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Transnistrian Market and its Impact on Policy and Economy of the Republic of Moldova

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Preface

The Friedrich Ebert Foundation has initiated the preparation of a study on the economic dimension of the Transnistrian problem, which was realized by the Center for Strategic Studies and Reforms.

This publication has to contribute to a greater transparency of the economic situation in this region. We also hope that facts and evaluations, which are contained in the material presented, will make easier coming closer to the resolution of the Transnistrian issue.

At the same time, it should be especially mentioned, that the contents of the publication do not represent the opinion of the Friedrich Ebert Foundation.

I hope that facts, statistical data, and evaluations of this study will give the reader the opportunity to develop some additional arguments, which will contribute to the achievement of a greater democracy and stability in this region of Europe.

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Introduction

International organizations and European structures have been keeping an eye on the Transnistrian conflict and its settlement (taking into account interests of all parties and, first of all, of the region's population) since the mid-90s. The settlement process (in political, economic, military and other terms) has been going slowly and contradictorily though, and now, 15 years after the "declaration of sovereignty of the Transnistrian Moldovan Republic" (September 1990), political and legal status of the region still remains causa of discussions.

Phenomenon of Transnistria has many aspects and is unique in a sense. It is closer, than other "frozen conflicts" of the post-Soviet area, to borders of the European Union, and there are no ethnical or religious factors in its base. General framework of the "Transnistrian issue" is formed of political circumstances, but economic interests have been showing in the bottom of the issue since its very beginning.

It is quite appropriate to accentuate, that the self-consolidation of the region as an autonomous territorial-economic and, later, administrative unit was started with the Congress of Deputies of Transnistria decision on establishment of *"Transnistrian Free Economic Zone"* (June 1990). The very concentration, unique for the ex-Soviet Moldova, in this region of industry (circa 30%), high-intensity agro-industrial complex and production infrastructure (power and natural gas supply, key sections of railroad and highway networks, irrigative constructions, etc.) was the supporting background of such behavior. It was the most urbanized part of Moldova with high incomes population both urban and rural.

Transnistria's post-1990 economic aspect enjoyed little investigation[1]. ***Unsettled "Transnistrian issue" first of all has influenced negatively upon the Moldova's coming-to-be, its policies, economy and development, and even on existence of the Republic of Moldova per se***, as a young European state.

Traditionally, in Europe and CIS (Russia, Ukraine) foremost attention is paid to political aspects of the problem. In the meantime, new challenges, ***events and findings of the last years (2000-2005)*** coming out as aggravation of economic relations between Moldova and Transnistria (so-called "economic blockade"), complication of export-import procedures for enterprises of the region, realization of a large-scale (monetary) privatization there and coming of Russian investors, separation and autonomization of the region's infrastructure, again and ***clearly put the economic component of the "Transnistrian issue" in the forefront***. And one can surmise that this issue will be the very area where the most intensive efforts of all parties will be required during the final stage of the conflict settlement, either based on proposals of Moldova, Russia, Ukraine or European structures.

New processes, challenges and findings appeared in Transnistrian economy over the last five years and their impact on policies and economy of the Republic of Moldova are the object of the current analytical paper. The Study was prepared by a working group of the non-governmental organization – *Center for Strategic Studies and Reforms* (CISR) – on the initiative of *Friedrich Ebert Stiftung* (Germany).

The authors (*Mihail Burla, Anatol Gudim, Vladislav Kutirkin and Galina Selari*) wish to express their gratitude for collaboration and constructive discussions to colleagues from the Union of Entrepreneurs, Chamber of Commerce and Industry of Transnistria, the Ministry of Economy and Transnistrian State University "Taras Shevchenko".

Nonetheless, finding expressed herein are of their authors and do not reflect views of any organizations or administrative bodies.

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[1] *Transnistria Region of Moldova*. Economic Review. World Bank, 1998; М. Бурла, В. Гушан, И. Казмалы. *Экономика Приднестровья на переходном этапе*. Тирасполь, ИПЦ «Шериф», 2000; *Эволюция экономики Приднестровья: критическая оценка*. CISR, 2001; *Исследование экономики Приднестровья*. CISR, 2003 (см. www.cisr-md.org)

1. Transnistria's Economic System: Interaction between Regional Authorities and Economy

Transformation and consolidation of socio-economic "all-sufficiency" of Transnistria is a phenomenon, unmatched in the post-Soviet area. 15 years of "unrecognized development of TMR" passed – for the economy, enterprises and population of the region – under harder conditions in many respects, than the Republic of Moldova as a whole was. Along this path, Transnistria had successes (preservation of a capable core of industrial potential – about 12-15 large enterprises, active external-economic activity, sparing social protection system), as well as has negative symptoms (considerable wear and tear and lack of means for modernization, stagnation of the basis – agriculture, decreasing population' incomes, de-population, especially in rural areas, due to migration, deficit of qualified personnel).

Adaptation of the Transnistrian economy to "all-sufficiency" during the 90s in many respects went mechanically under directive (centralized) administration and permanent legal and organizational adjustment to changing environment. Economy has permanent "***mobilizing character***" due to the military and political conflict with western part of Moldova (1992). A noticeable share of the budget funds was diverted "to ensure firm internal and external security". Here, ten years later than in other regions of the post-Soviet area, reformation of state property, privatization and active development of services based on private initiative and resources started.

In 2000-2004, institutional changes had decisive impact on structure and organizational mechanisms of macroeconomic management. The crux of these issues is as follows. Once the Law on Amendments to the Constitution of TMR was adopted (June 2000) the republic became the presidential one and this was the reason of fundamental changes **in frame-relations within the top public authorities (President – Supreme Council – Executives), as well as between the authorities and economy**. Now, the President can form bodies of executive power (the Cabinet of Ministries) on his own, without the Supreme Council's concordance. Supreme Council lost its right to take part in formation of bodies of executive power, but obtained the right to instigate proceedings and make decisions on dismissal of higher state officials. The President lost his right to submit to referendum a question about expression of the censure vote for the Supreme Council and dissolve it. Procedures of formation of judiciary bodies as regards assignment of judges have changed – judges are now appointed by the President (chairpersons of the Constitutional, Supreme and Arbitral courts are the only exception). Supreme Council decides on their appointment and dismissal, as well as of the General Attorney of TMR and chairperson of the Central Bank by the President's motion.

So the strong "power vertical" has created in Transnistria and this has the important influence upon the economic management. According to the new rules, instead of the Government - the authority vested with its own power, the Cabinet of Ministries, as a deliberative body under the President, was created. All Cabinet's decisions are approved by normative acts issued by the President.

Elections to the Supreme Council of the third convocation have been already regulated by the new Electoral Code (as of August 9, 2000). In accordance with the constitutional Law of June 21, 2000, on Amendments to the Constitution of TMR, structure of the Supreme Council became unicameral (there were two chambers in the Supreme Council before 2000 – Legislators and Representatives). Supreme Council of the third convocation lost its right to interpret the Constitution and constitutional laws of TMR. This right was handed over to the Constitutional court of TMR that has started its activity in 2002 (Law on Constitutional Court of TMR). Supreme Council is the representative and the only legislative body of TMR. Numerical strength of the Supreme Council is 43 persons, 33 of which are on regular basis (use full time as a parliament member); another 10, and this is Transnistria's peculiarity, could combine both parliamentary (course of delegate's duty) and economic activity (act as a leader of economic entities' – director, CEO, chairperson of joint stock company board, etc.).

At the same time the Chamber of Accounts was created (Law on Chamber of Accounts). And a certain role in elaboration of the region's economic policy is played by the Union of Entrepreneurs, Manufacturers and Agrarians of Transnistria (founded in accordance with the Law on Associations (Unions) of Employers) and the Chamber of Commerce and Industry of Transnistria.

In a generalized form, ***new trends appeared in Transnistria's economic system*** after 2000 are as follows:

- Legal and institutional basis of macroeconomic management was strengthened;
- Private sector expanded, first of all thanks to privatized enterprises and accent of theirs entrepreneurial activities shifted from pure production tasks towards marketing issues putting as a key search of solvent partners;
- New mechanisms for Transnistrian residents to access external markets are realized (since the end of 2002);
- Three-sector structure of the region's economy became clearer: primary (agricultural sector), secondary – manufacturing industry – and tertiary – services. Along with advantages of the industry's export orientation (that yearly makes up 35-37% of GDP), there is direct evidence of depression and unprofitableness in raw materials sector, while, since 2002/2003 the share of services in value added exceed the goods one;
- Transition to the new tax system, which is rather different from those of main Transnistria's trade partners was carried out;
- Reformation of the system of registration and regulation of economic units' activity (standardization, certification, metrology) through transference of state functions in this sphere to autonomous enterprises is started;
- Measures to enhance the currency were taken: denomination of the Transnistrian ruble implemented, since 2000 a common official exchange rate was introduced, quotation of which is done at the Currency Exchange of the Transnistrian Republican Bank;

- And, finally, population census was conducted (November 11-18, 2004), which allowed to put in order the region system of statistics and methodology of socio-economic development forecasting based on adequate evaluation of its demography and labor force potential.

Privatization as the new phenomena of Transnistria's economy aimed at replenishing the region's budget revenues and searching for new efficient owners able to reconstruct enterprises and ensure employment.

Law #46-3III of July 18, 2001, invoked State programme of privatization for 2001-2004, which resulted in USD 57 million from sale of 37 state property units, including Moldovan Hydroelectric Power Station (USD 29.0 million), plants: Moldavkabel, Pribor, Buket Moldavii, factories: Danastr, Tighina, etc. In most cases, privatized enterprises are now owned by Russian companies. The privatization programme for the nearest years lists more than 100 enterprises, total worth being circa USD 60.0 million, including Tiraspol textile industrial complex AO Tirotex with starting price of USD 22.9 million.

With a view to raise legal protection of new owners' rights, practice of "resale" (from a new owner to another bona fide owner) of two largest and the most important, in this geographical and economic area, enterprises was approved in 2004: Moldovan Hydroelectric Power Station, Cuciurgan (RAO EES is the new owner) and Moldovan Metallurgical Plant, Rybnitsa (Austrian – Ukrainian company Hares Group is the new owner/ trader).

As privatization was recognized as one of the most important priorities of socio-economic policy (including investments), the complete normative basis regulating property relations was fundamentally changed over 2003/2004:

- New version of the Law on privatization (July 2003);
- New Law on Equity Market (2003);
- New version of the State programme of privatization for 2001-2004 (November 2003);
- New Law on Joint Stock Companies (February 2004);
- New Law on Evaluation Activity (March 2004);
- Amendments to the Law on Minor Privatization (July 1999); Decree of the President on Approval of the List of State Property Objects Subject to Minor Privatization (March 2004); with a view to implement the Law, Ministry of Economy approved Regulation on Minor Privatization Commissions;
- A considerable number of amendments to other normative acts.

It is intended to close the main part of the privatization process in the nearest three years, having ensured share of private property at no less than ¾ region's assets. At the same time, system of monitoring of privatized enterprises is being improved, and it is not excluded that procedures of de-privatization could be applied to enterprises that do not fulfill terms of contract and investment project.

Search for the most efficient organizational and legal forms of economic activity has crystallized in that now, *the leading role in Transnistrian economy is played by large corporative structures of joint stock type and state enterprises*, which concentrate about 1/3 of the total number of industrial personnel and provide for more than 2/3 of the total production and total export of the republic.

The above-mentioned mostly positive trends in the Transnistrian economy adjoin a series of ***restrictions*** and ***negative circumstances***:

- *monopolization* of real sector and services of the regional economy *is high*; competition capabilities are limited (due to narrowness of the internal market); control and intermediary operations are hypertrophied;
- *no less than 20% of industrial enterprises* (food industry mainly, that lost sources of raw materials, which would meet capacity of its large, as a Soviet heritage, enterprises) and *about 50% – in agriculture – are unprofitable*; their share in services is 12-19%;
- *the region turned from a net exporter into a net importer of food*;
- there is *a decrease of the economically active population*, lowering of the level of labor motivation conditioned by inadequate and tardy remuneration for work;
- direct and portfolio *foreign investments* of Transnistrian residents, according to official estimates, *still "are not of substantial amount"*;
- deficiency of investments and *wear and tear of equipment* and infrastructure communications at many enterprises leads to preservation of under-productive labor;
- there are manifestations of *disloyal competition and criminalization* of informal sector of the economy;
- there is *no household budget examination system* in the region, which prevents from determining level and structure of incomes and expenditures of the population, their differentiation and conducting an adequate social policy.

