjusted to inflation – by only 2.4% y-o-y. It marked a deceleration in comparison with the previous month, when the real average wage grew almost twice faster (+4.1%). Lower disposable incomes explains the slump in new deposits opened by households at commercial banks (-12.7% in national currency and -28.1% in foreign currency in y-o-y terms). On the upside, the transfers from abroad in favor of natural persons (proxy for remittances) grew by 9.3%, which had a countercyclical effect and supported the final consumption.

Public finance. During Q1:13, state budget revenues grew at a healthy rate of 17.5% y-o-y, being driven primarily by fiscal collections (+22.9%). The largest contribution belongs to the most important financing source for the state budget – VAT (+20.5%). However, the VAT revenues except for those returned grew much slower (+13.4%). The second most important source of revenues for the state budget – excises - soared by 26.4%. Corporate income tax collections also posed a resilient growth (+28.2%), suggesting a gradual consolidation of the direct taxation mechanisms. The custom duty collections increased by 14.5%, reflecting the growing importing activity. All in all, the state budget revenues have exceeded the planned level for Q1:13 by 0.9%. However, the plan has not been met for two very important budgetary items: (i) excises underperformed by 1.3%, and (ii) foreign grants which were collected in an amount of only 33.6% of the planned level.

Labor market. According to the data published by the National Employment Agency, the number of registered unemployed people in Mar:13 decreased by 16.8%, whereas the number of unemployed who have found a job increased by 34.3% m-o-m. The number of job openings increased by 17.2% m-o-m. Although, the NBS did not release its labor market data, the indicators provided by NEA suggests some positive trends taking place.

Prices. In Mar:13, the annual headline inflation decelerated to 4.2% (-0.2 p.p. as compared to Feb:13). The foodstuffs became cheaper by 0.1% m-o-m, owing to the seasonal decrease in prices for eggs (-13.6%) and meat products (-0.5%), as well as to fruits (-0.3%) and vegetable oil (-0.2%). The prices for non-food products increased 0.3% m-o-m, mainly due to higher fuel prices (+0.7%), apparel (+0.3%) and drugs (+0.3%). The prices of services remained steady, except for railway and air transport which became more expensive by 0.3% and 0.2% m-o-m.

Monetary policy. The deceleration of inflationary pressures amid weak economic conditions and tight lending motivated the central bank ease its monetary policy. Thus, on April 25, NBM decided to cut down its refinancing rate from 4.5% to 3.5%, the overnight rate for loans from 7.5% to 6.5% and for deposits – from 1.5% to 0.5%, as well as the long-term lending facility – from 5.0% to 4.0%. An immediate implication of these decisions will be the decreasing yields on NBM certificates and Government’s t-bills, which could motivate the commercial banks to reorient their lending resources from the public to the private sector. In this way, the central bank tries to create appropriate conditions for the economy’s take off by mitigating the supply – side constraints for credit expansion. Nevertheless, such a strong accommodative stance of the monetary policy might be too risky if we take into account the robust increase in money in circulation (+20.8% y-o-y, in Mar:13), which could fuel the inflation in the long-run.

Financial indicators. In Mar:13 the commercial banks granted 18.5% fewer total new loans, while during Q1:13 the new loans slumped by 18.8%, as compared to the previous year. The main contribution to this credit crunch belongs to the corporate lending, which in Mar:13 registered a -23.8% y-o-y drop. At the same time, the new loans to households increased by 21.5% y-o-y. Total new deposits, during Q1:13 shrank by 18.2% y-o-y, owing to lower disposable incomes of the population, as well as the problems faced by “Banca de Economii”. Still, this decrease was due to the deposits opened up for short periods of time (0-5 months). Those with maturities from 6-12 months and over 1 year grew by 25.4% and 18.7% y-o-y accordingly. These are mostly the money of local companies which postponed their investments. In Mar:13, the quality of banks portfolios showed an improvement, with the share of non-performing loans in total credits decreased to 13.0%, from 14.5% in Feb:13. However, this improvement may be temporary considering the reversible contractual arrangements between Banca de Economii and the unknown buyer of its non-performing credits. The long-term liquidity indicator per sector is at a safe level (0.7, with 1.0 being the maximum level allowed), while the short-term liquidity remains abundant (33.1%, the minimum level allowed by the National Bank of Moldova being 20%).

Exchange rates. In Mar:13 the national currency depreciated by 1.9% with respect to the US dollar and appreciated by 1.3% with respect to Euro, comparing to Feb:13. It has been determined both by foreign and domestic factors. Particularly, the US dollar strengthened its positions quite significantly in comparison with Euro, appreciating by about 3%. At the same time, the central bank purchased on the domestic FOREX market USD 10 million, which contributed to the depreciation of the national currency.

