FOR AGENDA

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EBS/93/177
Supplement 1

CONFIDENTIAL

November 24, 1993

To: Members of the Executive Board

From: The Secretary

Subject: Republic of Moldova - Request for Stand-By Arrangement and Purchase Under the Systemic Transformation Facility

Attached for consideration by the Executive Directors is a paper on Moldova's request for a stand-by arrangement in an amount equivalent to SDR 51.75 million and for a request expected to be received for a second purchase under the systemic transformation facility in an amount equivalent to SDR 22.5 million, which is tentatively scheduled for discussion on Friday, December 17, 1993.

Mr. Ouanes (ext. 38970) or Mr. Haley (ext. 34134) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Commission of the European Communities (CEC) and the Organisation for Economic Cooperation and Development (OECD), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

Staff Report for Request for Stand-by Arrangement and Purchase Under the Systemic Transformation Facility

Prepared by European II and Policy Development and Review Departments
(In consultation with other Departments)

Approved by John Odling-Smee and Mark Allen

November 24, 1993

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I. Introduction

The Moldovan authorities have requested a 15-month Stand-by Arrangement (SBA) for an amount equivalent to SDR 51.75 million or 57.5 percent of quota and have indicated their intentions to request the second purchase under the Systemic Transformation Facility (STF) for an amount equivalent to SDR 22.5 million (25 percent of quota) in support of an economic program covering the period through end-1994. The program of macroeconomic stabilization and structural reform is set out in the Memorandum of Economic and Financial Policies attached to the letter of November 15, 1993, from the Prime Minister and the Governor of the National Bank of Moldova (NBM) (EBS/93/177) and is summarized in the Policy Matrix (Appendix I).

Discussions on the SBA and the second purchase under the STF were held in Chisinau during October 11-22, 1993. 1/ The Moldovan authorities included Prime Minister Sangheli; Deputy Prime Minister Cunev; Minister of Finance, Mrs. Melnic; Deputy Minister of Economy, Mr. Efros; Deputy Minister of Foreign Economic Relations, Mr. Arapu; Minister of Labor and Social Protection, Mr. Nidelcu; Minister of Agriculture and Food Industry, Mr. Gorincioi; the President of the NBM, Mr. Talmaci; and other senior officials of the Government and the NBM. Members of the mission also met with President Snegur.

The First Article IV consultation with Moldova was completed on February 4, 1993 (SM/93/8, January 15, 1993, SM/93/20, January 27, 1993, and SUR/93/20, February 16, 1993) and was combined with a request for a purchase under the Compensatory and Contingency Financing Facility (CCFF) in an amount equivalent to SDR 13.5 million or 15 percent of quota (EBS/93/8, January 15, 1993). 2/

In early summer the authorities galvanized the necessary political consensus in favor of a resolute move to stabilize the economy and to accelerate the pace of structural reforms. They formulated a program of adjustment which was supported in September by a first purchase under the STF for an amount of SDR 22.5 million, equivalent to 25 percent of quota (EBS/93/149). The structural reform program was subsequently supported by a Rehabilitation Loan from the World Bank in an amount of US$60 million. 3/

1/ The mission consisted of Messrs. Ouanes (Head), Berengaut, Haley, and Shabsigh (all EUR II), Mr. Perone (FAD), Mrs. Moalla-Fetini (PDR); Ms. Campayne (staff assistant, EUR II). Mr. Blackwell, the Fund resident representative, assisted the mission.

2/ The CCFF purchase was prompted by a major cereal crop failure due to a severe drought in 1992.

3/ The World Bank has also provided in early 1993 an Emergency Drought Recovery Loan for an amount of US$26 million and is also in the process of preparing lending operations which will aim at expanding the process of stabilization and structural reforms initiated under the STF and rehabilitation programs. In addition to adjustment lending, the World Bank plans to develop investment operations in key sectors (agriculture and energy) and in support of enterprise and financial sector reforms.

The authorities' strategy under the program supported by the STF was to set the macroeconomic preconditions for the introduction of the national currency later in the year and to sharply accelerate the pace of structural reforms. The authorities also intended to strengthen financial policies and to request a SBA at the time of the introduction of the leu.

In line with this strategy, immediately after the Board approval of the first purchase under the STF, the authorities decided on the date of the introduction of the national currency and began formulating a package of measures and a financial program for 1994 aimed at a considerable tightening in the stance of monetary and fiscal policies on a sustained basis. They expressed the hope of attracting financial support for their policies not only from the Fund but also from the international financial community at large.

Following agreement with the staff team on a Memorandum of Economic and Financial Policies, the authorities attended the Consultative Group meeting in Paris on October 26, 1993. 1/ While there was strong praise for the authorities' program, participants were not, at that time, in a position to make concrete commitments of balance of payments support. Therefore, a follow-up pledging session has been scheduled for December 9, 1993, at which time commitments will be requested to cover the remaining financing gap estimated at US$155 million. While the authorities are determined to implement the program, they believe that timely availability of foreign financial support, particularly in the early and most crucial months of the program will be critical to the success of their efforts.

The staff expects to issue a supplement to the Staff Report if the pledging session on December 9, 1993, results in adequate financing assurances and if all prior actions under the program are implemented as scheduled. At that time, draft decisions proposing approval of the requested SBA and the second purchase under the STF will be included.

The eligibility of Moldova to use the STF has been discussed in Appendix V of EBS/93/149. Fund Relations and relations with the World Bank Group and with the EBRD are covered in Appendix II and Appendix III, respectively, of this paper.

1/ The staff team consisted of Messrs. Ouanes (Head), Berengaut and Blackwell (all EUR II). Mr. Baldet, from the Paris office, also attended the meeting.

II. Recent Developments and Performance Under the Program Supported by the STF 1/

Following a particularly difficult year in 1992, Moldova experienced a continued deterioration in economic conditions in early 1993. Economic activity has continued to decline quite sharply owing to the ongoing restructuring of the economy, much-lower-than-expected energy import volumes and persistent difficulties in obtaining other key raw material imports from FSU countries. Preliminary data for the first nine months of 1993 indicate that the decline in economic activity was broadly-based with the industrial and construction sectors being particularly hard hit, declining by about 20 and 40 percent, respectively, compared to the same period in 1992. Despite an exceptionally good harvest, total agriculture output was about 12 percent below that of a year earlier, reflecting the sharp decline in livestock production which accounts for nearly half of agriculture output. Overall, the staff expect some improvement in economic activity in the fourth quarter, but for the year as a whole, real GDP is projected to decline by 15 percent, bringing the cumulative decline since 1990 to close to 50 percent (Chart 1). This substantial decline in real output has not been accompanied by a commensurate increase in open unemployment. However, as credit conditions are tightened and the budget constraints facing public enterprises are hardened, it is expected that open unemployment will increase in the period ahead.

Inflation which averaged about 24 percent per month in the first half, accelerated sharply in the third quarter of 1993 and peaked in September at 64 percent before decelerating to 38 percent in October. 2/ Thus, despite adherence to the program's credit ceilings, inflation has been substantially higher than programmed. While in hindsight, the monetary program underlying the STF program was optimistic in its assumptions about the growth in the demand for money in the latter part of 1993, the most important factor explaining the unexpected surge in inflation was the announcement of the currency conversion in Russia and the flight from Moldovan coupons that this triggered. 3/ The larger-than-anticipated upward adjustment in administered prices and continued pass-through of sharply higher than foreseen energy prices were also important factors.

1/ Economic developments in 1992 have been discussed in detail in the Staff Report (SM/93/8, January 15, 1993) and the background paper for the 1992 Article IV Consultation (SM/93/20, January 27, 1993). Developments in early 1993 have been discussed in EBS/93/149 (September 1, 1993).

2/ This compares to a program target of 20 percent for October. It should be noted, however, that the CPI in Moldova suffers from a number of shortcomings which the staff intends to address through STA technical assistance. In particular, as currently calculated, the CPI in Moldova is likely to have a systematic upward bias.

3/ It should, however, be recognized that monetary programming in Moldova remains very difficult, in part because of the ongoing structural transformation and the weak statistical base.

Wage growth in Moldova remained restrained with the increase in average wages and the adjustments in the minimum wage lagging significantly behind the increase in prices. Despite several adjustments in the minimum wage in 1993, real wages have continued to decline in the past year. In the third quarter of 1993 real average monthly wages were about 73 percent in 1992 (Table 1 and Chart 2). 1/

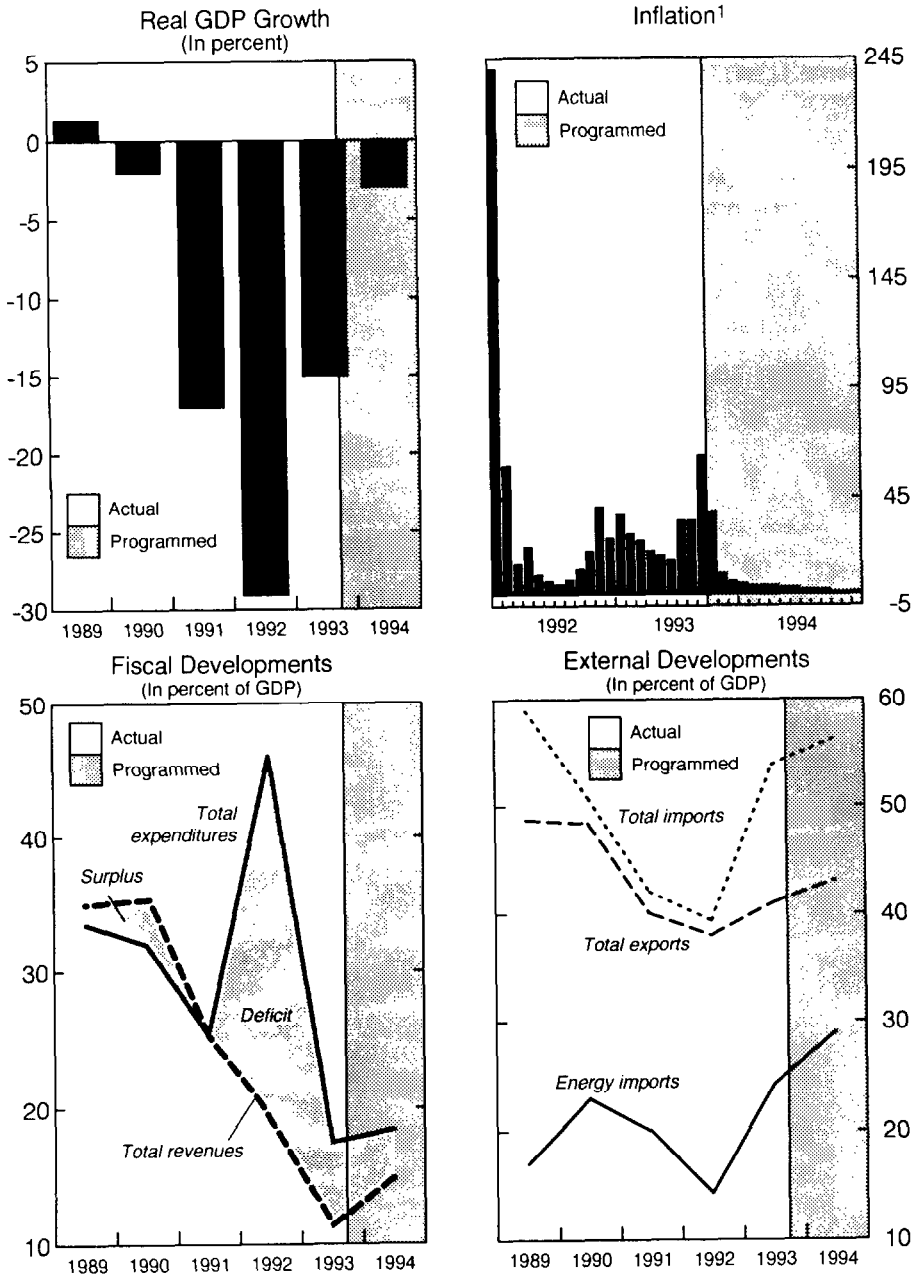
Fiscal developments during the first nine months of 1993 were broadly in line with the STF program (Table 2). As anticipated, the fiscal position began to improve in the third quarter of 1993 with the overall deficit for the first nine months being limited to below 10 percent of GDP compared to over 13 percent of GDP in the first half. The fiscal adjustment reflected the seasonal strengthening in revenue performance and the positive effect on expenditure of the sharp cut in consumer subsidies--particularly on bread and milk--effected as a prior action under the STF program. Revenues were somewhat weaker-than-anticipated in terms of GDP in part because of: (i) some delays in the implementation of the tariff reform and the extension of the value-added tax to non-CIS imports; (ii) the emergence of tax arrearsowing to weak tax administration and the problem of interenterprise arrears in the economy; 2/ and (iii) lower-than-expected yield from the road tax. On the expenditure side, while real expenditures were cut significantly across the board, the most significant savings were achieved because of the measures taken to reduce consumer subsidies. Specifically, on September 1, 1993, the authorities began to target bread subsidies by fully liberalizing the prices of all but six types of popular breads representing about 65 percent of total bread consumption. For these subsidized breads, prices were raised on average eight times bringing the per unit subsidy well below 50 percent of cost, the level targeted under the program supported under the STF. 3/ In the case of milk, prices were increased twice, in early July and later on September 1, 1993, and on average were brought to about 50 percent of cost as foreseen under the STF

1/ The minimum wage was first increased from Mrub 1,700 to Mrub 3,000 per month on March 1, 1993. It was subsequently increased to Mrub 7,500 per month on July 1, 1993, and was increased again on November 1, 1993, to Mrub 10,000 per month. This latter adjustment is mandatory only to budget covered institutions and organizations. For the rest of the economy, the minimum wage law becomes binding only starting on January 1, 1994. To contain the cost to the budget, for budget-covered organization the wage supplements will continue to be calculated on the basis of the minimum wage of Mrub 7,500. Since December 1990, however, average real wages have fallen by over 60 percent.