Starting from these circumstances, Decision of Supreme Council of TMR (December 2004) stipulated the following as principal tasks of socio-economic development in 2005: sustainable economic growth, maximal restriction of crisis phenomena and raising population's welfare. And, in order to achieve them, a system of economic and administrative actions is designed:

- to stimulate investment activity and continue structural changes aimed at activization of the real sector of economy, modernization and re-equipment of production, raising of its efficiency and competitiveness, increasing share of sectors manufacturing consumer goods;
- to conduct budget and tax policy aimed at growth of budget revenues, improvement of structure of its expenditures and control of inflation expectations;

- to carry out a policy of import substitution, support (protection) of domestic producers and ensure growth of the share of domestically produced goods;
- to develop sources of raw materials for manufacturing sectors of agro-industrial complex;
- to widen external economic links towards raising of export and reducing of the foreign trade balance's red ink;
- to strengthen state support of small entrepreneurs, raise their business activity, create conditions for attraction of private capital;
- to conduct an active social policy oriented at supporting poor groups and strata of the population, create conditions for strengthening of the healthcare system, raise the level of professional education.

Generalizing the transformation of Transnistria's economic system over the last years, once can conclude that the region, by analogy with other post-Soviet states (with a ten years lag though), attempted after 2000 to switch from centralized administration to market liberalization, privatization of industry, infrastructure and services, introduce innovations into financial sector, transform social protection system with a view to ensure better aiming at needs of beneficiaries of state support.

Along with these processes, "standard" for post-Soviet area, including strengthening of the notorious "vertical line of power", Transnistria, starting from its peculiarities (unrecognized status, uncertainty of legal status) tried non-ordinary actions, including with ***participation of the Russian Chamber of Commerce and Industry****, to search for efficient forms of foreign trade and foreign trade partners; started organizational and financial autonomization of regional infrastructure (railroads, gas and power supply systems, IT and telephony). Introduction of the new customs control procedures on borders with Ukraine prompts to use informal schemes of export and export supply of goods and widening of operations in informal markets*.

Most likely, further transformation of the region's economic system will be conditioned, as it was before, by changes of factors and circumstances external for the region.

2. Macroeconomic Trends, Main Production Sectors

Analysis of the overall situation of the Transnistrian economy for the last five years (2000 – 2004) allows identifying the following, ***main factors*** *that affects the dynamics of economic development*:

- Increased influence of external factors and, as a consequence, adaptation to continuously changing conditions of functioning of the economy, which in turn determined a more active development of the non-market sector;
- Deteriorated demographic situation, resulting both from migration and from the natural decrease of the population;
- Limited internal resources for investment at the same time with lack of access to external financing and high potential need for such resources;

- Diversion of significant financial resources for ensuring internal and external security;
- Sound inflationary pressures along with contracting monetary supply;
- Agricultural crisis and crisis in related sectors of processing industry, increased import of food products: region has transformed from net-exporter into net-importer of food products.

The economy of the region has gained clear signs of *fragmentation* – it is continuously dependent on a limited number of enterprises (*spots of industrial activities*) and, to a certain extent, can no longer be seen as a "territorial-economic complex" (not in terms of governance, but in terms of systemic functioning). In other words, a certain archipelago has appeared in the region: over 50% of total industrial output, 60% of exports (foreign currency revenues) and the main share of republic budget tax revenues are generated by core sectors of the economy (ferrous metallurgy, light industry and energy).

The pace of development in these sectors varies, and economic growth is "focalised", i.e. does not induce recovery and revival of other sectors of the economy, and therefore is largely unpredictable and unstable. There are at least two reasons for exactly this scenario of economic development: initial export-import orientation of core enterprises (both their markets and resources are outside the region, they are not related to local opportunities and needs); and, as a consequence, high degree of dependence on continuously changing conditions for running international economic relations, which tend to become restrictive.

High degree of openness of the economy, limited size of the internal market, need to adapt to ever-changing external conditions determine the dynamics and pace of economic growth in the region. Therefore, regardless of the fact that the whole range of reforms has been undertaken to increase the efficiency of the economy – a regulatory framework was created to facilitate the transition towards the market economy, the process of mass privatisation was initiated, inflation was stabilised – the policy makers did not manage to overcome the crisis and to tangibly increase the standard of living.

The growth trend in Transnistria has for the first time emerged in 2001 (GDP growth was 11%, industrial output growth – 9%, capital investments – 15.6%). However, the hopes for further positive economic development were not justified: in 2002 the GDP again experienced an almost 3% decline, which is, of course, not to be compared to previous years decline (on average 30% annually) and was largely determined by fall in external trade, first of all in exports (the fact that Moldova became a member of WTO has had an impact on international economic activity of Transnistrian economic agents). By the end of 2002, however, the region managed to employ new mechanisms to access external markets, which resulted in recovery of positive GDP growth – 18.1% (2003) and 16.2% (2004). *Nevertheless, the GDP produced in 2004 is just a little over 50% of that produced in 1997.*

Structure of gross domestic product has changed as well (*Table 1*). Since 2001 the share of services in the production of gross value added has been steadily increasing. However this trend is in many respects reflecting general problems of the economy of the region. First of all, increased share of services is primarily the result of both sharp decline of output in the real sector of the economy and of anticipatory increase of prices on services relative to those on commodities (during 2000-2004 the price on services has increased more than by a factor of 15, on goods – almost by half of that – by a factor of 8). Secondly, more than 40% of the total volume of services produced is represented by so-called non-market services (education, healthcare, defence, etc.), i.e. the services provided by public (non-productive) sector.

Table 1. Structure of the Gross Domestic Product of TMR (current prices), %

	1998	1999	2000	2001	2002	2003	2004
GDP - total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
of which:							
goods	56.2	48.3	61.5	45.0	43.2	43.6	40.5
services	36.1	43.4	32.2	44.1	47.8	46.4	50.7
net taxes on production and imports	7.7	8.3	6.3	10.9	9.0	10.0	8.8

Moreover, one third of real GDP growth in 2004 was determined namely by non-market services sector (2003 – 16.3%, 2002 – 12%). The reason for such growing influence was the growth of state reserves (+USD 4.8 million). In essence, this means that share of the real sector in GDP is falling, with the concurrent increase in financing public needs. However, according to experts of the Transnistrian Republican Bank (TRB), "the efficiency of public expenditures and their impact on aggregate demand remains relatively low". Thus, in 2004 the public expenditures multiplier was 2.7 as compared to 5.6 in 2003. It means that 1 rouble of additional public expenditures in 2004 induced the level of GDP growth half that of the previous year. Consequently, increased presence of the state in the economy does not result in adequate growth in market-oriented sectors and restricts the possibility to expand the private sector.[2]

And lastly, the services sector, including market services, is oriented at internal market, and, consequently, is beyond the influence of external factors. Obviously, in such a situation it is quite difficult to speak about stable and sustainable economic growth.

The situation in the region also affects the republican budget. Until recently, budget formation and, most importantly, implementation, has been quite difficult; the Law on budget was coming into effect with significant delays (in 2002 it was delayed almost by 5 months, in 2003 – one month later).

However, since 2004 the situation has somewhat stabilised, mainly on account of revenues from privatisation (about USD 35 million or over 40% of the public revenues). As a result, not only the revenues approved by the Law on republican budget for the year 2004 were executed, but the reserve fund was created as well. (The Law on the State Reserve Fund came into effect on 1 January 2005). The Fund was created to accumulate strategic food and financial reserves in order to secure economic and social stability in the republic for contingency purposes – failure of crops, natural disasters, man-caused disasters and other contingency situations. The State Reserve Fund is financed from the republican budget and is aimed at stabilising the economy of TMR, ensuring its economic security.[3]

[2] Vestnik PRB, 4 (71), 2005, p. 5.
[3] "Olvia-Press", 01.04.2005

It is worth noting that almost half of the revenues from privatisation was paid in to the budget only in Q4, and perhaps this was the reason for under-financing of virtually all expenditure lines throughout the year.

With all this being said, the "social orientation of the budget" has remained the same in Transnistria (almost 60% of budget expenditures represent remuneration of public sector employees, pensions and other types of social payments to the population), as well as did the main sources of financing the state budget (loans from the Transnistrian Republican Bank and revenues from privatisation). The Law on budget for the year 2005 reflects the continuation of this policy: over 50% of public revenues are generated by non-tax revenues (incomes from privatisation), and about 60% of expenditures are expenses on salaries of public sector employees, social protection and assistance, and over 10% – on defence and security.[4]

3. External Trade:

Import and Export Structure and Direction

The specific nature of the Transnistrian economy ("historic" dependence on external markets, both in terms of selling the output, and in terms of inputs for production) and quite limited capacity of the internal market have resulted in excessive openness of the economy (the volume of external trade is steadily three times higher that of GDP), and, consequently, in high degree of dependence on the rest of the world. This dependence is aggravated by unclear legal status of the region - impossibility to enjoy equal rights with other actors in external economic relations.

Therefore, the external trade, on the one hand, reflects the situation in the real sector of the economy, and on the other hand – directly affects the economy.

Although possibilities of Transnistrian economic agents to access external markets has significantly deteriorated, *resulting from reciprocal economic mechanisms used by both Moldova and TMR to solve political problems*, the year of 2004 has become one of the most successful for Transnistria out of last 15 years in terms of development of its international economic relations.

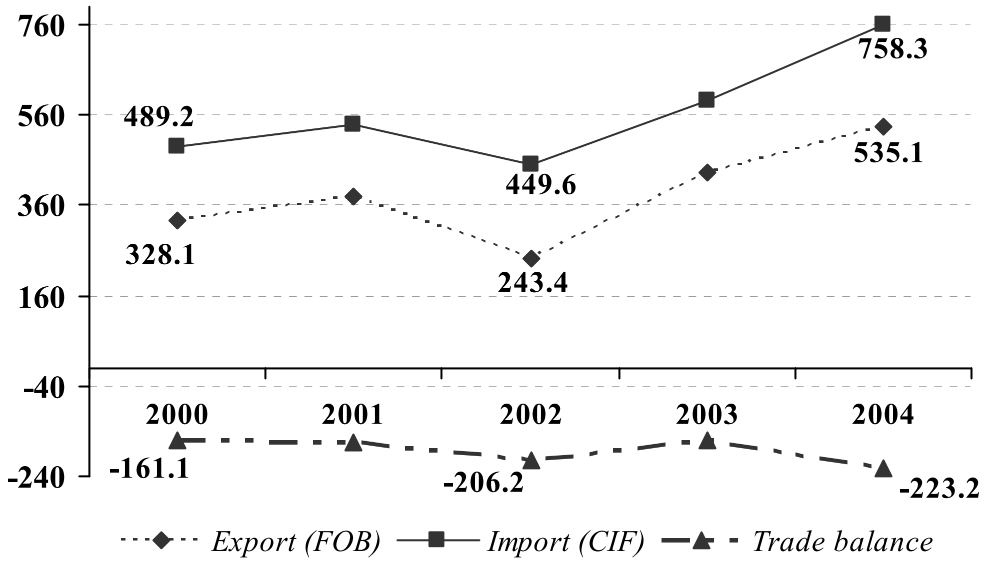
This is first of all the result of favourable conditions for the main traded good of the region – rolled metal (JSC Moldovan Metallurgical Plant, Rybnitsa – a key "island" in Transnistrian economic archipelago – has significantly increased its output and in 2004 has provided over 60% of exports). As a result, according to the Transnistrian Statistics Service, trade turnover in 2004 was USD 1.3 billion and registered a 26.1% increase compared to 2003, including export – by 23.7%, and import – by 27.9%.

During the period, since 1998, the trade balance of the region has been steadily negative, although without pronounced increasing (decreasing) trend, export-import ratio is about 70% (the exception is 2002 – 54.1%). (*Annex, Table 3*)

[4] "Olvia-Press", 15.12.2004

Transnistria's status of the net-importer *results in constant extremely high need for currency, including for the purposes of meeting the debt obligations, paying investment incomes to non-residents, maintaining the level of Transnistrian ruble.*

Graph 1. Main external trade indicators of Transnistria (USD milllion)



The main sources of covering the deficit – commercial loans (postponed payment for purchased products) granted by non-residents, and this pushes up the external debt and depletes reserve assets, which are limited in size and are constantly decreasing.