Foreign trade. Moldovan foreign trade has shown two months of resilient growth of exports (18.2% y-o-y in Jan-Feb:13), while imports remained subdued, with only 3.7% growth. This is an optimistic evolution, compensating to some extent the more worrisome outlook in other economic spheres. Fast growth of exports to ‘other countries’ (i.e. other than EU and CIS) – 35.4 % - is a particularly good sign, telling that Moldovan companies try to diversify away from both EU and Russian markets, as both destinations have shown high uncertainty in the recent two years. This will help redressing, to some extent, the trade balance, which is the worst exactly in case of trade relations with ‘other countries’. At the same time, this growth to ‘other countries’ is mainly limited to Turkey and may not be that sustainable.

Key trading partners. Economic data coming from Russia and EU are worrisome for the Moldovan readers. After a disappointing start of the year, the short-term prospects of Russia remain equally bleak. According to Russian deputy minister of Economic Development, Andrej Klepach, “statistical data for the first quarter 2013 do not inspire optimism: economic growth will not exceed 2.5% in 2013, and if recent trends persist, the GDP can reach an even lower figure of 1.7%”. In the Euro area the unemployment in Mar:13 reached new heights (12.1% compared to 12% in Feb:13). While the persistent growth of the unemployment rate in the Euro area does not bode well for Moldovan migrants, this trend suggest an increased social and geographic fragmentation and new tensions among EU countries and among different social strata. All these may significantly undermine the economic and political cohesiveness of Europe.

Global and regional markets. Since mid-February to mid-April, prices for all key global commodities have been on downward trend: metals prices declined by rates between 10% and 17%, Brent – by 18%, wheat –by 8% and barley – by 1.5%. These trends are determined by weaker global demand (including from the part of China). In case of grains, the sliding prices are also the result of better than expected stocks in US and harvest prospects in many key producers around the globe.

■ Key policy developments in March 2013

Policy development	EXPERT-GRUP commentary
Apr 1. ANRE started examining the request of the Gas Natural Fenosa to approve new tariffs for electricity. On Apr 2 public protests took place in front of the ANRE building, calling the agency to reject the request.	Social and political pressures on the ANRE not to approve the request are high with potential to escalate. High-level political figures (Prime-Minister, Minister of Economy) also said preconditions are missing for such an increase, thus reducing the limits of discretion of the regulator.
Apr 1. Starting this date, the Union of Transporters and Road Workers of Moldova refused to transport the passengers which are entitled by Moldovan legislation to benefit of free-of-charge services. The Ministry of Transport calls for resumption of the services and threatens to call off licenses for the transport firms refusing to provide services.	The Union sees the free-of-charge policy as infringing the private property and private initiative rights. The Union says the number of passengers benefiting of free-of-charge services by far exceeds the compensations the state reimburses to the transporters. However, we believe that problem is with the cumbersome procedure related to the registration of the passengers entitled to the benefit and, more important, the high share of informal activity in the transportation sector.
Apr 2. Chisinau municipal council approved the municipal budget for 2013. The budget was approved in result of significant political concessions from all stakeholders involved and with almost 5 months delay.	The budgetary exercise shows that activity of the Chisinau municipal council and municipal executive bodies are one of the least transparent compared to other local authorities in Moldova.
Apr 2. Danube Logistics (operator of the Giurgiulesti river port) and "Moldovan Railroads" (state-owned company) launched the Black Sea – Baltic Sea railroad route as permanent. The volume of freighted cargo is expected to increase from 1160 th.t. in 2012 to 4000 in 2013.	Moldovan authorities boast the geographic location of the country as a bridge between Europe and Asia. However, this is the first project meant to harness the often-praised geographical location of Moldova and make use of modern logistical arrangements to open up the country to the international trade.
Apr 3. The Tirez-Petrol company was subject to a sudden action of inspection from the part of the Association for Consumers Protection, which was supported by armed personnel from the Ministry of Interior. More than 100 troops were involved, checking 11 fuel stations of the mentioned company.	The action seems very much a coordinated action from the part of the Government to intimidate the company and to extract political concessions from the political forces controlling the company. In light of the political developments that ensued later this month, this explanation sounds even more credible.
Apr 5. A series of amendments to the Law of Financial Institutions, Law of National Bank of Moldova, Civil Code, Civil Procedures Code and the Code of Execution entered into force. New regulations grant the NBM the right to authorize all important transactions with shares and to evaluate the quality of the new shareholders in terms of transparency, fiscal issues arising etc. Regulations consolidate the monitoring function of NBM regarding the quality of the shareholders' structure of commercial banks.	Measures might seem to contradict the free market principles, as they grant the monetary authority the power to block transactions with shares in case it finds them dubious. However, they are motivated by the recent attempts of off-shore companies to enter into the possession of important volumes of shares at several commercial banks which, in the end, proved to be illegal. Implemented accurately and transparently, the regulations could preserve the stability of the Moldovan banking sector and consolidate the public confidence.
Apr 9. Banca de Economii published financial statements reflecting positive dynamics in Mar:13. It increased the normative total capital based on the profit registered in Q1:13. Also later this month, the BEM announced that a significant proportion of the non-performing loans have been purchased by a non-disclosed foreign part.	Use of profit to increase the NTC contributes to the financial consolidation of the troubled BEM. However, it does not solve core issue of non-performing loans which needs more consolidated and dynamic actions from bank management and relevant authorities. The plan for financial consolidation of BEM is implementing slowly, and served as major issue of concern for the IMF mission in Moldova. The statement regarding the resolution of the
Apr 17. In a press statement, the National Agency for Energy Regulation (NAER) addressed the importers of fuel and suggested that domestic prices for fuel should decline, considering the negative trends of global prices for oil and derivatives.	This is a very unusual statement for NAER. It is not allowed to regulate prices, but the statement is quite transparent on the regulator intentions to use its licensing competences and to withdraw the licenses from companies exceeding 10% profit margin. The statement