2/ As of October 1, 1993, tax arrears were estimated at about Mrub 10 billion with arrears on excises and VAT being particularly high, accounting for Mrub 2.7 and Mrub 3, respectively.

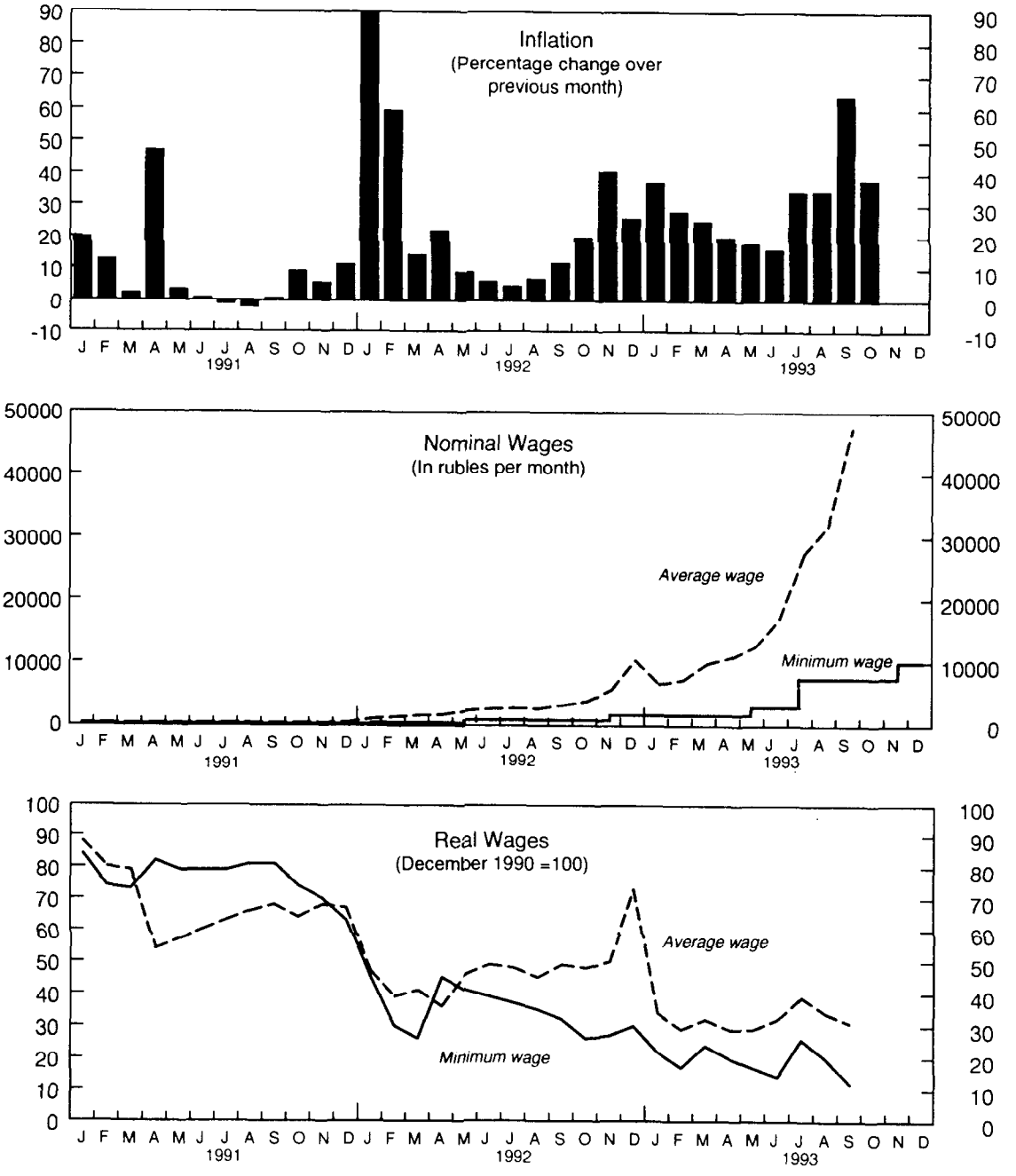
3/ While the adjustment in the bread prices was delayed, the size of the adjustment was much larger than that programmed under the STF program. As a result, per unit subsidies declined quite sharply from 80 percent of cost to below 40 percent following the September 1 adjustment.

Chart 1
Moldova
Key Economic Indicators



Sources: Data provided by the Moldovan authorities.
[1]Refers to monthly percentage change in the CPI index.

Chart 2
Moldova
Inflation and Wages
January 1991 - December 1993



Sources: Data provided by the Moldovan authorities.

Table 1: Moldova--Macroeconomic Framework, Summary Indicators 1992-1994

	1992	1993			1994				
	year	First Nine Months	Fourth Quarter	year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	year
I. Macroeconomic objectives									
1. Gross Domestic Product									
Real growth rate (in percent) 1/	-29.1	-15.0 2/	2.8	-15.0	-66.1	7.7	157.0	2.8	-3.0
Nominal GDP (bl.R, cummulative)	215	1,178	1,844	3,022	735	882	2,430	2,598	6,645
2. Inflation CPI (in percent) 1/									
Average period	1,276	1,140 2/	90	1,393	17	11	7	4	185
End period	2,198	993	40	1,429	14	10	6	3	37
3. Gross official reserve (ml. $)	2.5	42.9	60.0	60.0	64.0	66.0	68.0	70.0	70.0
(in weeks of imports)	--	...	...	2.9	...	...	...	...	3.1
(in weeks of convertible imports)	0.4	...	...	11.0	...	...	...	...	12.7
II. Intermediate targets									
1. Government budget balance (in percent of GDP)	-25.7	-9.9	-3.6	-6.1	-4.8	-5.8	-2.5	-3.2	-3.5
2. Broad money (in percent) 3/	356.0	224.6	19.6	288.3	2.6	9.0	19.4	4.9	40
3. Reserve money (in percent) 3/	549.0	238.6	19.7	297.7	2.6	9.0	19.4	4.9	40
4. Net domestic assets 4/									
Banking system	294.0	224.8	46.0	374.3	8.5	20.1	29.6	13.5	80.2
NBM	172.0	175.4	38.3	296.1	7.5	16.6	21.9	11.5	64.4
5. NBM net claims on government 4/	181.0	76.1	3.5	87.6	3.1	1.5	-1.4	-2.3	-3.1
6. Current account balance									
With FSU countries (ml.$)	-17.2	-80.7	-40.0	-120.7	-69.0	-41.3	-25.6	-27.5	-163.5
With non-FSU countries (ml.$)	-21.7	-81.9	-18.8	-100.7	-40.4	-31.5	-10.2	-13.1	-95.3
III. External factors									
1. Terms of trade with FSU countries	-20	...	...	-27	...	...	...	...	-24
2. Energy price index (1992=100)	100	...	...	180	...	...	...	...	274
Oil products prices ($ per ton)	84	...	...	140	...	...	...	...	158
Natural gas price ($ per th.M^3)	9	...	...	33	...	...	...	...	80
IV. Memorandum items									
1. Average wage (R. per month)									
Nominal	3,265	18,977	62,083	29,754	78,203	86,774	95,379	98,262	89,655
Real	*102*	*73 8/*	...	*67*	...	...	...	...	*71*
2. Minimum wage (end period, R/month)	1,700 5/	7,500 6/	10,000 7/	10,000	12,500	15,000	15,000	15,000	15,000
3. External financing gap (ml.$)	...	--	14.9	14.9	64.2	33.8	18.6	23.3	139.9
4. Exchange rate (average period) 9/	140	1,109	2,632	1,490	2,944	3,092	3,232	3,137	3,101

Sources: Moldovan authorities and staff estimates.

1/ Programmed inflation path (compared to preceding period). Actual end-period inflation in October alone was 38 percent.
2/ Compared to same period of the previous year.
3/ Percentage change during the period.
4/ Change in percent of initial stock of broad money.
5/ Minimum wage was raised in April from Rub 400 to Mrub 850 and again in November to Rub 1700.
6/ Minimum wage was raised in March to Rub 3000 per month and in July to Mrub 7,500 per month.
7/ Minimum wage was raised in November to Mrub 10,000 per month.
8/ Average real wage for the third quarter of 1993.
9/ As observed in the cash market. Rub/$ until end of first half of 1993 and Mrub/$ thereafter.

Table 2. Moldova: Summary of the Central Government Budget 1/

	1992	1993			1994				
		9 Months		Year	SBA Program				
	Actual	Prel. Actual	STF Program	Revised STF Proj.	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
				(In billions of Moldovan rubles)					
Revenues	43	159	159	345	188	222	269	311	990
Tax Revenues	39	149	147	331	169	204	242	275	890
Direct Taxes	14	63	60	133	68	72	85	90	315
Profit Taxes	10	46	38	88	50	50	55	60	215
Personal Tax	4	17	22	45	18	22	30	30	100
Indirect Taxes	24	75	77	167	80	100	125	145	450
VAT	14	45	43	90	45	55	70	80	250
Excise	10	30	34	77	35	45	55	65	200
Foreign Trade	1	4	2	15	10	15	18	20	63
Land Tax	--	6	6	14	8	12	8	12	40
Real Estate Tax	--	--	--	--	1	2	3	4	10
Other 2/	--	1	2	2	2	3	3	4	12
Non-Tax Revenues	4	10	12	14	19	18	27	36	100
of which: Road Fees	--	2	3	5	11	12	15	16	55
Expenditure & Net Lending	99	275	264	528	224	273	331	394	1,221
Expenditures	55	281	270	541	231	278	336	402	1,247
National Economy	3	14	14	20	8	10	15	17	50
Social Sphere	33	180	170	326	144	162	180	219	703
of which:									
Education	14	55	55	118	55	65	80	100	300
Health Care	7	36	36	62	32	36	47	61	176
Social Assistance 3/	2	5	5	24	8	12	15	17	52
Subsidies & Cash Comp.	8	80	70	110	44	43	30	33	150
Subsidies	8	73	63	94	32	25	7	6	70
Cash Compensation 3/	--	7	7	16	12	18	23	27	80
Law & Defense	5	26	25	47	21	26	31	32	110
Debt Service 4/	1	11	11	21	18	24	23	35	100
Capital Expenditures 5/	7	26	26	69	20	29	58	72	179
Other Expenditures	6	25	25	59	21	27	29	28	105
Net Lending 6/	44	-6	-6	-13	-7	-5	-5	-8	-26
Balance	-56	-116	-105	-183	-36	-51	-62	-83	-231
Financing	56	116	105	183	36	51	62	83	231
Net Domestic	56	72	68	74	11	7	-2	-6	10
Net Banking System	56	46	46	70	10	5	-5	-10	--
Non-Bank	--	4	4	4	1	2	3	4	10
Arrears	--	22	18	--	--	--	--	--	--
Net Foreign	--	44	37	109	25	44	64	89	221
Drawings 7/	--	45	38	110	37	58	85	111	290
Amortization	--	1	1	1	12	14	21	22	69
Memorandum Items:				(in percent of GDP)					
GDP (in billions of Mrub)	215	1,178	1,113	3,022	735	882	2,430	2,598	6,645
Total Revenue	20.0	13.5	14.3	11.4	25.6	25.1	11.8	12.0	14.9
Tax Revenue	18.1	12.7	13.2	11.0	23.0	23.1	10.0	11.3	13.4
Direct Taxes	6.5	5.4	5.4	4.4	9.3	8.2	3.5	3.5	4.7
Indirect Taxes	11.2	6.4	6.9	5.5	10.9	11.3	5.1	5.6	6.8
Expenditures & Net Lending	46.0	23.4	23.7	17.5	30.5	31.0	13.6	15.2	18.4
Total Expenditures	25.6	23.9	24.3	17.9	31.4	31.5	13.8	15.5	18.8
Net Lending	20.5	-0.5	-0.5	-0.4	-1.0	-0.6	-0.2	-0.3	-0.4
Deficit	26.0	9.9	9.4	6.1	...	...	...	...	3.5

Sources: Moldovan authorities and IMF staff estimates.