The geography of Transnistrian external trade is quite wide – about 90 countries. But trade and economic relations, as a rule, are unsustainable and depend heavily on changing conditions both for exports and imports. For example, in 2001, after USA have introduced anti-dumping tariff (232%) on rolled-metal imported from the region, exports to USA have shrunk from USD 70.9 million in 2000 down to USD 6.1 million in 2004, and export destinations have changed as well. Today these are, first of all, Russia (over a quarter of all rolled-metal exports), Taiwan, Portugal and Algeria, 20 countries in total.

At the first glance, Transnistrian external trade is relatively well diversified geographically – it trades with almost all CIS countries, the majority of European Union countries and even with Australia and New Zealand, and African countries (Algeria, Egypt, Tunisia, Morocco, and South Africa). But at the same time, the external trade, both exports and imports, is very much concentrated. (*Table 2*)

Table 2. Main partners: concentration of external trade

	2000	2001	2002	2003	2004
Export to Russia, Ukraine, Moldova - 3 countries, USD million	116.2	180.3	108.8	178.8	220.6
Exports' concentration, %	35.4	47.7	44.7	41.3	41.2
Import from Russia, Ukraine, Moldova - 3 countries, USD million	266.8	314.1	263.0	370.9	484.9
Imports' concentration, %	54.5	58.1	58.5	62.6	63.9
Export to Russia, Ukraine, Moldova, Germany, Italy Romania - 6 countries, USD million	151.5	217.8	148.0	266.6	302.2
Exports' concentration, %	46.2	57.7	60.8	61.6	56.5
Import from Russia, Ukraine, Moldova, Germany, Italy, Romania - 6 countries, USD million	361.8	388.1	326.3	453.4	584.6
Imports' concentration, %	74.0	71.7	72.6	76.5	77.1

As can be seen from the table, during the last five years Transnistria managed to establish quite stable and, importantly, reliable relations not only with partners from CIS, but also with European countries (Germany, Italy and Romania). At the same time it found such mechanisms, which make meeting mutual obligations beyond the influence of external factors and restrictions.

Regardless of the fact that CIS countries still dominate in Transnistrian exports: in 2000 their share in total exports amounted to 39.4%, in 2004 – almost to 42%, the region also managed to promote its exports to the EU: about 19.3% of exports in 2000, in 2004 – 33.3%.

At the same time, the ***commodity composition of exports*** is quite narrow. Ferrous metals are by far the most important export commodity and in recent years account for more than a half of all exports (2000 – 52.1%, 2001 – 45.4%, 2002 – 57.7%, 2003 – 48.5% and in 2004 – 61.4%). Other commodities, which play an important role in exports – textile and textile produce (Italy and Germany), electricity (Moldova), footwear (Germany), machinery and equipment (Russia, Ukraine, Latvia), food. (*Annex, Table 6*)

The ***commodity composition of import*** is much more diversified. All the needs of Transnistria in primary energy resources, mineral fertilizers, non-ferrous metals, paper, agricultural machines, cranes, industrial machines, loaders, means of transport (except for mini buses), raw cotton, cigarettes, perfumes and cosmetics, synthetic cleaning products are satisfied by imports. Imports have been satisfying a large share of the region's needs in scrap iron and steel, light industry goods, food, furniture, beer and non-alcohol drinks. (*Annex, Table 6)*.

CIS countries dominate in imports as well (traditionally accounting for over 60%). *The share of Ukrainian imports has been particularly increasing during the last two years. The volume of imports from this country has increased 4.5 times compared to 2000 (supplies of scrap ferrous metals increased three times, imports of food have increased as well).* The European Union countries (Germany and Italy) are supplying machinery and equipment to the region, as well as textile and chemicals. The importance of Polish suppliers has grown as well, who mainly supply food products (meat and meat semi-products).

It is important to note that *crisis in agriculture and related processing industries has significantly increased the dependence of the region on imported food products*, which in turn, in conditions of political and economic instability, affects the food security of the region (*Table 3*). The region has become net-importer of food products (which account for about 5.5% of exports and for 20% of imports in 2004). It is also important to mention the fact that alcohol drinks dominate in this group of products (accounting for about 50%), whereas imports include meat and meat semi-products (mainly from USA, Poland, Canada, China and Brazil), sugar and bakery (from Ukraine), flower and cereals (from Ukraine, Russia and Lithuania) and alcohol (from Ukraine and France).

Table3. External trade: food products

	2000	2001	2002	2003	2004
Export	22.6	22.5	20.5	34.0	29.2
Import	104.5	130.3	104.1	125.0	139.2
Coverage of imports by exports	21.6	17.3	19.7	27.2	21.0

International investment position, the document issued by Transnistrian Bank, allows estimating the external assets and liabilities of the region as at the beginning and end of the reporting period (calendar year), as well as structural changes resulting from various transactions, changes in value (re-valuation), exchange rate fluctuations, etc. (*Annex, table 4*)

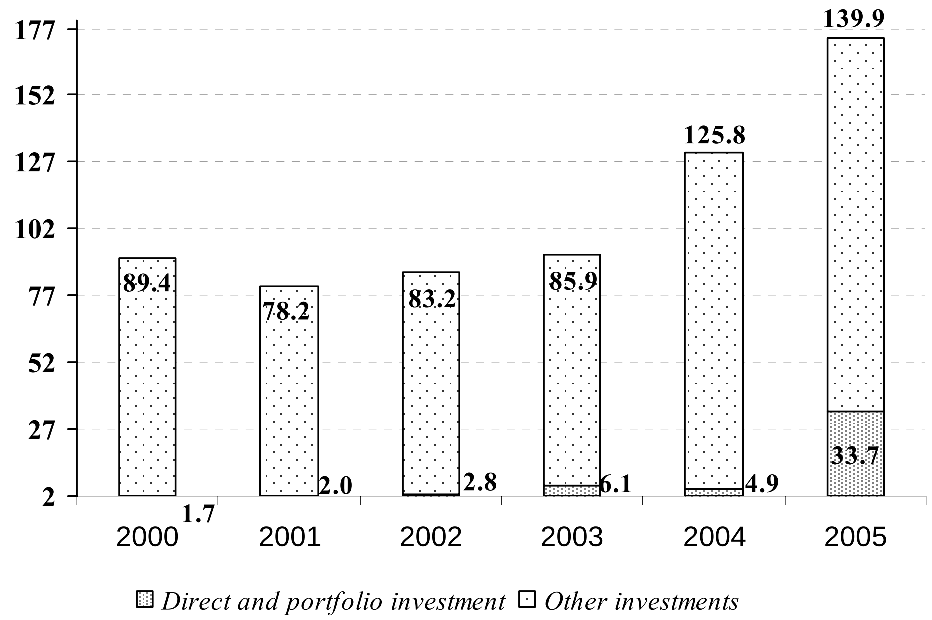
Assets of Transnistria: commercial loans to non-residents, loans and credits, direct and portfolio foreign investments, foreign currency in cash, money on correspondent accounts in banks, money on overseas currency accounts.

Liabilities of Transnistria: direct and portfolio investments in Transnistrian economy, commercial loans of non-residents, gas debt, incurred fine for outstanding gas debt, current and deposit accounts of non-residents in Transnistria.

The external financial resources of Transnistria amounted to USD 173.6 million as at 01 January 2005, which is 32.9% higher than it was in 01 January 2004.

The total amount of external resources has increased by USD 82.5 million or almost twice since the beginning of 2001, whereas the main increase was registered in 2003-2004. It is worth noting that in 2003-2004 the structure of external assets has changed significantly due to increased share of direct and portfolio investments placed abroad (from 1.8% on 1 January 2001 up to 19.4% on 1 January 2005). The volume of direct and portfolio investments placed abroad has increased more than by a factor 20 – up to USD 33.7.

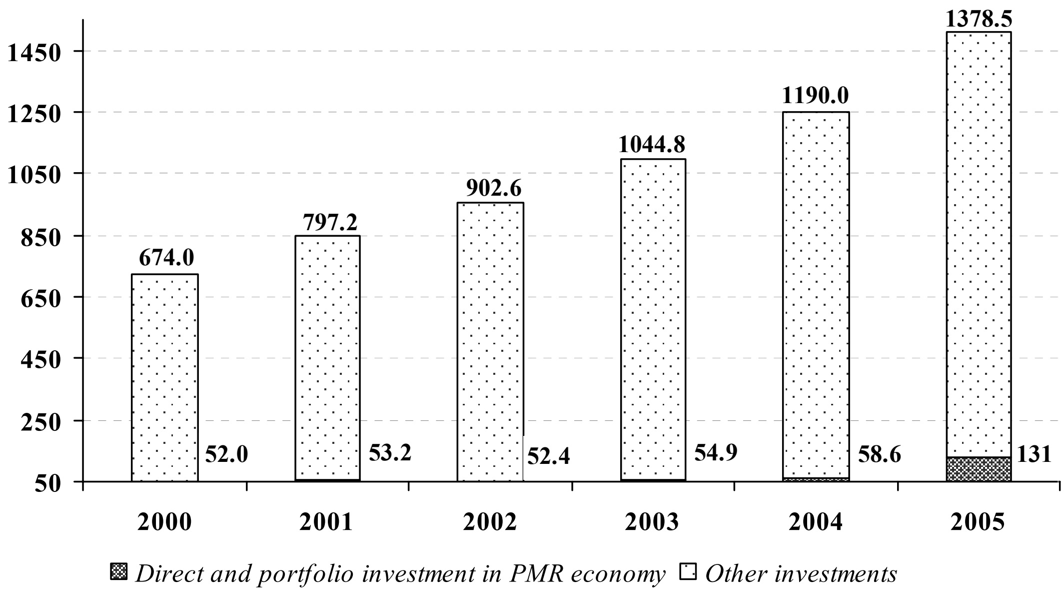
Graph 2. Foreign Assets of Transnistria, 1 January 2005 (USD million)



It is important to underline that no reserve assets are accumulated in the region, which are needed for maintaining the stability of Transnistrian currency (Transnistrian rouble) and for meeting its external financial liabilities.

External financial liabilities at the beginning of 2005 increased up to USD 1509.1 million or almost by 21% compared to the beginning of previous year.

Graph 3. Foreign Liabilities of Transnistria, 1 January (USD million)

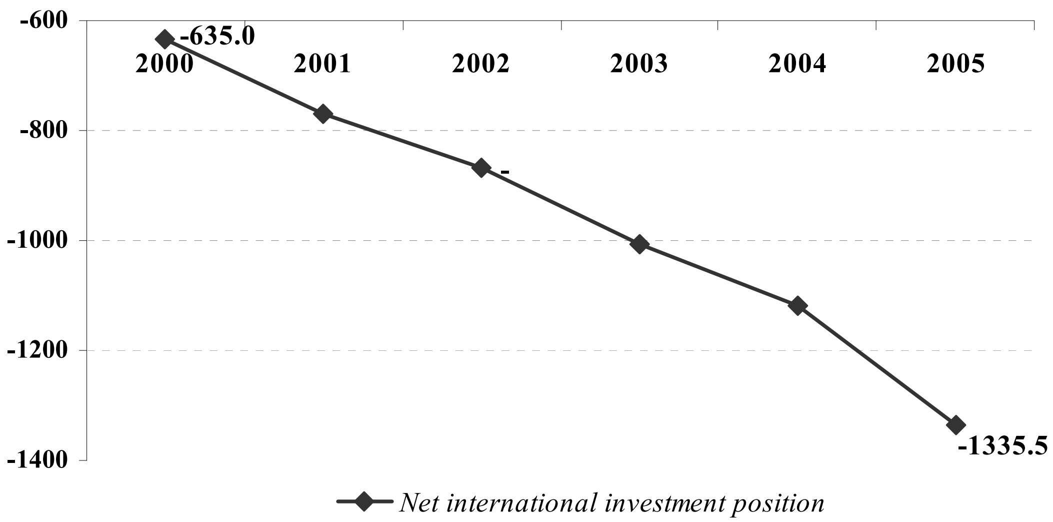


The region's external liabilities have increased more than twice since the beginning of 2000, while in 2004 the growth has particularly accelerated. As can be seen from Graph 3, in 2000-2003 the level of liabilities in the form of direct and portfolio investments has remained almost the same. In 2004, however, they increased significantly, which was driven by a more active privatisation process (USD 130.5 million on 01 January 2005). The share in total external liabilities of direct and portfolio foreign investments was 8.7% at the beginning of the current year (in absolute terms the increase since 1 January 2000 amounted to USD 78.5 million or a factor of 2.5).