Policy development	EXPERT-GRUP commentary
Apr 22. The Constitutional Court of Moldova ruled out that maintaining in office of a prime-minister of a Government dismissed for reasons of corruption is unconstitutional. The case originated in the complaint lodged at the Constitutional Court on 11 April 2013 by the deputies from the Liberal Party on the interpretation of the articles 98, 100, 101, 103, 106 of the Constitution, which regulate the dismissal of the Government as a result of a no confidence vote by the Parliament	comes amid political and social pressures on the ANRE not to allow the increase in electricity prices demanded by the Gas Union Fenosa. The Constitutional Court decision reversed the negotiations taking place between the Liberal-Democratic Party, the Democratic Party and the 'reformist' faction of the Liberal Party to create a new government. It denied Mr. Vlad Filat running against for the post of PM. The political stalemate deepened, with the speaker of the Parliament Marian Lupu dismissed by joint vote of Liberal-Democrats and Communists. Snap elections are presently more likely than ever since 2010.
Apr 25. Balti Municipal Council refuses implementing the decision of the Ministry of Health which rules out selling of some types of junk-food in immediate vicinity of educational institutions. Later on, on 30 of April, the members of the Popular Assembly of Gagauzia decided not to follow the Ministry of Education new rules for increasing the integrity of the baccalaureate exams. The same day, the Assembly approved an 'anti-gay' law, which basically rejects the provisions of the national law on equality of chances.	Balti and Gagauzia are two 'hot spots' on Moldovan political map, known for their separatism tendencies. The decisions of local bodies come amid high political tensions in the capital. We do not believe, though, that these decisions are of purely local origin. In the recent two years, Russian emissaries have been frequent guests in the two regions and tried to encourage the local decision-makers to challenge the central government. While decisions adopted so far are related to petty issues, the situation may change in the future, considering Russia's determination of weakening Moldovan government and reversing Moldova's course of European integration.
Apr 25. The Administration Council of the National Central Bank decided to diminish by 1 p.p. the policy rate (from 4.5% to 3.5%), the rate for overnight loans (from 7.5% to 6.5%) and overnight deposits (from 1.5% to 0.5%), as well as the rate of long-term preferential loans for the real sector (from 5.0% to 4.0%).	This is the first adjustment to the monetary policy stance since Jan:12 and made the policy rates to reach new historical minimums. NBM expects the annual headline inflation to hover at around 4.1% till the end of 2013 and NBM expects the annual headline inflation to hover at around 4.1% till the end of 2013 and 3.7% for 2014. Hence, since this moment the central bank is implementing a monetary policy of negative interest rates. It can be explained by a 0.8% economic recession of the Moldovan economy registered in 2012 with a 2.5% slump during Q4:12, as well as the strong decline in the lending activity which persisted during Q1:13 (-18.8% y-o-y). Hence, consolidating the expansionary monetary policy stance has the purpose to support the economic recovery expected for the next two years, through more resilient lending and domestic demand. Still, we urge that such an aggressive monetary policy easing amid robust growth in money in circulation (+20.8% y-o-y in Q1:13) might have serious repercussions on the long-term inflationary pressures. Hence, this accommodative stance should not be kept for a too long time, being rather gradually withdrawn until the end of 2014.
Apr 26. Transnistrian private companies will benefit of lower tariffs for consumed natural gas in exchange of transmitting shares into state property. This is the key part of a recent decision adopted by the unrecognized authorities of the Transnistrian region. In case the companies agree for the swap, the price for gas will decline from 2860 'rubles' per 1000 c.m. to 1601 'rubles'.	In 2013 the tariff for gas sold to private enterprises saw a dramatic 70% increase. This has left many companies in dire financial constraints, including the Moldovan Still Mill which stopped functioning. The proposed shares-for-gas swap is part of the wider efforts of the new administration in the region to reduce the influence of the regional economic elites, amid more intense confrontations between interests of the business and regions' administration.