1/ Includes Republican and local budgets except for the Trans-Dniester region.
2/ Includes State taxes, Forestry tax, Privatization tax, and Natural Resources Tax.
3/ Cash compensation for certain targeted groups was established in February 1992 and increased in September 1993. These payments were included under social assistance spending in 1992.
4/ Domestic and foreign interest payments. Year end projections for interest payments on foreign debt in 1993 and 1994 are Mrub 8.5 billion and Mrub 41.9 respectively.
5/ Includes Mrub 4 billion and Mrub 55 billion in 1993 and 1994 respectively for capital repairs and road maintenance.
6/ Loans and repayments related to the indexation of working capital. In 1992, Mrub 5.3 billion in partial recapitalization of the Savings Bank are also included.
7/ Includes grants and counterpart funds to commodity loans.

program. Because of the large size of adjustment effected, the move was accompanied by the introduction of a cash compensation scheme to protect the most vulnerable groups. 1/

The improved fiscal position in the third quarter of 1993 has helped the authorities adhere to the monetary program envisaged under the STF program. In particular, the program's indicative targets for end-September 1993 on bank financing of the budget and on the net domestic assets of the NBM were observed despite strong pressures on the NBM to extend credit to the agricultural sector in light of the exceptionally good grain harvest. During the first nine months, broad money increased by 225 percent, compared to a rise of over 1,000 percent in nominal GDP implying a very sharp increase in velocity; credit to the economy declined in real terms by 52 percent (Tables 3 and 4, and Chart 3).

There were no new credits extended on preferential terms 2/ and, while the financing rate of the NBM remained unchanged at about 170 percent, there was a move to increase the use of the auction mechanism for allocating credit to commercial banks and to foster market-determined interest rates. Three auctions have been held since August 1993, and auction-determined interest rates have increased steadily to about 200 percent in October 1993. As programmed, deposit rates of the Savings Bank were raised. In mid-October, under pressure from the Government to extend additional credit to the agricultural sector for the harvest, the NBM relaxed temporarily its tight monetary policy stance by allowing some banks to use half of their required reserves to extend credit for the harvest. This measure was quickly reversed, however, and had only a limited impact on the monetary aggregates. 3/

Following Russia's move on the currency conversion of July 24, 1993, Moldova withdrew from circulation all pre-1993 ruble banknotes. The operation was conducted with relative calm--in large part because of the already heavy reliance on coupons--and resulted in a full conversion to coupons. However, this made the existing cash shortage more acute and led to difficulties in the payments of wages and salaries. The cash shortage crisis was resolved in September when the NBM introduced a 5 lei banknote as

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1/ A small cash compensation was already in place since February 1992. On August 30, a decision was taken to improve the existing cash compensation scheme and target the cash compensation so as to protect the most vulnerable groups of the population.

2/ In late June the Government requested and the Parliament approved a Mrub 52 billion credit at a highly preferential rates to the priority sectors. As of end-October Mrub 32 billion have been directed to these sectors.

3/ According to the NBM the decision has led to an increase in credit of about Mrub 7 billion in October 1993.

Table 3. Moldova: Monetary Authorities' Accounts, 1991-93

(End of period stocks; in millions of rubles)

	1991	1992				1993		
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept. 1/ (Prel. act.)
Net international reserves	--	34	-4,200	-3,930	-7,941	-17,004	-27,125	-28,834
NIR (convertible)	--	34	68	193	1,011	2,794	-9,461	-16,013
Foreign exchange	--	34	68	193	1,011	15,703	11,747	87,779
Reserve liability	--	--	--	--	--	-12,909	-21,208	-103,792
NIR (Non convertible)	--	--	-4,267	-4,123	-8,952	-19,799	-17,664	-12,821
Balance with Russia	--	--	-4,228	-10,410	-14,618	-28,094	-31,568	-26,799
Russia correspondent accounts	--	--	-4,580	-13,518	-17,726	-36,202	-39,676	-34,907
Less: new ruble liability	--	--	352	3,108	3,108	8,108	8,108	8,108
Balances with other FSU states	--	--	-39	6,287	5,666	8,295	13,904	13,960
Net domestic assets	7,577	9,005	18,227	26,938	57,114	69,339	125,406	195,348
Domestic credit	1,709	7,837	10,412	19,365	55,800	78,478	108,841	192,564
Net claims on general government	402	1,394	1,343	2,949	51,642	61,237	78,451	114,839
Net claims on republican budget	-4	989	1,038	1,458	-90	-3,668	1,506	20,294
Net claims on other republican accounts	22	25	29	39	3,016	4,669	5,971	6,297
Net claims on other government	386	387	375	1,760	49,121	60,580	71,063	88,727
Net claims on local government	-3	-7	-99	-307	-404	-345	-89	-478
Net claims on pension funds	75	-1	-1	--	--	--	--	--
Claims on enterprises	92	813	1,658	7,102	787	--	--	--
Credit to banks	1,141	5,631	7,411	9,315	3,371	17,241	30,390	77,724
Claims on sberbank	--	349	--	11	--	69	5	--
Claims on banks	1,141	5,282	7,411	9,304	3,371	17,172	30,385	77,724
Other items net	5,867	1,168	7,815	7,573	1,314	-9,139	16,564	2,784
Reserve money	7,577	9,040	14,027	23,008	49,173	52,335	98,281	166,513
Monetary base	7,572	9,017	14,004	22,951	49,081	52,142	97,752	165,366
Currency in circulation	2,217	2,580	5,208	8,635	10,828	23,611	40,327	83,086
Coupons outside NBM	--	--	394	3,423	6,413	15,616	31,382	80,086
Rubles outside NBM	2,217	2,580	4,814	5,212	4,415	7,995	8,849	3,000
Banks reserves	5,355	6,437	8,796	14,316	38,253	28,531	57,521	82,280
Required reserves	993	1,341	1,612	3,212	9,428	10,859	17,790	25,281
Other reserves	4,363	5,096	7,184	11,104	28,825	17,672	39,731	56,999
Deposits of enterprises and individuals	5	22	23	57	92	193	529	1,147
Memorandum item:								
Rubles/US$1	1.7	1.7	100	150	415	684	1100	2,042

Source: National Bank of Moldova.

1/ The September data are adjusted to account for proper classification of purchases from the Fund in reserve money and the assumption by the Ministry of Finance of the balance of the correspondent account with Russia.

Table 4. Moldova: Monetary Survey, 1992-93

(End of period stocks; in millions of rubles)

	1992				1993		
	Mar.	June	Sept	Dec.	Mar.	June	Sept. 1/ (Prel. act.)
Net foreign assets	59-	4,173	-3,603	-6,917	-13,574	-17,963	-8,919
NFA (Convertible)	59	94	520	1,951	4,993	-833	1,612
Net international reserves	34	68	193	1,011	2,794	-9,461	-16,013
Net banking system foreign exchange	25	27	327	940	2,199	8,628	17,625
NFA (Non convertible)	--	-4,267	-4,123	-8,868	-18,568	-17,130	-10,531
Net international reserves (rubles)	--	-4,267	-4,123	-8,952	-19,799	-17,664	-12,821
Net banking system foreign assets	--	--	--	84	1,231	534	2,290
Net domestic assets	18,215	30,848	47,161	90,002	110,778	173,158	278,614
Domestic credit	23,119	30,339	65,254	103,978	147,720	207,080	342,558
Net claims on general government	8,730	9,531	10,602	60,748	65,445	78,475	107,059
Net claims on republican budget	6,355	10,401	12,753	13,862	5,821	10,936	37,657
Net claims on other republican accounts	3,134	605	1,573	5,527	7,122	9,921	11,526
Net claims on other government	-199	-1,282	-3,309	40,766	57,533	58,962	61,960
Net claims on local government	-560	-193	-415	593	-5,031	-1,344	-4,083
Net claims on pension funds	-408	-469	-723	-1,621	-10,771	-11,800	-16,426
Claims on enterprises	12,211	18,830	49,450	33,619	69,346	97,872	191,523
Claims on private sector	2,586	2,447	5,925	11,232	23,701	42,534	60,401
Other items net	-4,904	509	-18,093	-13,977	-36,941	-33,922	-63,944
Broad money	18,274	26,675	43,558	83,085	97,204	155,195	269,676
Currency in circulation	2,031	4,666	7,407	9,444	19,909	36,676	83,086
Coupons in circulation	--	166	2,922	5,928	13,089	28,776	80,086
Rubles in circulation	2,031	4,500	4,485	3,516	6,820	7,900	3,000
Demand deposits	5,656	6,478	20,310	51,808	54,492	82,917	135,317
Time deposits	10,586	15,530	15,841	21,833	22,803	36,602	51,273
Memorandum item:							
Rubles/US$1	1.7	100	150	415	684	1,100	2,042

Source: National Bank of Moldova.

1/ The September data are adjusted to account for proper classification of purchases from the Fund in reserve money and the assumption by the Ministry of Finance of the balance of the correspondent account with Russia.

a coupon worth Mrub 5,000. 1/ At the same time, the preparations for the introduction of the leu were accelerated and contacts with the Trans-Dniester region were intensified. While some progress was made, the Trans-Dniester region has not agreed to the use of the leu and has reportedly decided to issue its own coupons.

The balance of payments came under severe pressure in 1993 reflecting the effects of the 1992 drought and higher energy prices, which in the first nine months of 1993 had risen on average to over 60 percent of world market prices. 2/ Based on preliminary data for the first nine months of 1993, Moldova's current account deficit widened to US$163 million compared to a deficit for the whole of 1992 of US$39 million (Table 5). While the outcome of the current account deficit was virtually in line with the STF program, the volume of trade was significantly lower with both the volume of exports and imports being particularly depressed. The weak export performance in the first nine months of 1993 is explained by Moldova's reduced ability to export to the Russian market following the imposition by Russia of excises and other taxes on Moldova's exports in the wake of the refusal of the Moldovan parliament to ratify Moldova's membership in the CIS. Exports are expected to recover sharply, however, as a result of lifting of the excises on Moldova's exports to Russia, following the signing of the Economic Union Treaty, the ongoing trade liberalization, and Moldova's improved competitiveness.

Reduced export receipts combined with higher energy costs and much lower-than-anticipated disbursements of the Russian state credit 3/ led to a dramatic contraction in the volume of energy imports--a decline of about 33 percent--which, if not reversed, could trigger a serious energy crisis in Moldova. In view of the critical need for energy at the time of the harvest, Romania agreed to provide a loan equivalent to about US$23 million

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1/ The 5 lei banknote was printed in preparation for the introduction of the national currency but the authorities were forced by the acute cash shortage to introduce it as a coupon substitute equivalent to Mrub 5,000. The authorities indicated that this banknote will be withdrawn at the time of the introduction of the national currency.

2/ While petroleum product prices have already moved close to international prices, natural gas prices have remained relatively low, keeping the overall average at 60 percent.

3/ In late April 1993 Russia and Moldova reached an agreement on converting the balances of the correspondent account as of May 1, 1993, into a state loan in an amount of Rub 40 billion, equivalent to US$88.9 million. Agreement was reached at the same time on a new loan from Russia for the remainder of 1993 in an amount of Rub 50 billion. The new Russian state credit of Rub 50 billion to Moldova included about Rub 15 billion in state credit to the Trans-Dniester region. For additional details, please refer to EBS/93/194, September 1, 1993.