Other investments represented the biggest share in the structure of external financial liabilities during the whole period under consideration. Over 70% of this item is debt to Russia for natural gas, which has increased almost by USD 550 million from the beginning of 2000 until 1 January 2005 (more than twice)[5]. Reduced rate of growth of direct debt in 1998-2005 did not improve the overall situation, as concomitant increase of the fine for outstanding gas debt was equally significant, and on 1 January 2005 amounted almost to USD 525 million

The dynamics of Transnistria's net external investment position is shown on *graph 4*.

Graph 4. Net International Investment Position of Transnistria, 1 January (USD million)



Transnistria is a net-debtor in its relations with the rest of the world, and the volume of external liabilities of the region is significantly higher than external assets. Reiterating once again, the main share of external liabilities of the region is represented by the debt RAO "Gazprom". According to the Transnistrian Ministry of Economy, "only after the payments for current gas supplies reach the level of 80% can the issue of writing-off the debt and reducing prices on new supplies from Russia can be considered"[6]. Obviously, in this case the net investment position of the region can significantly improve.

4. Interaction between the Economies of Transnistria and Russia

Russian Federation is a peculiar, bearing partner of Transnistria in its external relations – political, economic and humanitarian. This interaction is realized in several directions:

[5] Since 1993 Transnistria has independent accounts with RAO "Gazprom".
[6] Information agency "Olvia-Press", 15.12.2004

a. Russia acts as *a guarantor state* in negotiations on settlement of the “Transnistrian conflict”. Since 1992, there is a contingent of Russian peacemaking forces in the region. Moreover, Operational group of Russian armed forces and corresponding infrastructure (aerodrome, ammunition depots, communal objects) is situated on the TMR’s territory;

b. Due to the *dual citizenship system*, more than 12% of the region’s population (80 thou persons) are citizens of the Russian Federation with the corresponding legal consequences;

c. Tight economic interaction shows not only in *foreign trade* (24.1% of Transnistrian export and 24.2% import fell at Russia in 2004), but also in *financial sphere, privatization and further investing* of Russian economic units to TMR’s industry and infrastructure, as well, assistance of the Russian Chamber of Commerce and Industry in realization of export and import operations by residents of the region;

d. Transnistrian *educational system* of all levels (secondary and higher education, training of research staff and officials) is oriented at legal basis of Russian Federation (standards, curriculum, manuals, etc.);

e. Russian *labor market* employs circa 20% of economically active population from Transnistria, whose monetary remittances (about USD 40 million through banking channels) reinforce considerably incomes of the region’s households.

Traditionally, over fifteen years, Transnistrian foreign trade exchange with Russia has been characterized by stable red ink (*Table 1*). Thusly, Russia grants Transnistria a yearly commercial credit of USD 50-90 million that allows the region to keep control over macroeconomic situation.

Table 4. Export-import relations between Transnistria and Russia, USD million

	2000	2001	2002	2003	2004
Export	73.2	73.3	42.7	80.5	128.8
Import	153.1	157.0	131.3	145.0	183.4
Trade balance	-79.8	-83.7	-88.6	-64.5	-54.6

Within the ***structure of export to the Russian market***, “ferrous metals and manufacture” (production of MMP, Rybnitsa) – 63.7%, “machinery and equipment” – 15.3% and “foodstuffs” – 10.3%, dominate (2004). 60.6% of ***Russian import*** (2004) falls at energy resources, natural gas at “sparing” prices first of all, which increases competitiveness of Transnistrian goods in external outlets, reduces the price of state services and cost of communal services the population has to pay. Another 22.8% of import fall at ferrous (scrap metal mainly, for MMP) and non-ferrous metals and manufacture. Customs Committee of Russian Federation through its special decision (April 2003) opened a customs station “Suzemki”, Bryansk region, for warehousing and admission from Russian Federation to

Transnistria of scrap metal for MMP's needs. And, as a result – more than 60.0% of the total Transnistrian export in 2004 fell at metal (metal-roll for constructions, etc.). It is noteworthy that "foodstuffs" are third among groups of goods imported from Russia.

Geographical and economical situation of Transnistria (closeness to the Balkans, Danube and Odessa – Ilyichevsk, the largest commercial port of the Black Sea) involves Russian interests to this region's economy, first of all starting from advantages of transit through the region of natural gas and electric power (including Moldovan HEPS, now owned by "Nordic Oy/RAO EES), as well as highly remunerative production and export of metal-roll. Other groups of goods imported by Transnistria from Russia are mainly oriented at needs of the domestic market, and – through re-export – at delivery to the contiguous Moldova and Ukraine.

It is known that ***the Russian Chamber of Commerce and Industry (which opened its representative office in Tiraspol) through its decisions and practical actions renders assistance to economic units of Transnistria in their foreign trade activity.***

In order to develop this process progressively *Transnistrian administration would like to lobby the following issues*:

- A possibility of taking into account by Russian customs bodies of certificates of the country of origin C, CT-1, A (as a CIS member) issued by the Chamber of Commerce and Industry of Transnistria, as well as temporary enjoyment of preferences (till cessation of the "economic blockade") within the framework of the Customs Convention on International Transport of Goods Using TIR Tickets during export to Russia and transit of goods through its territory;
- A considerable increase of the number of Transnistrian enterprises within the Programme on Cooperation and Mutual Supply between Russia and Republic of Moldova and their detachment into a separate agreement between Russia and Transnistria within the framework and based on Memorandum on Bases of Normalization of Relations between Republic of Moldova and Transnistria (1997);
- A more active participation of Russian capital in privatization of Transnistrian enterprises, whom the TMR, under other equal terms, will give preference;
- Taking into account the fact that Transnistrian tax system does not stipulate at all for application of VAT during both transportation of goods between enterprises inside the republic and import of goods, a possibility of a temporary from VAT of Transnistrian goods during their export to Russia;
- Joint solicitation to Ukrainian authorities for setting of less expensive conditions concerning transit of Transnistrian goods through Ukrainian territory;
- Once several CIS countries (Russia, Ukraine, Belarus, Kazakhstan) introduce common customs area, a possibility and terms of Transnistria's joining this area as an associated member.

Attempts are being made in the sphere of employment and regulation of population incomes *to put* **labor migration** *to Russia in legal order*. Thus, State Service of Social Policy and Labor Resources of the TMR has been negotiating with a Russian company "Rostrudkomplekt" as regards official job placement of Transnistrian residents in Russia. A database of vacancies on Russian territory was created, which allowed widening geography of job placement in Russia. Transnistria's Employment Center accumulated experience of formation of job placement contracts directly with large Russian enterprises. They as well stipulate for responsibilities of employers to employees, including terms of remuneration and dwelling. The Center's officials control fulfillment of the parties' engagements.

Supreme Council of the TMR examines a possibility of state control over terms of employment of Transnistrian residents abroad and introduction of corresponding amendments to the labor legislation bearing in mind rendering of certain "state guarantees" as per terms and conditions of work (contracts will be negotiated through the Employment), and, on the other hand, and ensuring that those working in Russia pay a tax to the state budget. Will it be a one-time charge for state services or taxation of incomes obtained abroad? If the second, double taxation of incomes (under Russian laws – the country of employment – and under the *"Transnistrian legislation"*) and certain costs of money transmission to Transnistria can make the very idea of such state job placement totally unattractive.

5. Transnistrian Market:
Interaction with Neighbors – Moldova and Ukraine

The relation with its closer neighbors – Moldova and Ukraine– is key issue for Transnistria market. The bolt from the blue for the 2000-2005 became the fact that ***Moldova practically lost the Transnistria market (as the supplier of industrial products and agricultural inputs) and at the same time Ukraine won the leadership as main trade partner of Transnistria***.

Changing geo-political situation in the South-East European area (EU eastward enlargement and its policy of "new neighborhood", accession of Bulgaria and Romania to NATO, "orange revolution" in Ukraine, attempts to resuscitate GUAM, activization of collaboration between the Black Sea countries) fairly infers the necessity to amend political and economical orientation of Transnistria.

There are enough indicators of that *after the decade of the Transnistrian economy's single-orientation at priority partnership with Russia, necessity of searching for new partners, diversifying external relations and accessing new outlets gains comprehension* over the last years. At the same time, noteworthy is that unstable character of commercial and economic relations between Transnistria and its closest neighborhood – Moldova, Ukraine and Romania – has been holding out during the last five years.

However, at the same time, a "breakthrough" of Transnistrian export through Ukrainian ports to the *Mediterranean and Balkans region* took place (from 7.7% in 2000 up to 19.3% within the structure of TMR's export in 2004). Sea port Odessa – Ilyichevsk plays key, vitally important role for Transnistrian export along this direction.

As for export to the *EU countries*, its dynamics within the total TMR's export is quite impressive: 2000 – 19.3%, 2001 – 23.4%, 2002 – 34.0%, 2003 – 32.2% and 2004 – 33.3%.

For the reference's sake let us note that share of Moldovan export to the EU countries was smaller over the same period: 2000 – 21.7%, 2001 – 21.3%, 2002 – 22.3%, 2003 – 26.7% and 2004 – 30.1%. Of course, one should take into account difference between structures of export of Moldova (70% – foodstuffs and light industry goods) and Transnistria (metal-roll, machinery and equipment, textile).

One can surmise that *re-export* plays an important role in foreign trade of Transnistria. There is no trustworthy information in this regard available for evaluation, but one cannot but take note of the fact that imports to the region grow, while capacity of its domestic market is quite limited (2000 = 100%): 2001 – 110.6%, 2002 – 91.9%, 2003 – 122.6% and 2004 – 155.0%. Although share of energy resources (natural gas and oil products from Russia) is large in import of both Moldova and Transnistria and TMR's GDP is 6.2 times less than Moldova's (2004), growth of import to Transnistria was quite considerable in 2000-2004: from 42.7 up to 63.0% of the import to the Republic of Moldova.

It should be also added that openness of the Transnistria's economy (foreign trade turnover – export + import – to GDP, %, ratio) is much higher as compared not only to the Republic of Moldova, but to the neighboring Ukraine and Romania as well.

Table 5. Openness of economies of Transnistria and Moldova
(foreign trade turnover as % to GDP)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Transnistria	161.1	153.8	279.4	240.0	409.7	359.4	276.9	324.5	309.7
Moldova	110.2	105.8	97.6	89.6	96.9	99.1	111.7	110.7	106.4

This more than obvious reality – extremely dependence of the Transnistrian economy on stability and reliability of export-import channels – implies how dramatic could be consequences of restrictions in this sphere for the regional budget, enterprises and population (main incomes of 51% of the TMR's population are provided by budget compensations, including 135 thou pensioners – 24.3% of the population in 2004).

Most Transnistrian export and import freights go en route through Ukrainian territory. However, share of export from Transnistria to Ukraine namely is rather small: 2000 – 2.4%, 2001 – 3.8%, 2002 – 3.9%, 2003 – 4.5% and 2004 – 3.5%. Share of Ukrainian goods in the total Transnistrian import is much larger: 2000 – 13.6%, 2001 – 20.6%, 2002 – 22.2%, 2003 – 35.5% and 2004 – 38.1% and 35.6% in the Q1 of 2005.

Let us note, if arrivals from Russia before 2002 inclusive were 3-5 times higher than import from Ukraine, then, over the last two years, according to statistics, ***"Ukrainian import" started to prevail: it was 1.5 times (!) higher in 2003-2005 than import from Russia****. It is clear that this unusual phenomenon deserves a more subject examination.*

Trade relations between Transnistria and Romania over 2000-2004 tended to decrease as regards both export (3.7% of Transnistrian export in 2000 and 2.0% in 2004) and import (2000 – 4.7% and 2004 – 0.9%).