Statistical annex

Table 1. Key Monthly Indicators

Indicator	Apr:12	May:12	Jun:12	Jul:12	Aug:12	Sep:12	Oct:12	Nov:12	Dec:12	Jan:13	Feb:13	Mar:13
Industrial production, y-o-y, % ch.	-2.4	10.6	0.2	1.0	-5.2	-10.7	-6.0	-7.9	-3.1	-2.1	-0.7	n.a.
Retail trade, y-o-y, % ch.	-3.5	0.5	0.2	1.6	1.9	-1.2	4.3	-2.6	-12.4	-6.6	5.1	n.a.
Services to the population, y-o-y, % ch.	9.5	8.6	2.0	2.6	3.7	2.5	-1.8	3.5	-1.2	9.1	8.3	n.a.
Exports of goods, y-o-y, % change	3.3	1.7	3.7	-9.9	-15.8	2.4	-0.4	-11.0	-14.1	9.9	25.9	n.a.
Import of goods, y-o-y, % change	1.3	-2.2	-3.7	0.4	-3.3	-7.1	6.2	-3.4	-5.7	2.8	4.5	n.a.
Official reserve assets, million USD	2114.0	2043.0	2059.0	2094.3	2231.6	2326.8	2421.5	2422.4	2515.0	2519.7	2488.1	2469.1
Freighted cargo, y-o-y, % ch.	0.3	24.0	23.9	23.1	-11.5	-16.2	13.9	1.4	-16.4	-13.5	41.3	24.5
Registered unemployed at NEA (e-o-p)	38477	34803	31722	29412	27243	25552	24609	25586	26297	26643	27160	26324
Real salary, y-o-y, % ch.	2.1	4.2	6.1	5.4	5.7	3.2	6.0	5.3	4.9	8.8	4.1	2.4
Budgetary revenues, y-o-y, % ch. *	13.8	14.0	12.3	16.1	14.5	12.7	13.3	14.1	11.2	9.5	14.9	14.3
CPI, y-o-y, %	4.7	4.1	3.7	4.0	4.4	4.9	3.9	3.7	4.1	4.6	4.4	4.2
IPPI, y-o-y, %	5.8	5.7	6.0	5.0	4.8	5.3	5.0	4.1	4.5	1.6	2.8	3.4
Nominal exchange rate MDL/USD (e-o-p)	11.78	12.00	12.26	12.54	12.47	12.39	12.27	12.37	12.06	12.10	12.25	12.41
Money transfers from abroad, y-o-y, % ch.	-4.2	10.6	-7.4	4.5	3.7	-5.8	23.6	3.6	-0.9	22.6	9.7	n.a.
M2 monetary aggregate, y-o-y, % ch	12.0	11.3	11.8	14.1	18.2	21.4	20.8	23.7	23.5	27.2	26.1	23.4
NBM base interest rate, %	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Banks deposits interest rate, % (e-o-p)	7.23	7.5	7.59	7.40	7.15	7.94	7.72	7.96	8.44	8.55	8.56	8.09
Banks credits interest rate, %	14.25	13.98	13.69	13.38	12.82	12.58	13.0	12.68	11.98	12.41	13.23	12.77
Non-performing loans, % of total loans	13.6	14.7	15.3	15.2	15.3	14.5	14.4	14.7	14.5	14.6	14.5	13.0

Source: NBS, NBM, calculations and estimates EXPERT-GRUP;

Table 2. Key Quarterly Indicators

Indicator	Q1:11	Q2:11	Q3:11	Q4:11	Q1:12	Q2:12	Q3:12	Q4:12
Real GDP growth, % y-o-y *	8.4	7.5	6.7	6.4	1.0	0.8	-0.2	-0.8
Agricultural production, y-o-y, % ch.*	8.3	3.9	3.7	4.6	0.6	-2.1	-21.6	-22.4
Construction works y-o-y, % ch.*	4.0	12.9	3.1	1.4	4.9	3.6	0.8	-1.3
Fixed capital investment, y-o-y, % ch.*	132.0	131.8	111.3	109.3	95.4	-0.6	-0.7	-4.1
Net FDI flows, y-o-y, % change	25.8	100	-1.8	33.3	-51.3	-26.3	-68.2	-22.2
Unemployment rate, %	9.4	6.2	5.3	6.2	7.2	4.5	4.8	5.9
Employment rate, %	34.6	41.9	42.9	38.4	34.3	40.5	41.1	37.9

Note: * - cumulative;

Source: NBS, NBM, calculations and estimates EXPERT-GRUP;