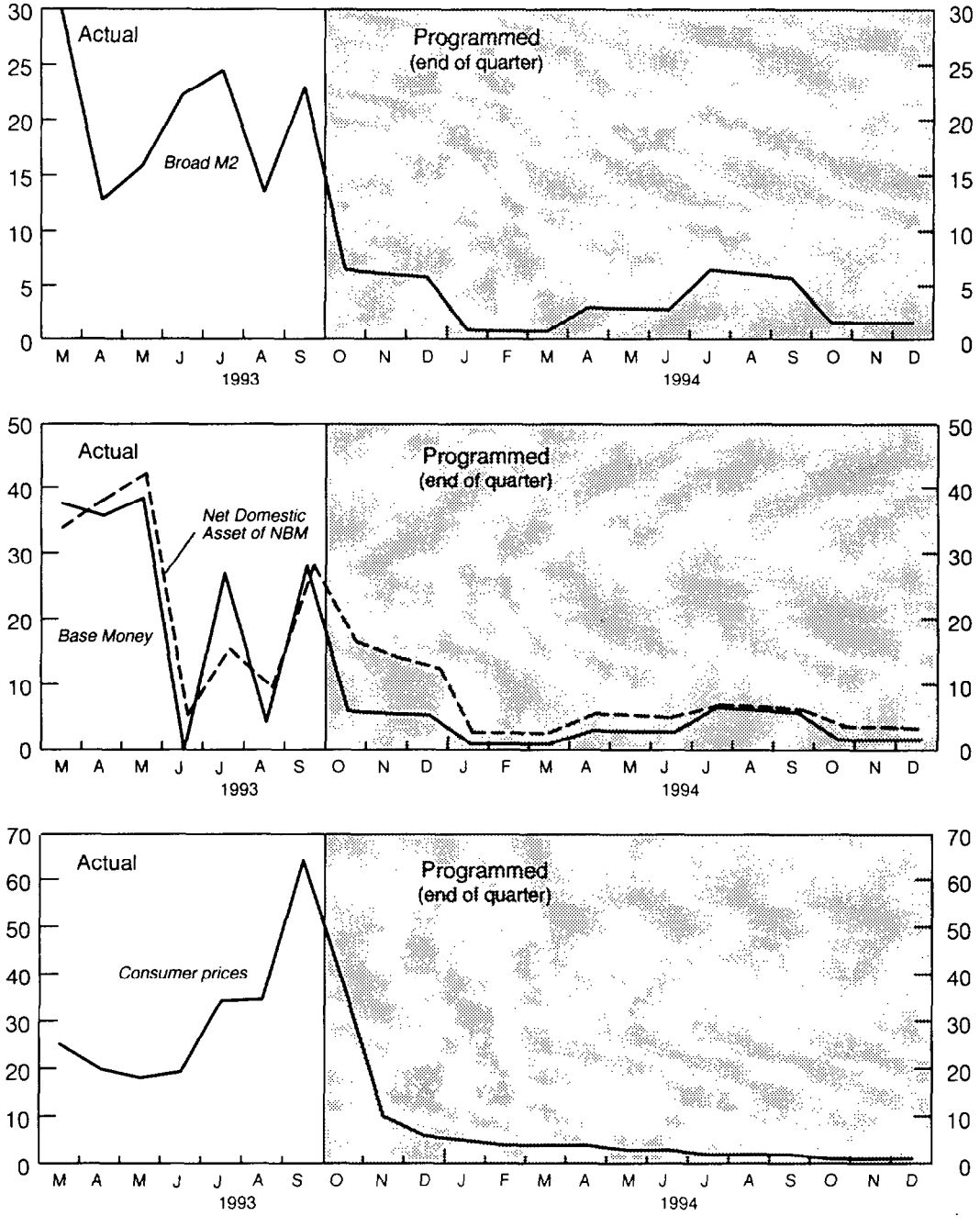
Chart 3

Moldova

Money, Credit and Inflation

March 1993 - December 1994

(Monthly % changes)



Sources: Data provided by the Moldovan authorities.

Table 5. Moldova: Balance of Payments in 1992-94
(In millions of U.S. dollars)

	Estimates		Projections							
		1993			1994					Program Period October 1993- December 1994
	1992	9 months	Q4	Year	Q1	Q2	Q3	Q4	Year	
Current account balance	-38.9	-162.7	-58.8	-221.5	-109.4	-72.8	-35.9	-40.6	-258.7	-317.5
Convertible area	-21.7	-81.9	-18.8	-100.7	-40.4	-31.5	-10.2	-13.1	-95.3	-114.1
Non-convertible area	-17.2	-80.7	-40.0	-120.7	-69.0	-41.3	-25.6	-27.5	-163.5	-203.5
Trade balance	-36.9	-189.9	-66.9	-256.8	-115.6	-79.4	-40.8	-42.7	-278.6	-345.5
Convertible area	-19.7	-91.7	-18.2	-109.9	-38.0	-28.1	-6.7	-6.7	-79.4	-97.6
Non-convertible area	-17.2	-98.2	-48.7	-146.9	-77.6	-51.3	-34.2	-36.1	-199.2	-247.9
Total exports	867.8	482.3	333.8	816.1	182.5	182.5	273.7	273.7	912.5	1,246.3
Convertible area 1/	185.0	129.3	45.0	174.3	41.3	41.3	61.9	61.9	206.5	251.5
Non-convertible area 1/	682.8	353.0	288.8	641.8	141.2	141.2	211.8	211.8	706.0	994.8
Total imports	-904.7	-672.2	-400.7	-1,072.9	-298.1	-261.9	-314.6	-316.5	-1,191.1	-1,591.8
Convertible area 1/	-204.7	-221.0	-63.2	-284.2	-79.3	-69.4	-68.6	-68.6	-285.9	-349.1
Non-convertible area 1/	-700.0	-451.2	-337.5	-788.7	-218.8	-192.5	-246.0	-247.9	-905.2	-1,242.7
Of which: energy 2/	-328.2	-230.5	-253.3	-483.8	-160.6	-145.9	-144.1	-163.4	-614.1	-867.3
Services and transfers	-2.0	27.2	8.1	35.3	6.2	6.6	5.0	2.1	19.9	28.0
Convertible area	-2.0	9.7	-0.6	9.2	-2.5	-3.4	-3.6	-6.4	-15.9	-16.5
Non-convertible area	--	17.5	8.7	26.1	8.6	10.0	8.5	8.6	35.8	44.4
Interest 3/	--	0.7	-1.4	-0.8	-1.5	-0.1	-1.5	-1.5	-4.6	-6.0
Others 4/	--	16.8	10.1	26.9	10.1	10.1	10.1	10.1	40.4	50.5
Capital account	34.1	144.2	22.5	166.7	38.9	26.8	5.0	5.0	75.7	98.2
Convertible area 5/	34.1	88.8	42.5	131.3	40.7	28.6	8.6	8.6	86.4	128.9
Non-convertible area	--	55.4	-20.0	35.4	-1.8	-1.8	-3.6	-3.6	-10.7	-30.7
Disbursements 6/	--	3.9	31.0	34.9	--	--	--	--	--	31.0
Amortization 7/	--	0.3	0.2	0.5	-1.8	-1.8	-3.6	-3.6	--	-10.6
Inter-enterprise arrears 8/	--	51.1	-51.1	--	--	--	--	--	--	-51.1
Errors and omissions	-9.1	0.1	--	0.1	--	--	--	--	--	--
Overall balance	-14.0	-18.3	-36.3	-54.6	-70.6	-46.1	-30.9	-35.6	-183.0	-219.4
Financing	14.0	18.3	21.5	39.8	6.4	12.3	12.3	12.3	43.2	64.6
Fund financing	--	50.7	38.6	89.3	10.4	14.3	14.3	14.3	53.2	91.8
Gross official reserves	-2.4	-40.4	-17.1	-57.6	-4.0	-2.0	-2.0	-2.0	-10.0	-27.1
Commercial banks	-2.3	-5.2	...	-5.2	...	...	...	...	...	...
NBM correspondent accounts	18.7	-29.6	...	-29.6	...	...	...	...	...	...
Utilization (net)	18.7	13.3	...	13.3	...	...	...	...	...	...
of which: Russia	47.3	24.0	...	24.0	...	...	...	...	...	...
Reduction in liabilities	--	--	...	--	...	...	...	...	...	...
through conversion (net)	--	-42.9	...	-42.9	...	...	...	...	...	...
of which: Russia	--	-71.3	...	-71.3	...	...	...	...	...	...
Debt conversion (net)	--	42.9	...	42.9	...	...	...	...	...	...
of which: Russia	--	71.3	...	71.3	...	...	...	...	...	...
Financing gap	--	--	14.9	14.9	64.2	33.8	18.6	23.3	139.9	154.7
Convertible area	--	--	-45.1	-45.1	-6.6	-9.3	-10.6	-7.8	-34.3	-79.5
Non-convertible area	--	9.8	60.0	60.0	70.8	43.1	29.2	31.1	174.2	234.2
Memorandum items:										
Gross official reserves 9/	2.4	42.89	60.0	60.0	64.0	66.0	68.0	70.0	70.0	70.0
(in weeks of total imports)	0.1			2.9					3.1	3.1
(in weeks of conv. imports)	0.6			11.0					12.7	12.7

Sources: Moldovan authorities; and staff estimates and projections.

1/ Foreign trade data for 1992 are staff estimates based on Moldovan customs data and major trading partners statistics. FSU trade data are staff estimates.

2/ Starting in the last quarter of 1993, includes some imports from the convertible area.

3/ Interest payments on loans from Russia, minus interest receipts on the loan extended by Moldova to Ukraine.

4/ Moldova's share from a joint venture in the production of electricity.

5/ In 1993, includes US$100 million commodity loans from the EEC, the World Bank, China, Romania, and the USA, and US$30 million projected foreign direct investment.

6/ Loan contracted with Russia in the amount of Rub 35 billion (excludes Rub 15 billion loan to the Trans-Dniester). Rub 4 billion (US$3.9 million) were disbursed in the third quarter of 1993, the remaining is assumed to be disbursed before the end of the year.

7/ Amortization payment on the technical credit from Russia transformed into a government loan (the total amount is US$88.9 million, of which the share of the authorities in Chisinau is US$71.34 million), minus amortization payments of the US$28.44 million loan extended by Moldova to Ukraine.

8/ Arrears on energy imports or Rub 14 billion in Q1, Rub 22 billion in Q2, and Rub 4 billion in Q3. Assumed to be repaid before the end of the year.

9/ Official reserves in convertible currencies.

to cover energy imports from Romania. Disbursement under this loan have also reportedly been slow, however. 1/

Reflecting the deterioration in Moldova's external position, the continued high rate of domestic inflation, and the currency conversion in Russia, the Moldovan ruble depreciated steadily against the US dollar and stood at MRub 2,500 per US$ on average in October compared to about Mrub 1,700 per US$ in August. Against the Russian ruble it fell from 1 to 1 in July to almost 1 to 3 in November. In response, the NBM began adjusting the official rate of the Moldovan ruble in an attempt to keep it in line with the market rate. However, the changes in the administratively-determined official rate have so far lagged behind the movement of the market rate (Chart 4). In order to foster the development of an interbank market for foreign exchange, a weekly auction for foreign exchange, was established. These auctions have now developed into an interbank market, the Chisinau Interbank Foreign Currency Exchange (CIFCE).

In the structural area, the privatization process was jump-started in late September 1993 with the beginning of the distribution of the patrimonial bonds to the population followed closely by a successful pilot auction on October 9 in which several small-scale units were auctioned.

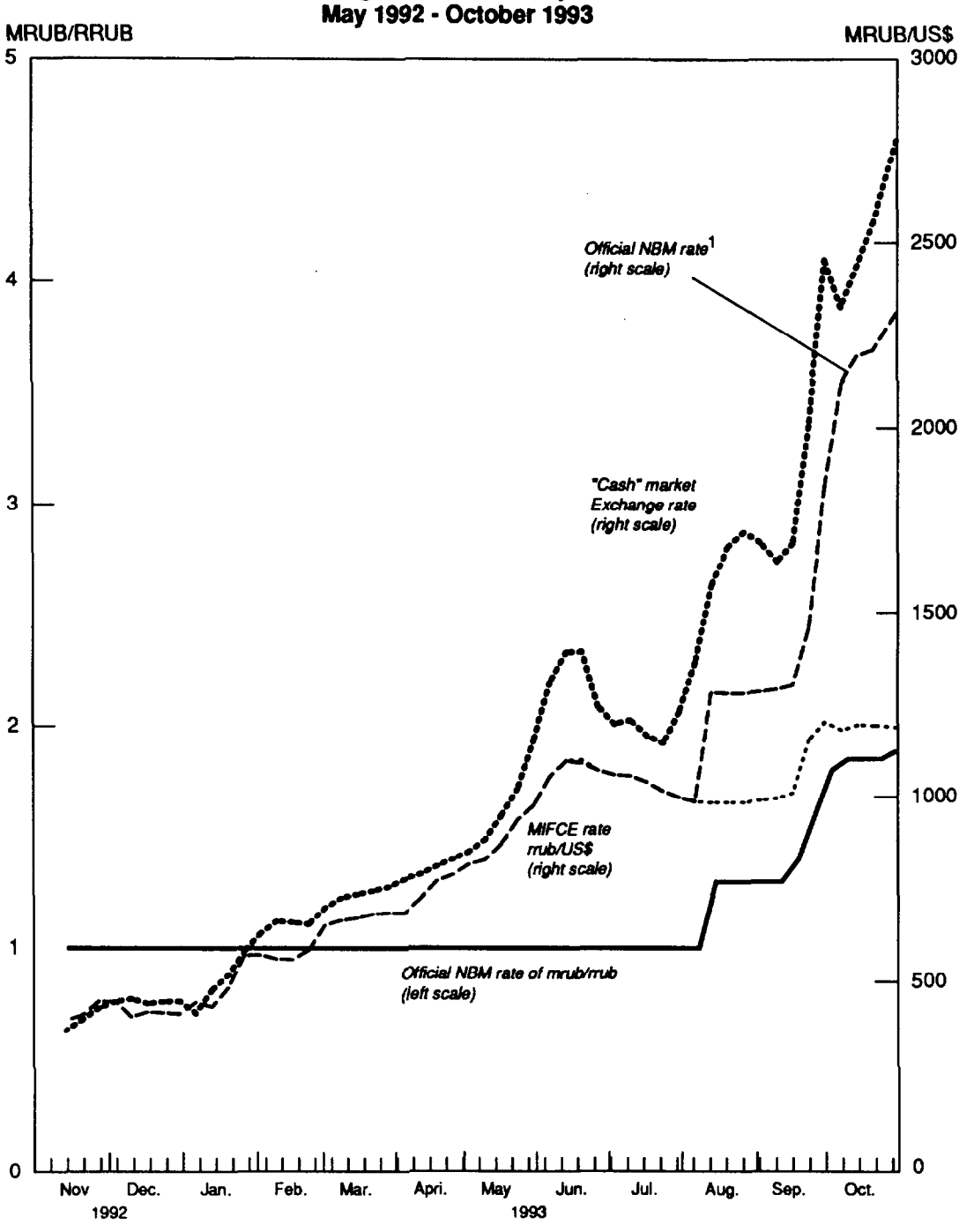
III. The Economic Program for the Remainder of 1993 and for 1994