But the most dramatic were economic and commercial relations between Transnistria and Republic of Moldova during 2000-2004. Causes and negative consequences of this for both parties were examined in previous works of the Center for Strategic Studies and Reforms[7]. ***Let us just mention that weight of the Republic of Moldova in foreign trade turnover of Transnistria has abruptly dropped over the last five years – from 10.2 in 2000 to 1.7 in 2004, though remaining rather stable in export (11.1 – 13.6%), i.e. the officially recorded flow of goods from Moldova to Transnistria has essentially came to nothing***. So, within last five years the Republic of Moldova in fact left Transnistria's market and mostly on its own initiative. ***During 2000-2004 the total value of Moldovan import to Transnistria amounted to USD 158 million or 5 times (!) less compared with Ukrainian one (USD 775 million).***

The situation got even worse in august 2004 when Moldova ceased granting Transnistrian economic units both certificates of the country of origin and the permission to enjoy the right of transportation of goods from the customs office of the point of departure to the customs office of the destination point complying to TIR procedures stipulated by the Customs Convention on International Transportation of Goods Using TIR Tickets.

Ukraine, from its part, has also undertaken certain precautionary actions towards Transnistria. Thus, Ukrainian Customs Service, with a view to implement the Decision of the Ukrainian Cabinet of 23.02.1999 #255 on Strengthening of Control over Delivery of Goods Transported to the Destination Customs Offices under Customs Control, issued an Order #49 (27.01.2003) on Strengthening of Control over Delivery of Certain Goods Transported to the Destination Customs Offices (with subsequent amendments through the Order #457 of 21.06.2004), under which transported goods not bound to the Customs Convention are subject to a series of additional procedures during transit over Ukrainian territory, namely:

- A financial guarantee is required – by an independent intermediary for customs bodies of Ukraine, ensuring obligatory delivery of goods to the destination customs office (Decision of the Cabinet of Ukraine of 29.06.1996 #700 on Regulation of Financial Guarantees for Customs Bodies of Ukraine Ensuring Obligatory Delivery of Goods to Destination Customs Offices and Decision on Regulation of Financial Guarantees of Independent Financial Intermediaries during Delivery of Goods to Destination Customs Offices of 4.10.1996);
- Owner of goods transported over Ukrainian territory has to hire a special guard escort for its accompaniment to destination customs offices (Decision of the Cabinet of Ukraine of 29.06.1996 #699 on Approval of the Regulation on Order of Protection and Accompaniment of Goods by Customs Bodies and Sub-divisions of the Ministry of Internal Affairs).

Application of those procedures has lead to a considerable increase of expenditures of Transnistrian economic units that deliver goods to and from Russia, since customs and other payments during transit over Ukrainian territory increased drastically.

Under these conditions, Transnistrian self-defense relies upon legal basis renewed through the Decision of Supreme Council of TMR #975 of 12.03.2003 on Recognition of

[7] Paper on Transnistria's Economy, CISR, November 2003; Moldova – Transnistria: the Rules for the Business, CISR, June 2004; Privatization in Transnistria, CISR, November 2004; The Republic of Moldova: Modern Trends of Development, CISR, April 2005 (www.cisr-md.org)

European Agreement on International Road Transportation of Dangerous Freights (1975), Convention on Road Traffic (1968), European Agreement on Work of Crews of Carriers that Fulfill International Road Transportation (1970), Agreement on International Irregular Road Transportation of Passengers by Bus (1982), Convention on International Road Transportation of Passengers and Luggage (197) and Agreement on Order of Transit through Territory of Countries – CIS participants (1999) to be framework legal norms on Transnistrian territory. In addition to that, a bit earlier, Decision of Supreme Court of TMR was issued #222 (16.09.1998) on Recognition of the Customs Convention on International Transportation of Goods Using TIR Tickets to be a framework legal norm on the territory of Transnistria.

The conclusion that the analysis of Transnistrian participation in regional collaboration implies is paradoxical: ***the TMR's economy makes only one-way use of advantages of its neighborhood:*** *westward flow of goods through Moldova and Romania is "frozen" semi-officially or realized by the use of informal channels, and Ukraine – who although grants Transnistria a transit passage to Odessa – Ilyichevsk and ports of the lower Danube – uses this region for re-export on its own).*

And this reality is proved the statement of ex Ukrainian President Leonid Kuchma: "The economic blockage of Transnistria means the blockage of Ukraine. (November 2004)

Transnistria has little constant – from year to year – trade partners. Only Germany and Italy are among those within the European Union. If we add to all of the above-mentioned issues unsettled border, customs, tax, commercial and economic relations in the "closest neighborhood" as a whole and the fact that Transnistrian export-import operations are scattered wide over almost 90 countries (from Taiwan to Burkina Faso), it shows an obvious discomfort of the region's environment and its vulnerability in ensuring of a well-balanced and sustainable socio-economic development.

This implies that not only European Union, Republic of Moldova or Ukraine, Russia or USA are interested (or should be interested) in a faster and constructive settlement of the "Transnistrian issue", but it should be Transnistria, first of all, and its population, for whom fifteen years of "unrecognized existence" have cost one dear.

6. Impact of the Transnistrian Market on Policy and Economy of the Republic of Moldova

It has already been 15 years that the "Transnistrian phenomenon"/ unsettled Transnistrian conflict has the direct affect upon formation, development and even existence of the Republic of Moldova as a young European state – strengthening of its statehood, transformation of economy and society. The country was divided from the political, administrative, economic and socio-cultural points of view.

Amplitude of forms and intensity of the impact of the "Transnistrian phenomenon" upon the policies and economy of the Republic of Moldova has been altering during 15 years of their "parallel development": from sudden aggravation and armed conflict in spring-summer of 1992 through a relative improvement of relations during 1996-1997 and continuing tension *between Moldova and Transnistria, which has been affecting social and economic development of both regions in a most baneful way.*

And these resulted in public recognition of the Government of the Republic of Moldova the fact of lack of common economic area with Transnistria: “the Moldovan Government’s achievements could be 10 times higher, had we a common economic, customs and monetary area with the Transnistrian region”[8]. Moreover, this sad reality is the result of “non-constructive actions” of both sides.

The impact of Transnistrian market on Moldova’s policies and economy could be understand in a right way only if we will take into consideration not only two-ways economic relations (Moldova – Transnistria), but through examination of the wider regional panorama of changes in economy and trade (see sections 2-5 of the present Study).

Experience of the fifteen-year confrontation of Moldova and Transnistria showed that it damages socio-economic development of both regions, and mutual sanctions applied during the confrontation aggravate the situation even worse, making it practically impossible to find real solutions for country’s economy reintegration and its adaptation to conditions of market economy.

Short periods of time when mitigation of customs, tax, administrative and other restrictions introduced by the sides took place, are characterized by improvement of main economic and export-import indicators for both Moldova and Transnistria; it positively affected welfare of population and, so, reduced political confrontation strain. And, on the contrary, introduction and toughening of administrative and restrictive sanctions has lead to worsening of economic situation, caused discontent of the economic entities and population, postponing reintegration of the country for an uncertain term.

That is why, *interosculation of sub-regions economies, reasonable solution concerning property and finances, non-admission of components of administrative and political pressure in the economic reintegration process* are initial and obligatory for positive advancement along the path of settlement of the conflict. It will result in formation and development of a common internal market (of goods, services, labor), expansion of external markets as a result of mutual diversification of the export base and effective utilization of the import substitution policy conducted in both regions.

Now, it is the very mutual economic interests that can and should become the basis, from which political decisions could be “crystallized”. Unfortunately, we cannot talk of a common economic area today, which leads to real economic losses and omitted chances for both sides. Those omitted chances also become more apparent for the population: ***26% of respondents covered by an Internet opinion poll conducted by an independent service of sociology and information “Opinia”, consider exacerbation of the Transnistrian conflict to be the main negative event of 2004***[9].

Any attempts to use economic pressure for solving Transnistrian issue and to ensure the country reintegration only put off its real realization, as events of the last years confirm.

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[8] Moldova’s Prime-Minster V. Tarlev’ press-conference, October 21, 2004 (Infotag)

[9] Information agency “Info-Market”, 26.01.2005

Because of this, let us dwell on two, the most acute problems discussed today. First, it is creation of joint customs points at the Moldovan-Ukrainian border. Its practical implementation is being started currently with technical and financial support of European structures. But there is still no simple positive answer to the question whether a common customs area will be formed in the nearest future.

Economic importance of this decision for the Republic of Moldova is obvious: the country suffers annual treasury losses of USD 470 million (3.8% of GDP) due to reduced tax and customs revenues as well as higher transport costs through Transnistria. Once again, however, the measures for border and customs control should not block legal Transnistria's trade.[10]

Thus, a question arises on mechanisms of implementation of this joint customs control that will determine its efficiency. Instead of this, attempts of economic restrictions continue leading to mutual economic losses.

This refers, first of all, to attempts of both Moldova and Transnistria to divide and form an infrastructure "of its own", independent from the "neighbor": transport, including railways, communications, natural gas supply, etc.

Mutual economic inefficiency of such approach is evident: extremely limited financial resources (Moldova is the poorest country of Europe) are used to fill up losses of mutual estrangement. Moldova has been promptly reconstructs the railway link Revaca – Cainari, while Transnistria tries to restore traffic along "its" part of the railroad. At that, state company "Railways of Moldova" exited 2004 with losses, and, besides of this, will be fully adapted to new conditions this year. The national railway company of Ukraine, in its turn, loses millions of USD due to impossibility to use the border railway station Cuciurgan (into reconstruction of which Ukraine invested more than USD 2 million). Transnistrian budget, by estimates, will get USD 2 million less this year also.

Republic of Moldova declared that it is not responsible for technical security of railway service along the Transnistrian section. Since Transnistria has no funds for technical maintenance of the railway, possibility of its privatization is being actively discussed. The "common state" will have to search for additional sources of financing for restoration of the unity of its railways in the future.

So, by mid-2005, when implementation of the Plan of settlement the Transnistrian conflict proposed by Ukraine and positively evaluated by the Republic of Moldova and EU is about to start, economic relations between two sub-regions of Moldova as a possible "common state" have reduced practically to zero. Both parties – Moldovan Government and Transnistrian administration – had a hand in these efforts.

This situation is absolutely unacceptable for both economic units and population of Moldova and Transnistria. The damage Moldovan economy suffers shows firstly through constant threat to its energy security (power and natural gas supply), transport communications (railways and highways) and telecommunication system. Moldova has essentially lost Transnistrian market, ceding it Ukraine. Losses of Transnistria become apparent through limited access of its goods to Moldovan market, increased costs of overcoming customs and transport barriers as regards Ukraine, loss of sources of raw

[10] Moldova: No Quick Fix, Europe Report N°147, 12 August 2003, p. 26

materials in Moldova for Transnistria's construction and food industry, stimulating shadow and criminal schemes of export-import operations.

It could be expected that strengthening of control over movement of goods and persons across the Moldovan-Transnistrian part of border will "strike" economic units and Transnistrian budget first of all, which will "heat" relations between Moldova and Transnistria even more. The most acceptable way out of this situation is to synchronize both political and economic actions during the process of settlement.

Conclusion

Search for a political settlement of the "Transnistrian issue" has been going on for fifteen years already. The first decade of the negotiation process in 90's – when first of all adversarial parties – Republic of Moldova and Transnistria – were quite active was replaced by the later aspiration to widen the negotiations and internationalize mechanisms of the conflict settlement.

Subsequent to the "E. Primakov memorandum, 1997", OSCE plan, as well as the "D. Kozak memorandum, 2003", the latest attempt along this direction is the V. Iuscenko initiative - plan for settlement of the Transnistrian problem proposed by Ukraine as a kind of a roadmap listing seven steps that are to be made during the nearest 18 months. Democratization of the Transnistrian region is the key component of this plan. One of the plan's tasks is "to create a common legal, economic, defense, customs, humanitarian and etc. area of statehood; to unify material and spiritual resources for further solution of common economic and social problems with a view to build by common efforts a modern democratic prosperous society". And unfortunately the plan has no accent on economic interests of all sides .