1. Program objectives

The authorities' program of stabilization and structural reforms is presented in EBS/93/177 (November 16, 1993) and is summarized in the Policy Matrix (Appendix I of this paper). The political consensus that was forged in support of the reforms has been broadened and the leadership of the country, including the President, the Prime Minister, and the Chairman of the Parliament are committed to accelerating the reform process initiated under the STF program. The measures underpinning the 15-month program are ambitious and if vigorously implemented will bring inflation under control and set the stage for a sound economic recovery. In line with the authorities' strategy initiated under the STF program, the core of the SBA program is the de jure introduction of the national currency, the Moldovan leu, in an environment of much tighter financial policies. Thus, the program's main objectives include: (i) lowering inflation substantially; (ii) containing the decline in output to 3 percent through an acceleration of the structural reforms; and (iii) building up the level of gross international reserves.

1/ Under the terms of the loan, energy products will be delivered during the period September-December 1993. The loan is interest-free over eight years, and includes a two-year grace period.

Chart 4
Moldova
Exchange Rate Developments
May 1992 - October 1993



Sources: National Bank of Moldova.
1 This rate is the same as the MIFCE rate prior to August 9, 1993.

A key stabilization objective under the program is to reduce the rate of monthly inflation to a single-digit level by the end of 1993 and to seek further progress toward price stability in 1994. To achieve this ambitious inflation objective, the program relies on a substantial tightening in the stance of monetary policy and a strong fiscal adjustment, including the elimination of bank financing of the budget. In the structural area, the key objectives of the program are a further and much greater disengagement of the state from direct participation in economic activities; liberalization of trade and prices; elimination of open-ended consumer subsidies in the context of a well-designed social safety net program; hardening of budget constraints for public enterprises; and implementation of the privatization program. The program also seeks to improve the statistical base and strengthen the institutional capacity in the area of macroeconomic policy implementation.

2. Financial policies

a. Monetary policy

The central objectives of monetary policy in Moldova will be to ensure that the high inflation is brought under control quickly and sustainably, while continuing to promote market forces in the determination of interest rates and fostering market mechanisms in the allocation of central bank credit. To achieve these objectives the program calls for: (i) the de jure introduction of the leu; (ii) the adherence to a strict monetary and credit program consistent with the targeted reduction in inflation; (iii) an initial marked increase in the financing rate of the NBM to reinforce the tightening of the credit conditions coupled with increasing reliance on the auction mechanism for allocating central bank credits; (iv) continued adherence to the commitment not to provide preferential credits; and (v) increasing the independence of the NBM in the implementation of monetary policy.

Moldova has had a de facto national currency since the demonetization of the pre-1993 ruble by Russia in late July 1993. In consultation with their main trading partners, including the Russian Federation, the authorities have decided to formally introduce the leu on November 29, 1993. Technical preparations have been completed and it is expected that the introduction of the leu will be effected in a manner consistent with Fund advice. 1/

The SBA program envisages a substantial reduction in the rate of expansion in base money from an estimated average monthly rate of 20 percent in the third quarter of 1993 to about 6 percent during the last quarter. The program limits the growth in both base money and overall liquidity to

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1/ At the request of the authorities, a special technical assistance mission from MAE will visit Moldova immediately before the date of the introduction of the leu to review the authorities' plans.

about 40 percent for the whole of 1994. This represents a substantial tightening relative to the monetary policy supported by the STF program. However, after an initial increase, velocity is expected to decline as demand for leu begins to increase. In achieving these quantitative objectives the NBM will be guided by quarterly performance criteria for December 1993 and March 1994, and quarterly indicative targets on the expansion of its net domestic assets for the remainder of the program period. 1/ The change of total NBM net domestic assets--in terms of reserve money at the beginning of the period--is programmed to decline from 22 percent per month during the third quarter of 1993 to 17 percent per month on average during the fourth quarter, and further to 6 percent per month in 1994 (Table 6). The resulting path of the NBM's net domestic assets is consistent with the quarterly fiscal program.

In support of much tighter credit ceilings, the NBM has increased with effect from November 20, its financing rate from 170 percent to 250 percent so as to signal to the market the tightening of the monetary stance ahead of the introduction of the national currency and to induce a move toward real positive interest rates. At the same time, the NBM is committed to maintain its policy not to provide interest rate subsidies and to increase its reliance on the auction mechanism for extending credit resources into the banking system, subject to prudential consideration. In particular, starting on January 1, 1994, at least 80 percent of credit extended to commercial banks will be channelled through the auction mechanism, and as the auction mechanism becomes the main instrument for allocating credit, the NBM's finance rate will be based on the auction rate.

To ensure support for, and adherence to, the above monetary program, the authorities have sought Parliamentary approval. 2/ Implementation is to be closely monitored by the Administrative Council--the highest decision-making body within the NBM--which includes members of the Government. This should ensure a broader line of defense against excessive credit demands and should strengthen the NBM's hand in holding the line on preferential credits. In addition, the authorities intend to review the present banking laws and to propose amendments as necessary to provide for more independence to the NBM in the implementation of monetary policy.

b. Fiscal policy

The fiscal adjustment which was initiated under the STF program with the reduction in the overall fiscal deficit to 6 percent of GDP will be reinforced with a number of revenue and expenditure measures aimed at limiting the overall budget deficit in 1994 to below 3.5 percent of GDP. In

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1/ See Table 6 below and Appendix III of EBS/93/177.

2/ Because the Parliament might be in recess or in the process of preparing for the February 27 elections, the monetary program will be approved either by the presidium of Parliament or through a Presidential Decree as was done under the STF program.

Table 6. Moldova: Monetary Projections, 1993-94

(End of period stocks; in billions of rubles, unless otherwise specified)

	1992	1993					1994			
	Dec.	March	June	Sept 1/		Dec.	March	June	Sept.	Dec.
				Prel. act.	STF	Program	Program			
					National Bank of Moldova (NBM)					
Net international reserves	-7.94	-17.00	-27.12	-36.35	-63.90	-107.56	-126.65	-163.49	-200.33	-237.17
NIR (convertible)	1.01	2.79	-9.46	-23.52	-46.23	-89.90	-108.99	-145.83	-182.67	-219.51
Gross reserves	1.01	15.70	11.75	128.98	108.00	180.00	192.00	198.00	204.00	210.00
Foreign liabilities	--	-12.91	-21.21	-152.51	-154.23	-269.90	-300.99	-343.83	-386.67	-429.51
NIR (Non-convertible)	-8.95	-19.80	-17.66	-12.83	-17.67	-17.66	-17.66	-17.66	-17.66	-17.66
With Russia	-14.62	-28.09	-31.57	-26.79	-31.57	-26.79	-26.79	-26.79	-26.79	-26.79
Corres. accounts	-17.73	-36.20	-39.68	-34.90	-39.68	-34.90	-34.90	-34.90	-34.90	-34.90
Less: new ruble liab.	3.11	8.11	8.11	8.11	8.11	8.11	8.11	8.11	8.11	8.11
Other FSU states	5.67	8.30	13.90	13.96	13.90	13.96	13.96	13.96	13.96	13.96
Net Domestic Assets	57.11	69.35	125.41	202.84	227.62	303.02	327.18	382.07	461.31	510.94
Net claims on general government	51.64	61.24	78.45	114.84	105.94	124.41	134.41	139.41	134.41	124.41
Credit to banks	3.37	17.17	30.39	77.72	75.83	162.04	176.20	226.09	310.33	369.96
Other items (net)	2.10	-9.06	16.57	10.28	45.85	16.57	16.57	16.57	16.57	16.57
Reserve money	49.17	52.34	98.28	166.51	163.72	195.46	200.53	218.58	260.98	273.77
Currency in circulation	10.83	23.61	40.23	83.09	65.47	99.35	101.93	111.10	132.66	139.16
Coupons	6.41	15.62	31.38	80.09	56.62	96.35	98.93	108.10	129.66	136.16
Rubles	4.42	7.99	8.85	3.00	8.85	3.00	3.00	3.00	3.00	3.00
Required reserves	9.43	10.86	17.79	25.28	33.76	32.44	33.28	36.27	43.31	45.43
Excess reserves	28.82	17.68	39.74	56.99	63.96	63.14	64.80	70.67	84.49	88.65
Enterprise deposits	0.09	0.19	0.53	1.15	0.53	0.53	0.53	0.53	0.53	0.53
					Banking System					
Net foreign assets	-6.91	-13.57	-17.96	-7.12	-38.89	-78.32	-97.41	-134.25	-171.09	-207.93
Net international reserves	-7.94	-17.00	-27.12	-36.35	-63.90	-107.56	-126.65	-163.49	-200.33	-237.17
DMBs net foreign assets	0.99	3.18	8.79	28.74	23.97	28.74	28.74	28.74	28.74	28.74
Sperbank net foreign assets	0.03	0.25	0.38	0.49	1.04	0.49	0.49	0.49	0.49	0.49
Net domestic assets	90.26	110.78	173.16	276.79	333.57	400.84	428.17	494.78	601.56	659.46
Net claims on general government	54.79	65.44	78.48	107.06	105.96	124.44	134.41	139.41	134.41	124.41
Credit to economy	44.85	82.27	128.61	235.49	244.18	306.43	323.76	385.37	497.15	565.08
Other items (net)	-9.37	-36.94	-33.92	-65.76	-16.57	-30.00	-30.00	-30.00	-30.00	-30.00
Broad money	83.08	97.20	155.20	269.68	294.68	322.51	330.75	360.52	430.46	451.56
Currency in circulation	9.44	19.91	36.68	83.09	69.64	99.35	101.89	111.06	132.61	139.10
Coupons	5.93	13.09	28.78	80.09	61.74	96.35	98.89	108.06	129.61	136.10
Rubles	3.52	6.82	7.90	3.00	7.90	3.00	3.00	3.00	3.00	3.00
Demand and time deposits	73.64	77.29	118.52	186.59	225.04	223.16	228.86	249.46	297.86	312.45
(Changes in relation to reserve money at the beginning of the period; In percent)										
NBM net domestic assets	131	25	107	79	104	60	12	27	36	19
Net domestic credit	158	48	58	85	74	56	12	27	36	19
NBM credit to gen. govt	212	20	33	37	28	6	5	2	-2	-4
NBM credit to banks	-25	28	25	48	46	51	7	25	39	23
(Changes in relation to broad money at the beginning of the period; In percent)										
Banking system NDA	98	25	64	67	103	46	8	20	30	13
Net credit to gen. govt	115	6	13	18	18	6	3	2	-1	-2
Credit to economy	-26	47	48	69	74	26	5	19	31	16
Memorandum items:										
Accounting exchange rate	415	684	1,100	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Money multiplier	1.69	1.86	1.58	1.62	1.8	1.65	1.65	1.65	1.65	1.65
Nominal GDP	119	81	453	944	648	1,844	735	882	2,430	2,598
Velocity 2/	4.9	6.3	7.0	9.7	8.1	16.5	17.8	18.0	16.0	15.6

Sources: National Bank of Moldova, and staff projections

1/ September data (preliminary actual and STF) are valued at constant exchange rate of Mrub 3000/$1.

2/ Defined as seasonally adjusted quarterly nominal GDP over end of period stock of broad money.

addition, to facilitate the pursuit of a much tighter monetary stance during the program period while providing adequate credit to the rest of the economy, there will not be any financing of the budget from the banking system. Given that the bulk of the fiscal adjustment in 1993 was borne by expenditure cuts, the SBA program for 1994 relies on revenue-enhancing measures to achieve the fiscal target. The strategy is to begin to reverse the sharp deterioration in the tax-to-GDP ratio while allowing for a modest improvement in real expenditure, particularly in the social areas. Specifically, the programmed fiscal adjustment, equivalent to 2.5 percentage of GDP, will be brought about by a 3.5 percent of GDP improvement in the Government revenues which is partially offset by a 1 percentage of GDP increase in real expenditure following a major decline in 1993. 1/ Given the absence of bank financing of the budget, the strategy also focuses on measures aimed at fostering the development of a market for government securities and the strengthening of the monitoring of collection of the counterpart funds to foreign commodity loans.

On the revenue side, the main reasons behind the fall in the revenue relative to GDP include the inelasticity in the tax system, weak tax administration, and the narrowness of the tax base, including the virtual exclusion of the agricultural sector from taxation, and the proliferation of tax holidays and exemptions. 2/ Thus, the SBA program focuses on improving the elasticity of the tax system, widening the tax base, reducing tax exemptions, and improving tax administration. The envisaged strengthening in revenue performance, while ambitious, will be helped by the introduction of new taxes and a number of measures which have already been implemented in 1993 and which will have a full-year effect in 1994. The latter include the road tax, the extension of the VAT to non-CIS imports and the introduction of a new customs tariff on non-CIS imports. 3/ New revenue measures envisaged under the SBA program include: (i) a strengthening of excises, including the extension of excise taxes to cover additional commodities, an increase in the excise rate on cigarettes, the extension of excise taxes at domestic rates to non-CIS imports; (ii) increasing the contribution of the agricultural sector through an upward revision in the rates applicable to land taxes for 1994; (iii) imposing a 5 percentage point surcharge on VAT rates applicable to exports to FSU countries with a VAT rate higher than 20 percent; and

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1/ Because GDP data in Moldova does not conform to the SNA, GDP percentages should be interpreted with caution and are meant here only to illustrate the magnitude of the adjustment.

2/ A deficient payments system and serious problems with interenterprise arrears also contributed to the observed sharp decline in the tax ratio.

3/ Despite the fact that the latter measure is accompanied by the elimination of export taxes and a dramatic cut in import tariff rates, it is expected to contribute significantly to the improvement in revenue performance in 1994. This is because until recently the exchange rate used for valuation of imports was maintained at Mrub 1.8 per US dollar.

(iv) broadening the tax base through the introduction of a number of new taxes including a tax on the physical assets of enterprises, a major expansion of the present real estate tax, and a tax on natural resources. As a contingency measure, the Government is committed to consider a new excise tax on petroleum products. The SBA program also continues the moratorium on tax exemptions begun with the STF program and it envisages a review of the present tax exemptions with a view to phasing them out by end-1993. Tax administration is to be strengthened and, in particular, substantial penalties for late payments are envisaged.

While seeking to achieve a major savings on subsidies by phasing out consumer subsidies on bread and milk and replacing them with a targeted cash compensation, the fiscal program allows for an increase in government expenditures on the social sectors, including education and health care. The program also provides for a sharp increase in capital maintenance and for higher debt servicing. To achieve the expected savings in subsidies, administered prices of bread and milk will be adjusted so as to ensure that the per unit subsidy is reduced to below 40 percent during the remainder of 1993, 25 percent during the first quarter of 1994, and 15 percent during the second quarter of 1994. Prices of bread and milk products are expected to be fully liberalized by July 1, 1994. In parallel, the cash compensation will be increased so as to preserve the ability of the members of targeted groups to satisfy their real need for bread and milk despite the price increases. Expenditures are expected to be monitored closely during the program period in light of revenue performance so as to avoid the emergence of domestic government arrears. Progress on establishing the Treasury will be the key to strengthening the expenditure control mechanism and enhancing the authorities' ability to respond in a timely fashion to adverse developments in the fiscal area, including a shortfall in revenues or foreign financing.

Because the SBA program does not envisage financing from the banking system--except for some seasonal financing--substantial efforts will need to be made to promote nonbank financing and to monitor closely the flow of foreign resources. The Government intends to accelerate its efforts to develop nonbank financing instruments and will endeavor to make these new instruments attractive, including through realistic interest rates. As regards foreign borrowing, the program envisages the establishment of an effective system of collecting counterpart funds.

3. External policies

a. Exchange rate policies

As noted earlier, the official rate of the Moldovan coupon has been more appreciated than the market exchange rate, despite frequent adjustments made by the NBM. With the view to moving to a market-determined official exchange rate and as a means of unifying the exchange rate, the NBM decided to allow, starting end-November 1993, the official exchange rate to be determined by the fixing of the auction within the context of the newly

established CIFCE. This free float will be maintained with the introduction of the new currency.

A number of measures are also being taken to promote the smooth functioning of the foreign exchange market and to foster a deepening of the CIFCE. These include: (i) allowing commercial banks to hold open foreign currency positions for up to 30 percent of their capital; (ii) replacing the requirement to sell 35 percent of exports proceeds to the NBM by a requirement to sell directly to the foreign exchange market; (iii) abolishing the requirement to pay taxes on international trade in foreign currency; and (iv) adopting a framework law on foreign exchange consistent with current account convertibility. The program also envisages that the surrender requirement will be eliminated by end-1994 and replaced by a repatriation requirement.

b. Trade policies

Major improvements were made to Moldova's cumbersome and highly restrictive trade regime in 1993, including within the context of the STF program. The Government has reduced the number of export categories subject to quotas and licenses by over half, eliminated the quotas on all exports against hard currency or as barter for energy imports, and streamlined the administrative procedures for providing licenses. The SBA builds on these measures and envisages a further substantial liberalization of trade in 1994. Specifically, existing export taxes and import duties in Moldova that were inherited from the old Soviet system were abolished in early November 1993, and in the case of imports have been replaced by an import tariff on non-CIS countries at an average rate of about 15 percent with little dispersion in the rate. 1/ Remaining quantitative restrictions on exports are also being phased out within the program period: starting from January 1, 1994, the present system of quotas on exports other than for hard currency will be limited to only six items (meat, tobacco, leather, grains, sugar, and vegetable oils). The authorities intend to abolish them by mid-1994. Export licenses will also be eliminated except for goods with administered prices for which license requirements will be phased out in the context of price liberalization. Finally, barter trade will be strongly discouraged including through the elimination of barter trade with the convertible area.

c. External debt

While the signing of the "zero debt option" with the Russian Federation in mid-October is an important step in the right direction, Moldova will need to strengthen its institutional capacity to closely monitor the level of external indebtedness in the period ahead. 2/ Progress was made in

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1/ The new tariff schedule which has been adopted in early November 1993 has a maximum rate of 70 percent and seven rate brackets.

2/ Moldova's share of the total FSU debt is 1.29 percent.

1993 to improve the monitoring of external debt: a procedure for registering external borrowing was introduced; a high level External Borrowing Council is being established; and, with technical assistance from the World Bank, a system of monitoring external debt is being implemented. The program's performance criteria on external debt are specified in Appendix IV of EBS/93/177.

4. Incomes policy

The authorities have been following a restrained wage policy as they are aware that the country's real income has been adversely affected by the continuing decline in the terms-of-trade, output, and productivity. Adjustments in wages have been timed with major adjustments in administered prices and have consistently lagged behind inflation. However, the very sharp acceleration in inflation in the third quarter of 1993, and the associated marked deterioration in real wages is unsustainable. Accordingly, the program envisages an initial increase in the minimum wage from Mrub 7,500 to Mrub 10,000 effective November 1, 1993, followed by further adjustments in 1994 taking into account inflation developments and budgetary constraints. The minimum wage is envisaged to average about Mrub 15,000 in 1994 with economy-wide average real wages further declining to about 70 percent of their level in 1992. Wage awards in public enterprises will continue to be monitored closely and excessive wage growth will be discouraged through the existing tax-based wage control mechanism. 1/

5. Social safety net

While the reform program, if sustained, will have substantial positive long-term implications for the entire population, there is a concern that in the short term the most vulnerable groups of the population will be adversely affected by the needed price liberalization and enterprise restructuring. Accordingly, special measures to protect the most vulnerable segments of the population have been incorporated as an integral part of the SBA program. 2/ Specifically, the present costly social protection arrangements will be reformed to ensure: (i) realistic objectives for the targeted groups; (ii) effective coverage of the most vulnerable groups in the population; (iii) market orientation; (iv) administrative simplicity;

1/ This mechanism, which was put in place in early 1992, limits the tax-deductible component of wage costs used to calculate public enterprises' profit tax liability to four times the minimum wage.

2/ In early summer, the Government obtained technical assistance on the design and implementation of a social safety net and on sectorial policies in the social area from the Fund, the World Bank and the UNDP. The Fund's work concentrated on the macroeconomic aspects including the budgetary implications of the reform. The World Bank focused on incentives and administrative aspects of the social safety net as well as broader social sector issues.

and (v) confining costs within available budgetary resources. As noted earlier, with the sharp increase in the prices of key consumer commodities in early September 1993, the Government increased its direct cash compensation to targeted groups, including pensioners, unemployed, children and students. This move is expected to facilitate the envisaged acceleration in price liberalization, protect the most vulnerable groups, and safeguard the budgetary position.

As regards broader aspects of the social protection system, the Social Security System will be reformed to ensure its long-term viability. Specifically, the payroll tax rate will be unified in 1994 at a level that would ensure self-financing of the Pension Fund in a sustainable fashion. Benefits, including pension benefits, family allowances, and unemployment benefits will be reviewed in line with the recommendations of the staffs of the Fund and the World Bank in this area. In addition, the Government intends to strengthen the role of the Social Assistance Fund, which it believes can potentially play a key role during the transition period in protecting those who might fall through the existing social safety net.

6. Other systemic reforms

The structural reforms which were accelerated in the context of the STF and a World Bank rehabilitation programs were aimed at fostering the supply response that is required to arrest economic contraction and put the Moldovan economy on a path of sustainable growth. While the SBA program reinforces the initiatives taken in pursuit of this goal, especially in the areas of price liberalization, privatization and enterprise reform, it seeks a further and much greater disengagement of the state from direct intervention in economic activities. Trade liberalization will be essential to expose domestic producers to competition and to rationalize relative prices. It will need to be supported, however, by the elimination of price controls, an acceleration of privatization, a hardening of the budget constraints facing enterprises, and a move away from state orders. The program also attaches considerable importance to the financial reforms and the continuing structural fiscal reforms. The structural measures included in the SBA program are consistent with the Policy Statement supporting Moldova's request for the first purchase under the STF (EBS/93/149) and the structural reforms envisaged under the World Bank Rehabilitation Loan.

a. Price liberalization

The acceleration of price liberalization was viewed under the STF program as an essential element where early action was needed in support of the ongoing trade liberalization and fiscal adjustment, and to ensure that significant progress was achieved on this front ahead of the scheduled introduction of the leu. The SBA program is designed to consolidate the progress made by the authorities, and to promote continued price liberalization. In this regard, additional increases in the prices of key staples are planned in the context of a well-targeted social safety net, margin controls on all commercial enterprises--with the exception of natural

monopolies--will be eliminated, and any increases in the cost of imported energy will be fully passed through to consumers. This will be essential to safeguard the budgetary position and to rationalize the consumption of scarce energy resources.

b. Privatization

A key element of the authorities' program is the implementation of the Government's Privatization Program which was adopted in March 1993. The privatization program envisages the privatization of about 35 percent of state assets by end-1994. An ambitious timetable for the implementation of the first phase of the privatization program has been agreed to with the World Bank and includes the distribution of the patrimonial bonds to the population, the introduction of legislation for the establishment of the investment funds, and the holding of auctions. As noted earlier, the distribution of patrimonial bonds began in mid-September, and a pilot auction using vouchers was held successfully on October 9, 1993. Under the SBA program the sale of small-scale units will be largely completed by July 1, 1994, and the first auction for medium- and large-sized enterprises be held before the end of the 1993. These auctions would be followed by a marked acceleration of the privatization process so as to meet the target of selling all 1,600 units by the end of 1994 as envisaged in the Government's Privatization Program. As envisaged under the STF program the privatization of land, farm enterprises and state-owned dwellings will continue.

c. Restructuring of public enterprises

The program also puts emphasis on the hardening of the budgetary constraints on public enterprises. A system to monitor interenterprise arrears is being developed as envisaged under the STF program, and as noted earlier, the NBM will not provide credits at preferential rates. In addition, the Government will resist requests for any further indexation of working capital and will refrain from bailing out public enterprises. To ensure financial discipline, steps will also be taken to implement the bankruptcy law.

d. Financial sector reform

The program recognizes that a significant strengthening of the financial system is needed to avoid a banking problem that might compromise the momentum of the reform. Measures to restructure the banking system will be developed before the end of 1993 with the aim to improving bank supervision, modernizing accounting standards, and strengthening the capital adequacy requirement on all banks. A law on collateral has recently been adopted and an action plan to address the special problem of the savings bank will be developed. The financial implications of the restructuring of the commercial banks will be closely coordinated with the staff of the Fund in the context of the first review of the program in order to safeguard the macroeconomic setting of the program.

e. Tax reform

Tax reform which began in late 1992 will be completed in 1994. In addition to the introduction of taxes on real assets of enterprises, on real estate, and on natural resources mentioned above, the Government intends to revise a number of tax laws including those related to: (i) the value-added tax; (ii) the bank profit tax; (iii) the profit tax on insurance; (iv) the tax on securities operations; and (v) the state and local levies. The Government has already received technical assistance in this area from the Fund and will ensure that the staff's recommendations are implemented.