Moreover, consideration of this plan by European structures (European Parliament, European Commission), the Parliament of the Republic of Moldova and Supreme Council of TMR coincide with the beginning of organization of strict control and constant monitoring of the Transnistrian part of the Moldovan-Ukrainian border. If we take into account the key importance of transit of Transnistrian goods exported and imported through the Ukrainian territory, such control and possible excesses in its process will be very unlikely to go well with peacemaking efforts in searching for a political settlement. State Customs Service of Ukraine is ready to ensure necessary conditions for work of short-term OSCE missions on control over traffic of goods and persons at the border with Moldova. European Union, in its turn, declared its readiness to grant Ukraine technical aid to solve this problem.

What will follow the execution of such control for Transnistrian economic units and population? Unfortunately, as it is in the case of privatization of Transnistrian industrial enterprises, the official position of the Republic of Moldova for the "post-control period" has not been defined clear.

Instead of meeting each other halfway, Moldova and Transnistria have been moving away from each other. Thus, it was already 2005 when Transnistrian administration decided to detach the production infrastructure of the region organizationally and economically, having separated it from similar structures of the Republic of Moldova. Moldovan retaliatory actions includes search for alternative sources of electricity in Ukraine and Romania, construction of the Revaca – Cainari railway line, redirection of trains through the north of Moldova instead of the Tighina – Tiraspol railway junction as before.

Expansion of the presence of Russian companies – new owners of enterprises in Transnistria (Rybnitsa, Dubossary, Tiraspol, Tighina, Cuciurgan) – introduces a new and quite important component into patchwork of the Transnistrian situation, whose "cumulative charge" with time will be only increased.

Starting from analysis and findings of the current paper, one could conclude that it will be vitally important during the forthcoming, and apparently critical, stage of settlement of the "Transnistrian issue" to take into account economic interests both of the Republic of Moldova and Transnistria, as well as of their partners while formulating and making political decisions. If the Ukrainian plan will be taken as the basis for conflict settlement these economic interests should be taken into consideration during all stages of settlement, - starting with the Law of the Republic of Moldova on Principles of the Status of Transnistria, Basic Law (Constitution) of Transnistria and, finally, Agreement between Republic of Moldova, Russian Federation, Ukraine and OSCE, which is being elaborated by countries-guarantors – Russian Federation, Ukraine, as well as OSCE with assistance of the USA and European Union.

Neglect the economic component of the "Transnistrian issue" will only further postpone finding a mutually acceptable political settlement of the problem.

Annexes

A. Normative Basis of Transnistrian economy, renewed as of 2000-2004

Codes

1. Labor Code of TMR, Law of TMR #161-3-III of 19.07.2002, Collection of legal acts (CLA) of TMR, 2002, ##29

2. Land Code of TMR, Law of TMR #159-3-III of 19.07.2002, CLA of TMR, 2002, #29, part II.

3. Forest Code of TMR, Law of TMR #268-3 of 06.04.2000, Official Bulletin, 2000, #27-33.

4. On Carrying into Effect of the Dwelling Code of TMR, Law of TMR #162-3-III of 19.07.2002, CLA of TMR, 2002, #29, part II.

5. Civil Code of TMR, part I, Law of TMR #279-3-III of 14.04.2000, Official Bulletin, 2000, #27-33.

6. On Carrying into Effect of parts II and III of the Civil Code of TMR, Law of TMR #164-3-III of 19.07.2002, CLA of TMR, 2002, #29, part III

7. On Carrying into Effect of the Code of Civil Procedure of TMR, Law of TMR #156-3-III of 17.07.2002, CLA of TMR, 2002, #29, part I

State Funds

1. On Economic Development Fund and Social Development Fund of TMR, Law of TMR #528-3-III of 07.02.2005, CLA of TMR, 2005, #7

2. On State Fund of Obligatory Social Insurance of TMR, Law of TMR #21-3-III of 22.06.2001, Official Bulletin, 2001, #34

3. On State Reserve Fund of TMR, Law of TMR #487-3-III of 04.11.2004, CLA of TMR, 2004, #45

Property, Privatization

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2. On Equity Market, Law of TMR #183-3-III of 07.08.2002, CLA of TMR, 2002, #32

3. On De-Governmentalization and Privatization, Law of TMR #313-3-III of 25.07.2003, CLA of TMR, 2003, #30.

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5. On Limitation of Monopolistic Activities and Development of Competition, Law of TMR #306-3-III of 09.06.2000, CLA of TMR, 2000

6. On Evaluation Activity in TMR, Law of TMR #400-3-III of 19.03.2004, CLA of TMR, 2004, #12

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4. On Joint Stock Companies, Law of TMR #384-3-III of 10.01.2004, CLA of TMR, 2004, #2

5. On Entrepreneurship in TMR, Law of TMR #385-III-3 of 12.01.2004, CLA of TMR, 2004, #3

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3. On Individual Entrepreneurial Patent, Law of TMR #82-3-III of 23.12.2001, CLA of TMR, 2001, #53

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9. On Financial Transparency, Law of TMR #545-3-III of 14.03.2005, CLA of TMR, 2005, #12

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2. On Carrying into Effect of State Standards of TMR (All-Union State Standard), Order of the Ministry of Finance of TMR of 28.08.2004 #443 (registration #2919 of 08.09.2004), CLA of TMR, 2004, #37

3. On Amendments to the Range of Products and Services (Works) Subject to Obligatory Certification in TMR, Order of the Ministry of Finance of TMR of 13.07.2004 #355 (registration #2852 of 16.07.04, CLA of TMR 04-29), Order of the Ministry of Finance of TMR #483 of 27.09.2004, CLA of TMR, 2004

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4. On Simplified System of Taxation, Stock-Taking and Accounting of Juridical Persons – Subjects of Small Entrepreneurship, Law of TMR #220-З-III of 03.01.2003, CLA of TMR, 2003, #1

5. On Carrying into Effect of the Direction on Order of In-kind Tax and Non-tax Payments to the Republican Budget, Order of State Tax Service #321 of 01.09.2004, CLA of TMR, 2004, #38

6. On Amendments to the Law of TMR on Corporate Income Tax, Law of TMR #469-ЗИД-III of 25.09.2004, CLA of TMR, 2004, #39

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8. On Amendments to the Law of TMR On Income Tax, Law of TMR #472-ЗИД-III of 25.09.2004, CLA of TMR, 2004, #39

9. On Amendments to the Law of TMR On Corporate Income Tax, Law of TMR #473-ЗИД-III of 25.09.2004, CLA of TMR, 2004, #39

10. Decree of the President of TMR on Approval of the Customs Tariff for Goods Imported to TMR for 2005 #497 of 23.09.2004, CLA of TMR, 2004, #39

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3. On Business and Financial Accounting, Law of TMR #467-3-II of 17.08.2004, CLA of TMR, 2004, #34

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2. On Principles of Obligatory Social Insurance, Law of TMR 20-3-III of 21.06.2001, Official Bulletin, 2001, #27-32

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4. On Basket of Goods in TMR, Law of TMR #134-3-III of 05.06.2002, CLA of TMR, 2002, #23

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6. On Remuneration of Persons Employed at Budget-Financed Organizations and money Allowance of Armed Forces Personnel and Persons Equated with them as Regards Terms of Payment of Money Allowance, Law of TMR #327-з-III of 11.08.2003, CLA of TMR

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B. Statistics

B Statistics

Table 1. Main Macroeconomic Indicators of Moldova and Transnistria

	2000		2001		2002		2003		2004	
	PMR	RM	PMR	RM	PMR	RM	PMR	RM	PMR	RM
Growth Domestic Product, mil. USD	199.6	1288.4	255.6	1480.7	250.3	1661.8	318.4	1980.9	417.6	2595.0
in constant prices, as % to the previous year	79.1%	102.1%	111.0%	106.1%	97.3%	107.8%	118.1%	106.6%	116.2%	107.3%
GDP per capita, USD	336.0	354.1	436.7	407.8	434.4	458.8	561.7	548.4	748.0	720.3
Industrial Production, current prices, mil. USD	489.7	656.9	554.1	810.5	434.3	930.1	494.3	1144.9	625.8	1422.2
in constant prices, as % to the previous year	116.5%	107.7%	109.0%	113.7%	81.3%	110.8%	121.8%	115.6%	104.9%	106.9%
Agrucultural production, in current prices, mil. USD	24.3	665.0	30.9	672.0	28.6	698.0	24.3	742.6		1022.1
in constant prices, as % to the previous year	82.4%	96.7%	118.0%	106.4%	74.6%	103.4%	78.5%	86.4%	97.0%	120.4%
Capital investments, mil. USD	31.6	141.5	36.7	179.9	36.3	206.6	43.2	259.8	72.1	405.8
in constant prices, as % to the previous year	103.8%	85%	115.6%	111%	90.8%	111%	112.8%	107%	131.5%	108%
as % of GDP	14.0%	11.0%	14.4%	12.2%	14.5%	12.4%	13.6%	13.1%	17.3%	15.6%
Volume of retail trade, in current prices, mil. USD	93.6	483.5	141.1	591.6	180.3	792.2	209.3	1042.6	277.5	1413.7
in constant prices, as % to the previous year	111.9%	104.0%	123.1%	114.8%	129.6%	134.2%	110.6%	118.2%	115.2%	111.0%
Объемплатных услуг населению, в текущих ценах, млн. долл.	28.6	209.1	34.4	264.6	37.5	311.1	45.0	380.1	54.5	560.7
in constant prices, as % to the previous year	88.1%	100.1%	99.0%	121.2%	88.9%	111.8%	99.8%	113.3%	107.3%	104.8%
Average monthly nominal wage of one employed person, USD	32.0	32.8	44.2	42.3	50.1	50.9	63.6	63.9	83.8	89.6
in % to the previous year	50.0%	151.9%	137.5%	128.8%	113.6%	120.7%	126.9%	125.5%	131.8%	140.2%
Average monthly pension, USD	13.3	6.8	20.3	10.6	19.5	11.9	22.5	15.1	28.2	26.4
Consolidated Budget Balance, mil. USD	-4.0	-13.4	-5.4	-0.5	-15.0	-8.5	-15.3	65.6	-1.0	9.9
as % of GDP	-2.0%	-1.0%	-2.1%	-0.03%	-6.0%	-0.5%	-4.8%	3.3%	-0.2%	0.4%
Population, end of the year, mil. Persons	0.65	3.63	0.64	3.63	0.63	3.62	0.62	3.61		3.39
Annual inflation rate (end of the year)	90.1%	18.4%	26.8%	6.3%	10.6%	4.4%	32.6%	15.7%	20.4%	12.5%
End-year exchange rate, (rub/1USD & lei/1USD)	5.38	12.38	5.90	13.09	6.65	13.82	7.50	13.22	8.00	12.46