IV. Medium-Term Prospects and Capacity to Repay

The staff has updated the forecast of the balance of payments and the tentative medium-term scenario which was discussed in the Board at the time of Moldova's request for the first purchase under the STF. 1/ While the update did not result in a substantive change in the medium-term outlook, it is important to note that energy import volumes are now expected to be significantly lower than anticipated under the STF program while prices are projected to be much higher. 2/

1. Balance of payments prospects and financing requirements

Moldova has suffered a serious deterioration in its terms of trade as a result of the sharp increase in energy import prices since 1991. Despite significant adjustment in the volume of energy imports, the immediate external outlook is very difficult with the current account widening to 11 percent of GDP in 1993 and increasing further to 12 percent in 1994 (Table 5). 3/ Given these prospective current account deficits, a sizeable initial build-up in reserves, and identified foreign financing of US$237 million including from the Fund under the CCFF, the World Bank under an emergency loan, the EEC, Russia, Romania, and the USA, a residual

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1/ While some improvements have been made in Moldova's balance of payments statistics, in part as a result of technical assistance from the Fund, the statistical base in this area has remained too weak to permit an accurate analysis of the external developments, particularly with the FSU countries, Moldova's main trading partners. The staff projections, therefore, remain subject to considerable uncertainties, and this updated scenario should be considered only as illustrative of the likely external developments.

2/ As against a projected decline in the volume of energy import of 14 percent in 1993 and 10 percent in 1994 under the STF, the SBA program is based on a sharper contraction of volume: 18 percent in 1993 and 16 percent in 1994.

3/ In 1993, the terms-of-trade shock was exacerbated by the effects of the 1992 drought which substantially increased cereal imports and reduced Moldova's exports to the FSU.

financing gap of US$340 million for the remainder of 1993 and for 1994 is projected. Taking further into account US$60 million in disbursements under the World Bank Rehabilitation Loan, US$65 million under the STF, and another US$60 million from the first five purchases under the SBA, the residual financing gap for the remainder of 1993 and for 1994 is US$155 million. As noted earlier a follow-up session has been set for December 9, 1993, to allow firm commitments to be made so as to ensure that the program is fully financed.

2. Medium-term outlook

The medium-term balance of payments scenario described in Table 7 has not changed in substance compared to the scenario presented at the time of the request for a first purchase under the STF. 1/ While the external position is expected to remain difficult with continued large financing gaps, some progress will be made toward external viability as economic reforms take hold. Large and continuing financing requirements are projected and are expected to contribute to a sharp build up in external debt. Debt-service payments will peak in the year 1998 at about 14 percent of total exports before falling to about 10 percent of exports in the outer years.

3. Capacity to repay

The medium-term scenario discussed above shows that Moldova will continue to require exceptional financing well into the second half of the decade and will likely involve additional use of Fund resources. Assuming that the second purchase under the STF, and all purchases under the SBA are made, Moldova's repurchase obligations to the Fund would rise to 123 percent of quota by 1995. 2/ As a percent of total external debt, outstanding purchases from the Fund will fall from 27 percent in 1993 to less than 2 percent in the year 2002. At the same time, Moldova's obligations to the Fund will remain relatively low in relation to Moldova's GDP (less than 3 percent), total exports (below 4 percent), and gross official reserves (below 27 percent) throughout the period (Tables 8 and 9). Notwithstanding these relatively low ratios, Moldova's continued reliance on exceptional financing over the next few years implies further use of Fund resources, and a likely worsening in the indicators of capacity to repay the Fund (Table 8). Therefore, the authorities are strongly urged to adhere to the reserve target of the program and to closely monitor Moldova's external indebtedness so as to safeguard its capacity to repay the Fund. It should be recognized, however, that there are risks and uncertainties surrounding the medium-term prospects of the Moldovan economy and that Moldova's capacity to repay will hinge on the authorities' perseverance with the adjustment process initiated under the present program.

1/ For more details please refer to EBS/93/149.
2/ The phasing of purchases under the SBA are provided in Table 10.

Table 7. Moldova: Illustrative Medium-Term Scenario, 1992-2002
(In millions of U.S. Dollars)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Current account balance	-38.9	-221.5	-258.7	-193.5	-181.3	-144.1	-95.7	-69.9	-55.0	-40.9	-23.3
Trade balance	-36.9	-256.8	-278.6	-196.6	-169.3	-115.4	-52.5	-13.5	13.5	37.9	63.3
Exports	867.8	816.1	912.5	993.6	1,092.0	1,225.8	1,381.0	1,539.1	1,702.3	1,869.7	2,050.2
Imports	-904.7	-1,072.9	-1,191.1	-1,190.2	-1,261.3	-1,341.1	-1,433.5	-1,552.6	-1,688.8	-1,831.8	-1,986.9
of which: energy	-328.2	-483.8	-614.1	-569.2	-586.3	-603.9	-628.2	-673.0	-727.8	-787.1	-851.3
Services and Transfers	2.0	35.3	19.9	3.2	-12.0	-28.7	-43.2	-56.4	-68.5	-78.9	-86.6
of which: Interest 1/	--	-5.4	-18.3	-28.1	-38.5	-48.5	-54.7	-57.7	-57.5	-54.0	-47.3
Capital account	34.1	166.7	75.7	76.7	131.7	118.3	116.0	113.6	95.4	83.0	64.9
Medium-and-long term loans	16.6	136.7	39.7	16.7	51.7	22.3	0.8	-24.6	-56.7	-76.7	-102.7
Disbursment	16.6	136.2	52.1	77.3	80.4	84.4	88.6	93.1	88.4	79.6	55.7
Amortization 2/	--	0.5	-12.4	-60.6	-28.7	-62.1	-87.9	-117.7	-145.1	-156.3	-158.4
Foreign Direct Investment	17.4	30.0	36.0	60.0	80.0	96.0	115.2	138.2	152.1	159.7	167.7
Overall balance 3/	-14.0	-54.6	-183.0	-116.7	-49.6	-25.8	20.2	43.7	40.3	42.0	41.7
Financing	14.0	39.8	43.2	-18.7	-40.2	-55.1	-81.3	-68.3	-45.6	-43.7	-43.7
Fund financing 4/	--	89.3	53.2	14.3	-7.2	-22.1	-48.3	-35.3	-12.6	-10.7	-10.7
Reserves 5/	-4.7	-62.8	-10.0	-33.0	-33.0	-33.0	-33.0	-33.0	-33.0	-33.0	-33.0
Correspondent accounts 6/	18.7	13.3	--	--	--	--	--	--	--	--	--
Financing gap	--	-14.9	-139.9	-135.5	-89.8	-80.9	-61.0	-24.6	-5.2	-1.7	-2.0
Memorandum items											
Current account (as percent of GDP)	-1.7	-11.1	-12.2	-8.9	-8.0	-6.1	-3.8	-2.7	-2.0	-1.4	-0.8
Percentage change in:											
Real GDP	...	-15.0	-3.0	3.0	4.0	5.0	5.0	5.0	5.0	5.0	5.0
Export volumes											
FSU countries	...	-6.0	10.0	3.0	4.0	5.0	5.0	5.0	5.0	5.0	5.0
Non-FSU countries	...	-9.0	15.0	15.0	15.0	20.0	20.0	15.0	12.0	10.0	9.0
Import volumes											
Energy	...	-18.0	-16.0	-10.0	--	--	1.0	4.0	5.0	5.0	5.0
Non-energy	...	2.0	-2.0	5.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Terms of FSU trade	...	-27.0	-24.0	--	--	--	--	--	--	--	--
Gross official reserves	2.4	60.0	70.0	103.0	136.0	169.0	202.0	235.0	268.0	301.0	334.0
in months of total imports	--	0.7	0.7	1.0	1.3	1.5	1.7	1.8	1.9	2.0	2.0
in months of convertible area imports	0.1	2.5	2.9	3.9	4.7	5.3	5.7	6.0	6.2	6.4	6.5
External debt (in percent of GDP)	0.8	16.7	26.4	33.0	37.3	38.9	37.6	34.5	30.5	26.1	21.2
Debt service/total exports (percent)	--	0.7	4.3	9.8	7.5	10.8	13.8	13.7	12.6	11.8	10.6

Sources: Moldovan authorities and staff estimates

1/ Includes interest on financing gap.

2/ Includes amortization of financing gap.

3/ In 1992 and in 1993 includes errors and omissions.

4/ In 1993 includes 15 percent of quota under the CCFF, 50 percent of quota under the STF, and five percent drawing under the SBA. In 1994 includes 42 percent of quota under the SBA.

5/ In 1992 and 1993 includes increase in commercial banks' net foreign assets.

6/ Includes change in liabilities due to debt conversion.

Table 8. Moldova: Indicators of Capacity to Repay the Fund, 1993-2002

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
					(In million of SDRs)					
Outstanding use of Fund credit	63.0	100.3	110.3	105.2	89.7	55.9	31.2	22.4	14.9	7.4
IMF obligations	0.7	3.8	5.5	10.6	20.6	37.7	27.0	10.2	8.5	8.2
Repurchases	---	---	---	5.1	15.5	33.8	24.7	8.8	7.5	7.5
Charges	0.7	3.8	5.5	5.5	5.1	3.9	2.3	1.4	1.0	0.7
					(In percent)					
Outstanding use of Fund credit as a ratio of:										
GDP	4.5	6.8	7.2	6.6	5.4	3.2	1.7	1.2	0.7	0.3
Merchandise Exports	11.0	15.7	15.8	13.8	10.4	5.8	2.9	1.9	1.1	0.5
of which: to the convertible area	51.6	69.3	64.4	51.9	35.8	18.0	8.5	5.3	3.1	1.4
External debt	27.0	25.6	21.9	17.8	13.8	8.5	4.9	3.8	2.8	1.6
Gross official Reserves	150.0	204.5	152.9	110.5	75.8	39.5	19.0	11.9	7.1	3.2
Debt-service obligations to IMF as a ratio of:										
GDP	0.1	0.3	0.4	0.7	1.2	2.2	1.5	0.5	0.4	0.4
Merchandise Exports	0.1	0.6	0.8	1.4	2.4	3.9	2.5	0.9	0.6	0.6
of which: to the convertible area	0.6	2.7	3.2	5.2	8.2	12.2	7.4	2.4	1.8	1.5
External debt service	17.3	14.0	8.1	18.3	22.2	28.2	18.3	6.8	5.5	5.4
Gross official Reserves	1.7	7.9	7.6	11.1	17.4	26.7	16.4	5.4	4.0	3.5

Source: Moldovan authorities and staff estimates

Table 9. Moldova: Projected Payments to the Fund as at September 30, 1993

(In millions of SDRs)

	Overdue	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Beyond	Total
Obligations from existing drawings													
1. Principal													
a. Repurchases	--	--	--	--	5.1	6.8	5.4	3.8	3.8	3.8	3.8	3.8	36.0
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	0.3	1.9	1.9	1.7	1.4	1.1	0.9	0.7	0.5	0.3	0.1	10.8
Total obligations 2/	--	0.3	1.9	1.9	6.8	8.2	6.5	4.6	4.4	4.2	4.1	3.9	46.8
(percent of quota)	--	0.3	2.1	2.0	7.5	9.0	7.2	5.1	4.9	4.7	4.5	4.2	52.0
Obligations from prospective drawings													
1. Principal													
a. Repurchases	--	--	--	--	--	8.7	28.4	20.9	5.0	3.8	3.8	3.8	74.3
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	--	1.9	3.7	3.7	3.6	2.8	1.5	0.8	0.5	0.4	0.2	19.1
Total obligations	--	--	1.9	3.7	3.7	12.4	31.2	22.4	5.8	4.3	4.1	3.9	93.4
(percent of quota)	--	--	2.1	4.0	4.1	13.7	34.6	24.8	6.3	4.7	4.5	4.3	103.7
Cumulative (existing and prospective)													
1. Principal													
a. Repurchases	--	--	--	--	5.1	15.5	33.8	24.7	8.8	7.5	7.5	7.5	110.3
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	0.3	3.9	5.5	5.5	5.1	3.9	2.3	1.4	1.0	0.7	0.3	29.9
Total obligations 2/	--	0.3	3.9	5.5	10.5	20.5	37.7	27.0	10.2	8.5	8.2	7.8	140.2
(percent of quota)	--	0.3	4.2	6.1	11.7	22.8	41.9	29.9	11.3	9.4	9.0	8.6	155.7

1/ Projections are based on current rates of charge, including burden-sharing charges where applicable, for purchases in the GRA, and on current interest rates for AF, ESAF and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.