Table 2. Financial Aspects of Moldova's and Transnistria's Economic Development

	2000		2001		2002		2003		2004	
	PMR	RM	PMR	RM	PMR	RM	PMR	RM	PMR	RM
Real GDP Growth, %	-20.9%	2.1%	11.0%	6.1%	-2.7%	7.8%	18.1%	6.6%	16.2%	7.3%
Nominal GDP, mil. USD	199.6	1288.4	255.6	1480.7	250.3	1661.8	318.4	1980.9	417.6	2595.0
GDP per capita, USD	336.0	354.1	436.7	407.8	434.4	458.8	561.7	548.4	748.0	720.3
Export of goods (fob), mil. USD	328.1	471.5	377.7	563.9	243.4	643.9	432.7	789.2	535.1	980.2
export yr/ yr	127.2%	101.7%	115.1%	119.6%	64.4%	114.2%	177.8%	122.6%	123.7%	124.2%
Import of goods (cif), mil. USD	489.2	776.4	541.0	888.5	449.6	1038.5	592.9	1402.8	758.3	1772.8
import yr/ yr	117.5%	132.4%	110.6%	114.4%	83.1%	116.9%	131.9%	135.1%	127.9%	126.4%
Trade Balance, mil. USD	-161.1	-305.0	-163.3	-324.6	-206.2	-394.6	-160.2	-613.6	-223.2	-792.6
as % to GDP	80.8%	-23.7%	-63.9%	-21.9%	-82.4%	-23.7%	-50.3%	-31.0%	-53.4%	-30.5%
Current Account, mil. USD	-36.5	-98.2	-62.7	-24.6	-71.5	-67.2	3.8	-130.4	-17.7	-112.9
Trade balance, mil. USD	-36.5	-293.6	-75.2	-312.8	-96.6	-378.2	-25.8	-623.4	-55.1	-758.3
Balance of services, mil. USD	0.2	-37.0	1.7	-37.9	8.1	-40.4	5.6	-45.5	-1.7	-54.8
Income balance, mil. USD	-3.4	21.6	-4.8	95.8	-1.7	109.7	-5.6	234.1	-12.0	336.5
Transfers (net), mil. USD	3.1	210.8	15.6	230.3	18.7	241.7	29.6	304.4	51.1	363.6
Capital and Financial Account, mil. USD	64.9	108.2	15.3	10.1	59.5	86.6	63.6	60.5	135.0	-4.0
Direct and portfolio investments (net), mil. USD	0.8	243.9	-1.6	69.5	-0.8	104.6	5.4	47.2	11.3	137.5
Other investments (net), mil. USD	65.5	-76.5	16.7	-29.2	63.5	24.3	56.2	40.1	142.3	11.3
Current Account, as % to GDP	-18.3%	-7.6%	-24.5%	-1.7%	-28.6%	-4.0%	1.2%	-6.6%	-4.2%	-4.4%
Total external debt (incl. private and energy), USD million	674.0	1720.6	796.6	1675.1	901.7	1814.9	1040.3	1924.5	1178.8	1924.5
as % of GDP	432.3%	133.5%	381.0%	113.1%	360.3%	109.2%	326.7%	97.2%	282.3%	74.2%
Cash in circulation M0, (million rub. & million lei)	26.8	1469.3	43.7	1834.2	78.1	2288.6	96.3	2740.5	110.3	3699.9
Money velocity (M0)	34	11	33	10	20	10	24	10	30	9
Broad money M3, (million rub & million lei)	159.4	3509.6	323.2	4787.4	446.0	6511.5	851.2	8509.2	870.8	11719.7
Monetization of the economy	17.4%	21.9%	22.1%	25.1%	28.1%	28.9%	37.6%	30.8%	26.5%	36.6%
Annual inflation rate (end period)	90.1%	18.4%	26.8%	6.3%	10.6%	4.4%	32.6%	15.7%	20.4%	12.5%
Average annual inflation rate	112.5%	31.2%	48.9%	9.7%	14.1%	5.2%	21.7%	11.6%	29.5%	12.4%
End-year exchange rate, (rub/1USD & lei/1USD)	5.38	12.38	5.90	13.09	6.65	13.82	7.50	13.22	8.00	12.46
Average exchange rate, (rub/1USD & lei/1USD)	4.6	12.43	5.72	12.87	6.35	13.57	7.12	13.94	7.86	12.33

Table 3. Balance of Payment

(USD million)

	2001	2002	2003	2004
Current account	**-62.8**	**-71.4**	**3.8**	**-17.7**
Trade balance	*-75.2*	*-96.6*	*-25.8*	*-55.1*
export (FOB)	435.5	327.8	540.2	660.7
import (FOB)	510.7	424.4	566	715.8
Balance of services	*1.7*	*8.1*	*5.6*	*-1.7*
export	46.3	49.5	64.9	45.5
import	44.6	41.4	59.3	47.3
Balance of income	*-4.8*	*-1.7*	*-5.6*	*-12*
received	0.9	1.1	1.9	2.3
paid	5.7	2.8	7.5	14.3
Transfers	*15.6*	*18.7*	*29.6*	*51.1*
Capital and financial account	**15.3**	**59.5**	**63.6**	**135**
Capital account	*0*	*0*	-	*4.3*
Financial account	*14.2*	*60.9*	*66.4*	*131.5*
Direct and portfolio investment	-1.6	-0.8	5.4	11.3
of which:				
in PMR's economy	-0.8	2.5	4	72
abroad	-0.7	-3.2	1.2	-60.7
Other investment	16.7	63.5	56.2	142.3
Assets	-21	-7.4	-20.4	30.1
Trade credits	-6.4	9.7	-5.3	1.5
Loans	5	-11.6	-13.3	-4.1
Currency and deposits*	-19.6	-5.5	-1.6	30.4
Other assets	-	-	-0.2	2.3
Liabilities	37.7	70.9	76.7	112.2
Trade credits	-14.7	-6.5	-14.3	34.3
Debt for natural gas	63.3	50	21.2	46.4
Loans	-11.3	23.7	62.6	16.1
Currency and deposits	0.3	3.6	7	15.9
Other liabilities	-	-	0.1	-0.5
Other transactions	-0.9	-1.8	4.9	-22
*Reserves adjustments ***	*1.1*	*-1.4*	*-2.8*	*-0.8*
Net errors and omissions	*47.5*	*11.9*	*-67.5*	*-117.3*

Note: * Adjusted for export and re-export transactions
** «+» – decrease, «–» -increase

Table 4. International Investment Position of Transnistria

(at January 1, USD million)

	2000	2001	2002	2003	2004	2005
Assets	**91.0**	**80.2**	**86.0**	**92.0**	**130.7**	**173.6**
Direct and portfolio investment abroad	1.7	2.0	2.8	6.1	4.9	33.7
Other investments	89.4	78.2	83.2	85.9	125.8	139.9
Trade credits	61.1	64.0	71.8	62.7	71.6	70.1
Loans	19.3	4.5	0.9	12.5	25.7	27.5
banks	4.9	4.0		10.9	22.0	25.1
non-financial enterprises	0.1	0.0	0.4	1.1	3.2	4.2
papers	14.3	0.5	0.5	0.5	0.5	-1.8
Currency and deposits	9.0	9.8	10.5	10.8	28.4	42.3
foreign currency	1.3	1.0	2.5	2.5	2.3	5.6
loro accounts	7.3	8.7	7.1	9.2	21.4	32.6
deposits of physical persons abroad	0.5	0.1	1.0	-1.0	4.8	4.1
Liabilities	**726.0**	**850.4**	**955.0**	**1099.7**	**1248.6**	**1509.1**
Direct and portfolio investment in reporting economy	52.0	53.2	52.4	54.9	58.6	130.5
Other investments	674.0	797.2	902.6	1044.8	1190.0	1378.5
Trade credits	103.5	114.4	100.9	94.5	77.0	111.3
Past-due debt	518.4	612.3	742.2	859.1	949.6	1066.7
debt for natural gas	325.3	361.0	424.3	474.3	495.5	541.9
fine for natural gas	193.1	251.3	317.9	384.8	454.1	524.8
Loans	52.0	69.9	58.7	86.7	151.6	172.9
banks	17.6	20.0	19.9	28.8	50.7	43.6
non-financial enterprises	3.9	17.4	6.2	21.0	62.0	88.3
state external debt	30.4	32.5	32.5	36.8	38.9	41.0
Currency and deposits	0.0	0.6	0.9	4.5	11.7	27.7
Net international investment position	***-635.0***	***-770.2***	***-869.1***	***-1007.6***	***-1117.9***	***-1335.5***

Table 5. Geographical Distribution of Transnistria External Trade

(USD million)

	2000	2001	2002	2003	2004
Export - total	328.1	377.7	243.4	432.7	535.1
CIS countries	129.3	183.5	113.7	185.7	229.6
Moldova	36.3	92.6	56.5	78.8	72.9
Russia	73.2	73.3	42.7	80.5	128.8
Ukraine	6.7	14.4	9.6	19.5	18.9
Other CIS country	13.1	3.2	4.9	6.9	9.0
EU country	45.6	70.2	65.5	135.6	178.0
Austria	4.0	1.4	1.5	4.3	2.0
Belgium	0.2	0.3	0.5	1.8	0.8
Great Britain	2.9	4.1	1.0	4.3	1.8
Hungary	2.9	4.0	1.4	1.8	8.5
Germany	7.4	6.2	7.3	18.5	25.9
Greece	0.2	3.6	10.2	12.2	11.7
Italy	15.8	18.8	24.2	45.9	45.2
Cyprus	1.9	4.7	3.5	4.6	2.4
Latvia	0.2	0.0	2.5	3.7	2.6
Netherlands	2.2	2.9	1.3	3.2	2.6
Poland	1.0	1.0	0.7	1.0	13.2
Other EU countries	6.9	23.2	11.4	34.3	61.0
Other countries	153.2	124	64.2	111.4	127.6
Algeria	3.1	32.0	4.3	11.9	20.9
Bulgaria	3.7	2.2	1.6	7.2	11.6
Romania	12.1	12.5	7.7	23.4	10.5
USA	70.8	42.4	2.1	3.8	6.1
Turkey	0.9	…	0.2	1.8	9.7
Import - total	***489.2***	***541.0***	***449.6***	***592.9***	***758.3***
CIS countries	**279.7**	**324.1**	**275.8**	**386.8**	**502.2**
Moldova	49.8	45.5	31.8	18	12.6
Russia	153.1	157.0	131.3	142.2	183.4
Ukraine	63.9	111.6	99.9	210.7	288.8
Other CIS countries	12.9	10.0	12.8	15.9	17.3
EU countries	**132.0**	**128.4**	**118.7**	**137.5**	**162.9**
Austria	2.1	3.4	3.0	2.1	8.5
Belgium	5.4	5.7	3.4	3	4.1
Great Britain	6.2	13.2	3.4	3.1	2.4
Hungary	2.7	3.7	2.3	2.6	3.5
Germany	52.2	30.3	31.6	44.3	50.5
Italy	19.6	27.3	22	18.1	30.3
Cyprus	10.4	9.7	4.0	1.7	0.5
Latvia	6.6	6.5	7.2	8.1	3.0
Netherlands	3.1	2.3	6.2	7	9.2
Poland	11.2	16.8	26.2	30.1	24.8
France	2.9	2.6	3.9	9.8	…
Other EU countries	9.6	6.9	5.5	7.6	26.0
Other countries	**77.5**	**88.5**	**55.1**	**68.6**	**93.2**
Bulgaria	1.7	1.8	1.3	1.4	1.4
Canada	12.6	5.2	3.6	4	5.3
Romania	23.2	16.4	9.7	20.1	18.9
USA	12.0	21.3	14.5	20.2	34.9
Turkey	1.0	2.5	1.9	2.7	4.4

Table 6. Breakdown of External Trade by Products

(USD million)

	2000		2001		2002		2003	
	CIS	Rest of world	CIS	Rest of world	CIS	Rest of world	CIS	Rest of world
Export - total	***129.3***	***198.8***	***182.6***	***194.2***	***113.7***	***129.7***	***185.7***	***247.0***
Products of vegetable origin	0.4	0.7	1.3	1.2	1.5	2.2	1.8	1.6
Finished food-stuffs; alcoholic and non-alcoholic drinks, vinegar; tobacco and substitutes of it	18.3	0.7	17.8	0.8	13.1	3.3	24.7	4.5
Mineral products	20.9	6.4	36.7	1.0	44.2	0.5	49.7	0.0
Textile and articles thereof	9.5	27.9	8.9	29.1	7.6	30.5	10.6	53.1
Footwear, head-gears, umbrellas and similar products	9.3	2.6	10.2	1.8	6.1	2.8	5.8	13.0
Non-precious metals and articles of them	27.8	157.9	22.1	159.2	18.9	88.9	46.6	169.7
Machines and equipment, electro-technical equipment and part of them	33.4	1.0	31.1	0.6	15.8	1.1	22.7	3.5
Ground, air and water transport, their parts and accessories	1.6	0.0	6.1	0.1	2.9	0.2	10.6	0.4
Weapons and ammunitions		-	-	-	-	-	0.0	0.0
Other products	8.1	1.6	48.4	0.4	3.6	0.2	13.2	1.2
Import - total	***279.7***	***209.5***	***324.0***	***216.9***	***275.8***	***173.8***	***386.8***	***206.1***
Products of vegetable origin	3.1	1.9	2.8	3.1	1.6	3.4	5.1	8.2
Finished food-stuffs; alcoholic and non-alcoholic drinks, vinegar; tobacco and substitutes of it	7.5	84.7	15.3	78.0	26.2	33.5	42.2	27.9
Mineral products	134.7	13.8	158.2	9.7	139.0	1.6	149.0	3.8
Products of chemical industry and relevant to it branches	7.0	6.3	9.1	5.2	10.0	7.1	9.8	9.4
polymeric materials, plastics, caoutchouc, rubber and articles thereof	3.8	9.4	4.5	8.3	3.8	7.7	5.5	9.4
Textile and articles thereof	11.8	26.8	7.5	35.9	8.0	28.5	20.8	28.8
Non-precious metals and articles of them	79.5	16.9	76.9	12.4	51.2	8.6	115.7	19.9
Machines and equipment, electro-technical equipment and part of them	17.0	25.2	23.4	14.7	19.0	25.5	19.8	24.1
Ground, air and water transport, their parts and accessories	0.8	0.8	2.2	0.7	1.2	1.9	1.1	3.8
Weapons and ammunitions	0.1	-	-	-	-	-	0.0	0.0
Other products	14.4	23.7	24.1	48.9	15.8	56.0	17.8	70.8

Table 7. Gross Domestic Product: Industrial Structure

(current prices, %)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
GDP - total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Goods production	***63.5***	***55.8***	***56.2***	***48.3***	***61.5***	***41.8***	***43.0***	***43.7***	***40.5***
Industry	*53.9*	*46.9*	*51.2*	*45.0*	*57.0*	*38.0*	*36.4*	*37.4*	*32.4*
Agriculture	*4.8*	*5.1*	*0.2*	-	*1.0*	*0.1*	*3.0*	*2.9*	*5.5*
Construction	*4.8*	*3.8*	*4.8*	*3.2*	*3.4*	*3.7*	*3.6*	*3.3*	*2.6*
Forestry	*0.0*	*0.0*	*0.0*	*0.1*	*0.0*	*0.0*	*0.1*	*0.0*	*0.0*
Services	***31.6***	***36.3***	***36.2***	***43.4***	***32.2***	***47.3***	***47.9***	***46.4***	***50.7***
Market services	*21.5*	*18.6*	*20.2*	*20.6*	*17.3*	*25.8*	*26.9*	*26.3*	*27.3*
Transport and communication	4.6	3.4	3.0	3.2	8.1	8.3	6.8	6.7	6.6
Trade and catering	10.8	8.0	5.4	5.3	4.5	12.0	12.0	10.7	11.3
Housing and communal services	4.7	4.9	6.2	7.8	2.1	2.1	2.1	2.4	2.2
Financial intermediation	-	0.7	0.1	1.0	0.0	0.3	0.5	0.3	0.6
Other	1.4	1.7	5.5	3.3	2.6	3.1	1.4	6.2	6.6
Non-market services	*10.1*	*17.7*	*15.9*	*22.8*	*14.9*	*21.6*	*20.9*	*20.1*	*23.5*
Healthcare and social protection	1.6	2.1	2.1	4.7	2.8	4.8	5.1	5.1	5.6
Education, science, culture and sport	3.6	5.8	4.8	5.8	4.7	7.6	6.7	6.3	7.1
Public administration	2.0	2.4	3.2	4.6	2.8	3.1	3.2	3.4	3.4
Defence	1.2	0.7	1.0	2.4	1.2	1.4	1.2	1.2	1.2
Other	1.7	6.7	4.8	5.3	3.5	3.9	4.7	4.0	6.3
Net taxes on products and imports	***5.0***	***7.9***	***7.7***	***8.3***	***6.3***	***9.6***	***9.2***	***10.0***	***8.8***

Table 8. Services: Gross Value Added Structure

	2002		2003		2004	
	USD mil.	weight,%	USD mil.	weight,%	USD mil.	weight,%
Services - total	**120.4**	**100**	**145.0**	**100**	**211.9**	**100**
Market services	*68.0*	*56.5*	*83.1*	*57.3*	*113.9*	*53.7*
transport	6.1	5.1	7.5	5.2	9.8	4.6
communications	11.7	9.7	12.8	8.8	17.7	8.4
trade and catering	27.6	22.9	33.9	23.4	47.1	22.2
housing and communal services	5.2	4.3	7.5	5.1	9.3	4.4
banking	0.4	0.3	-0.5	-0.3	1.0	0.5
insurance	0.8	0.7	1.5	1	1.5	0.7
other	16.3	13.5	20.5	14.1	27.4	12.9
Non-market services	*52.4*	*43.5*	*61.9*	*42.7*	*98.0*	*46.3*
healthcare and social protection	12.7	10.5	15.9	11	23.1	10.9
public education	14.8	12.3	17.2	11.8	25.9	12.2
culture and science	2.0	1.7	2.3	1.6	3.5	1.7
public administration	8.0	6.6	10.5	7.2	14.2	6.7
defence	3.1	2.6	3.8	2.6	4.8	2.3
other	11.8	9.8	12.3	8.5	26.4	12.5

Table 9. Distribution of Balance-sheet Profit by Types of Activities

(current prices, USD million)

	2000	2001	2002	2003	2004
Total	**2.3**	**40.4**	**36.9**	**52.7**	**85.5**
agriculture	-8.0	-11.4	-16.0	-15.8	-6.7
industry	18.9	32.1	35.4	38.5	51.0
construction	2.6	3.8	3.4	4.0	3.4
transport	4.2	3.0	0.6	0.4	2.7
communication	1.2	4.1	4.9	10.5	11.4
supply and marketing	0.2	0.3	0.3	0.1	…
purchases	0.0	0.1	-0.2	-0.5	-0.3
trade and catering	-13.6	7.2	7.9	12.6	16.9
consumer services	0.1	0.2	0.1	0.1	…
housing and communal services	-3.8	0.3	-1.2	0.0	1.2
other activities	0.5	0.9	1.6	2.8	5.5

Table 10. Number and Share of Enterprises with Losses

(as % to total)

	1999	2000	2001	2002	2003
Total	**24.3**	**24.9**	**18.2**	**21.3**	**18.6**
industry	19.7	17.7	13.6	17.6	19.4
agriculture	56.9	50.0	50.5	49.8	44.9
construction	16.3	14.2	11.9	16.4	11.6
transport	27.9	13.4	22.7	28.6	25.4
supply and marketing	35.5	26.8	20.0	36.6	32.5
trade and catering	24.6	27.9	15.4	21.2	19.0
consumer services	20.0	20.8	12.8	24.6	18.5
housing and communal services	42.5	46.5	44.7	22.6	11.9

Table 11. Evolution of Industrial Production

	2000	2001	2002	2003	2004
Gross value added - total, USD million	858.9	1304.1	1443.8	1976.8	417.6
Gross value added in industry					
USD million	113.6	96.6	91.7	118.8	135.3
as % to total value added	13.2	7.4	6.3	6.0	32.4
per 1 USD of interim consumption	0.3	0.2	0.3	0.3	0.3
per an employee in industry	2137.7	1911.6	1963.0	2783.9	3227.0
as % to previous year		89.4	102.7	141.8	115.9
Employed population, annual average, thousand persons	205.5	202	186.3	179.5	157.3
Employed in industry, annual average, thousand persons	53.1	50.5	46.7	42.7	41.9

Table 12. Industrial Output by Ownership

	2002		2003		2004	
	USD mil.	USD mil.	USD mil.	USD mil.	USD mil.	USD mil.
State	200.3	56.3	157.3	32.9	161.4	25.8
Common (consumer cooperatives)	1.5	0.4	1.7	0.3	1.7	0.3
Municipal	9.5	2.7	9.9	2.1	9.8	1.6
Funds	0.3	0.1	0.3	0.1	0.2	0.0
Private	3.8	1.1	61.6	12.9	79.9	12.8
Mixed (without foreign capital)	36.2	10.2	31.2	6.5	38.5	6.2
Mixed (with foreign capital)	104.3	29.3	215.5	45.1	334.2	53.4
Total	**356.1**	**100.0**	**477.4**	**100.0**	**625.7**	**100.0**

Table 13. Industrial Output

	Structure (real prices, %)					Growth rate (as % to previous year)				
	2000	**2001**	**2002**	**2003**	**2004**	**2000**	**2001**	**2002**	**2003**	**2004**
Industry - total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**96.2**	**116.5**	**109.0**	**121.8**	**105.2**
of which:										
Power industry	10.6	12.3	27.8	24.2	22.9	92.5	126.0	89.1	95.7	103.9
Ferrous metallurgy	35.7	35.5	19.6	31.3	34.1	116.5	108.1	54.5	169.2	114.6
Chemical industry	1.9	1.3	1.2	1.2	1.3	115.9	73.6	86.3	106.1	111.8
Mechanical engineering and metal-working industry	8.2	8.0	6.7	8.0	6.3	139.6	107.8	78.9	123.9	108.6
including:										
electrical industry	6.0	6.0	4.6	5.6		153.4	108.9	73.6	129.1	118.3
Woodworking industry and furniture	0.6	1.1	1.3	1.2	1.1	150.0	145.4	107.3	102.9	89.9
Construction materials	2.1	2.2	2.5	2.8	2.8	52.3	111.5	78.8	114.0	108.3
Glass industry	0.4	0.4	0.4	0.4	0.2	260.0	115.3	107.3	90.5	63.4
Light industry	29.5	29.7	29.8	17.6	18.3	145.0	111.0	103.9	107.0	102.6
Food industry	7.2	6.9	8.5	11.5	10.0	97.9	104.4	90.9	141.0	92.1
Flour-and-cereals and feed mill industry	2.0	0.2	1.8	1.4	0.6	66.5	56.7	81.2	84.1	46.4

Table 14. Investment in Fixed Capital

	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
	current prices, USD million					real prices, %				
Implemented fixed assets - total	15.3	38.5	41.8	36.0	63.6	48.7	245.2	97.8	83.4	…
Investment in fixed capital	31.6	36.7	36.3	43.2	72.1	103.8	115.6	90.8	112.8	156.8
production purpose	27.5	32.4	31.9	37.2	60.6	108.8	119.5	91.5	111.1	160.1
non-production purpose	4.1	4.4	4.4	6.0	11.4	74.5	88.2	85.5	124.7	140.7
Volume of entrepreneurial works	12.2	12.9	12.5	14.6	…	106.7	77.9	88.7	107.1	…

Table 15. Investment in Fixed Capital: Source of Finance

	2000	2001	2002	2003	2004
	current prices, USD million				
Investment in fixed capital	31.6	36.7	36.3	43.2	72.1
at the expense of republican budget	0.7	3.0	1.3	0.3	0.2
at the expense of local budgets	1.4	1.2	1.5	1.5	1.9
at the expense of own means	29.4	32.4	32.9	40.9	66.9
at the expense of other means	0.1	0.1	0.6	0.5	3.1
	as % to total				
Investment in fixed capital	100.0	100.0	100.0	100.0	100.0
at the expense of republican budget	2.3	8.2	3.7	0.6	0.3
at the expense of local budgets	4.3	3.3	4.2	3.4	2.6
at the expense of own means	93.2	88.2	90.5	94.7	92.9
at the expense of other means	0.2	0.3	1.6	1.3	4.3

Table 16. Social Sphere

	2000	2001	2002	2003	2004
Minimal living subsistence, monthly average, USD					
per inhabitant	27	32	33	38	43
per pensioner	21	26	27	32	36
Wage-fund, USD million	61.6	82.7	90.3	107.4	141.6
Wage arrears					
rub. PMR		42.2	47.0	59.3	65.5
USD		8.4	7.8	8.8	8.8
ratio to the wage-fund, %		10.1	8.6	8.2	6.2
Average monthly salary, USD	32	44	50	64	90
ratio to the minimal living subsistence for inhabitant, %	*118.5*	*137.5*	*151.5*	*168.4*	*209.3*
Average monthly pension, USD	13	20	20	23	28
as ratio to the minimal living subsistence for pensioner, %	*61.9*	*76.9*	*74.1*	*71.9*	*77.8*
as ratio to the monthly average salary, %	*40.6*	*45.5*	*40.0*	*35.9*	*31.1*
Money income - total, USD million	163.6	227.2	276.1	299.0	413.3
Total income per person, annual, USD	275.0	388.2	479.3	527.5	740.3
Calculated size of minimal wage					
rub. PMR		*2.5*	*3.0*	*3.4*	*3.4*
USD		*0.4*	*0.5*	*0.5*	*0.4*
Population, annual average, thousand persons	593.9	585.2	576.1	566.8	558.3
Number of pensioners, annual average, thousand persons		134.7	135.9	136.0	135.1
Employed population, annual average, thousand persons	205.5	202.0	186.3	179.5	157.3
Number of pensioners as ratio to employed population, %		23.0	23.6	24.0	24.2
Number of pensioners per 1000 inhabitants		667	729	757	859

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