2/ Overdue obligations (if applicable) will be settled in full at close of business October 1, 1993.

Table 10. Moldova: Schedule of Purchases Under the Systemic Transformation Facility and the Stand-By Arrangement

Amount of Purchase (in millions of SDRs)		Scheduled Availability Date	Conditions Necessary for Purchase 1/
STF 2/	SBA		
22.5	4.5	On Board approval	Board approval of the stand-by arrangement
	7.25	On or after February 15, 1994	Compliance with quantitative performance criteria as of December 31, 1993
	10.0	On or after May 15, 1994	Compliance with quantitative performance criteria as of March 31, 1994 and completion of first program review
	10.0	On or after July 15, 1994	Compliance with quantitative performance criteria as of June 30, 1994
	10.0	On or after November 15, 1994	Compliance with quantitative performance criteria as of September 30, 1994 and completion of second program review
	10.0	On or after February 15, 1995	Compliance with quantitative performance criteria as of December 31, 1994

Sources: STF and Memorandum on Economic and Financial Policies (EBS/93/177).

1/ In addition to standard conditions, including performance criteria on the exchange and trade system.

2/ A first drawing under the STF (SDR 22.5 million) was made on September 16, 1993.

V. Program Monitoring, Performance Criteria and Reviews

The prior actions, performance criteria, indicative targets, and structural benchmarks under the proposed arrangement are specified in the Memorandum of Economic and Financial Policies (EBS/93/177) and are shown in Tables 11 and 12. There will be two reviews to be completed before May 15, and November 15, 1994, respectively. The first review will set the performance criteria for end-June, end-September and end-December 1994 and will focus, inter alia, on: (i) exchange rate policies and the appropriateness of the international reserve target in light of external developments; (ii) progress in the implementation of the targeted cash compensation and the reform of the social security system; (iii) progress in the implementation of the Treasury; (iv) progress in amending the banking law to provide more independence to the NBM; and (v) progress on trade and price liberalization. It will also specify measures for the strengthening of the financial system. The second review will focus, inter alia, on: (i) the fiscal adjustment and the budget proposals for 1995; and (ii) progress in privatization, trade and price liberalization. The structural benchmarks under the program are specified in Table 12.

VI. Staff Appraisal

Since its independence Moldova has faced extremely difficult economic conditions. In addition to the adverse factors common to the other states of the FSU--such as the legacy of the command economy, the energy shock and trade and payments disruptions--Moldova has been affected by the political crisis related to the Trans-Dniester region and by a severe drought. Under these very difficult circumstances, the Moldovan authorities have recognized that the transition to a market economy offers the best prospect of arresting and eventually reversing the decline in the standard of living. They are also convinced that such a transition could not succeed unless resolute steps are taken at an early stage to stabilize the financial situation and accelerate structural reforms.

The first decisive steps in the direction of reforms were taken in the framework of an economic program which was supported by the first purchase under the STF. The central objective of the program was to put in place the macroeconomic preconditions for the introduction of the currency while accelerating the pace of structural reforms. There were some delays in the implementation of the STF program, which were the results, by and large, of weak institutional capacity and the lack of experience in handling a comprehensive package of coordinated policy measures. However, the authorities have now implemented their policy commitments under the STF program and all indicative targets and structural benchmarks under the program have been observed. Nevertheless, inflation was much higher-than-programmed. While in hindsight the monetary program was optimistic in its assumptions about the growth in the demand for Moldovan coupons, the most important factor explaining the surge in inflation was the demonetization of the Russian ruble and the flight from Moldovan coupon that this triggered.

Table 11. Moldova: Quantitative Performance Criteria 1/

	Performance criteria		Indicative targets		
	Dec 1993	Mar 1994	June 1994	Sep 1994	Dec 1994
	(In billions of Moldovan rubles)				
I. Ceilings for the cumulative change in the net banking system credit to the general government from January 1, 1994 2/	17	10 3/	15 3/	10 3/	--
II. Ceilings on net domestic assets of the National Bank of Moldova (NBM), cumulative change from October 1, 1993 3/	103	128	182	262	311
III. Indicative targets for the cumulative change in reserve money from October 1, 1993 4/	32 5/	37 5/	55	98	110
IV. Indicative targets for the cumulative change in broad money from October 1, 1993 6/	53 5/	61 5/	91	161	182
	(In millions of U.S. dollars)				
V. Floor for net international reserves in convertible currency of the NBM 7/	-30	-36.3	-48.6	-60.9	-73.2
VI. Floor for gross international reserves in convertible currency of the NBM 8/	60	64	66	68	70
VI. Limits on loans contracted or guaranteed by the Government or the NBM: medium and long-term external debt cumulative from Sep. 30, 1993 9/					
Maturity of 1-12 years	200	200	200	200	200
of which: Maturity of 1-5 years	70	70	70	70	70

Source: Stand-by arrangement.

1/ Definitions of the concepts to be measure are included in the appendices to the Memorandum of Economic Policies (EBS/93/177).
2/ The position on September 30, 1993 was Rub 107.1 billion. Ceiling for end-December 1993 represents the change during the last quarter of 1993.
3/ The ceiling will be adjusted downward by the amount of the excess of foreign financing over the program amounts.
4/ The position on September 30, 1993 was Rub 163.3 billion.
5/ Indicative targets.
6/ The position on September 30, 1993 was Rub 269.7 billion.
7/ The position on September 30, 1993 was minus US$7.9 million.
8/ The position on September 30, 1993 was US$42.9 million.
9/ In addition the government will not contract or guarantee loans of less than one year's maturity, with the exception of normal import financing, and will not accumulate external payments arrears.

Table 12. Moldova: Specified Benchmarks for the Monitoring of Structural Reforms

Measure	Date
1. Adoption of the law on collateral	End-1993 (Implemented Nov. 1, 1993)
2. Elimination of export licenses and quotas for all goods but the six specified in the MEP	End-1993
3. Elimination of all export licenses and quotas	End-June 1993
4. Elimination of the surrender requirement	End-1994
5. Hold the first auction of medium- and larger-scale enterprises	End-1993

Source: Program of Economic and Financial Policies (EBS/93/177).

The continued high rates of inflation in Moldova at the time of the introduction of the leu are a major concern and the authorities agree that the overriding objective of economic policy in the period ahead is a substantial tightening of financial policies in order to bring inflation down sharply in a sustainable fashion. With this in mind, the authorities have elaborated an adjustment program for the remainder of 1993 and for 1994 for which they request access to Fund resources under an SBA and the second purchase under the STF. The program's main objectives include reducing the monthly rate of inflation to a single-digit level by December 1993, and seeking a further reduction in 1994; containing the drop of output through the acceleration of structural reforms; and building up the level of international reserves. While the inflation objective is quite ambitious, particularly when seen in the light of the recent high inflation, the staff considers it necessary to achieve a sharp reduction in inflation so as to send strong signals to the market about the basic shift in the macroeconomic environment at the time of the introduction of the national currency. The key elements of the program include a substantially tighter monetary policy stance, a significant fiscal adjustment, further liberalization of the trade and exchange rate regimes, and a much greater disengagement of the state from direct intervention in economic activity.

The authorities are strongly committed to moving forward with the reforms and determined to stabilize the economy. They are planning to introduce the leu on November 29, 1993, and as prior actions are expected to have taken a number of key measures including the sharp increase in the NBM financing rate; the move to a market-determined official exchange rate; the approval of a monetary program consistent with the objectives of the SBA; the adoption of a budget for 1994 in line with the program's objectives; the elimination of all export taxes and the implementation of a new customs tariff schedule; and the broadening of excise taxes. These decisive actions will demonstrate the authorities' commitment to the reform process and provide strong assurances that the main elements of the program are now in place. The staff urges the authorities to vigorously implement the program and for this purpose to strengthen the monitoring and coordination of the policy undertakings in the program. The staff recognizes, however, that the inherent institutional and technical weaknesses require further technical assistance and close contact between the staff and the authorities.

The key to the success of the program is the strict adherence to the monetary program particularly in the period immediately following the introduction of the national currency. The staff strongly urges the authorities to closely monitor monetary and credit developments and to be prepared to implement any additional measures needed to keep the monetary program on track. While the staff welcomes the recent increase in the NBM's financing rate, it encourages the authorities to continue to hold the line on preferential credits and to be prepared for strong pressures from public enterprises unwilling to adjust to market exigencies. In this context, the staff attaches particular importance to the undertaking by the authorities not to extend credit for the bail-out of enterprise arrears and would urge

that the independence of the NBM in the implementation of monetary policy be strengthened.

The staff underscores the importance of a substantial fiscal adjustment in support of the monetary program. The staff agrees with the authorities' fiscal strategy including the reliance on a major revenue effort in order to achieve the needed strengthening in the fiscal position and the desirable increase in key social expenditures. The staff urges the authorities to adhere to the timetable for introducing the new taxes, strengthen tax administration, and implement the envisaged reduction in tax exemptions and privileges. On the expenditure side, the staff emphasizes the importance of implementing the cash compensation scheme so as to facilitate adherence to the timetable for phasing out consumer subsidies, a key to the fiscal adjustment in 1994. Equally important is the need for a close monitoring of expenditures and the avoidance of domestic arrears. The staff welcomes the decision not to rely on bank financing of the budget in 1994 as this will help free adequate credit resources to the rest of the economy in the context of very tight credit ceilings. The staff therefore urges the authorities to accelerate their effort at developing a market for nonbank instruments and to monitor particularly closely the counterpart funds to foreign commodity loans, which are expected to be a major source of financing of the budget in 1994. In view of the importance of achieving the fiscal target, the staff encourages the authorities to have contingency plans, including the contemplated introduction of a tax on petroleum products, to meet any shortfall of revenues or foreign financing.

The staff endorses the authorities' intention to strengthen the external position through the liberalization of the trade and exchange system. The staff welcomes the decision to unify the exchange rate and to move to a market-determined official exchange rate. While the leu will be allowed to float, sustained implementation of an appropriately tight monetary policy and a move to market-determined interest rates can be expected over time to stabilize the nominal exchange rate or generate an appreciation. In the meantime, the staff urges the NBM not to intervene in the exchange market to achieve a particular level of the exchange rate.

The staff recognizes that the authorities confront a difficult task and enormous challenges as they push forward with a broad range of structural reforms. The staff encourages the authorities to focus on the main elements of the reform including the liberalization of trade and prices, the acceleration of the privatization, the restructuring of public enterprises and of the banking system. The authorities' intentions to complete the price and trade liberalization during the program period and to put in place a social safety net which, by addressing the need of the most vulnerable segments of the population, helps to assure the sustainability of the reforms are welcome. The staff also commends the authorities for taking decisive steps in the implementation of the privatization program including the distribution of the vouchers and the holding of the pilot auction for small-scale enterprises. The authorities would need to build on this momentum and accelerate the pace of the privatization of small-scale units

and to initiate the privatization of the medium- and large-scale enterprises so as to meet the targets envisaged under the Privatization Program. As the authorities recognize, a weak financial system could compromise the reform efforts. Therefore, the staff underscores the urgent need to reform the financial system and strengthen the supervisory capacity of the NBM. The staff also urges the authorities to adhere to their commitment to phase out state orders and more generally reduce considerably direct state intervention in economic activity. In this context, it will be essential to harden budgetary constraints on public enterprises.

The Trans-Dniester region has continued to operate as a semi-autonomous economy with a special monetary regime which is still based on the ruble. It is, therefore, important that all parties involved act in a way consistent with effective stabilization of the Moldova economy so as not to undermine the objectives of the program. It is also to be hoped that a successful implementation of the reforms will induce a response along similar lines in the Trans-Dniester region which would lead to an economic reintegration beneficial to the whole of Moldova.

The staff estimates the remaining financing gap over the program period to be US$155 million with the bulk needed over the early stages of the program. While the initial reaction from the participants to the Consultative Group meeting in Paris on October 26, 1993, was encouraging, creditors were not in a position to provide firm commitments at that time. Therefore, a pledging session has been scheduled for December 9, 1993, in Washington. If this session is successful in providing the needed financing assurances, approval of the SBA and second STF purchase will be proposed to the Executive Board. The staff believes that, in addition to the authorities' determination to implement the program, timely financial support, particularly in the early and critical months of the program, will be essential to the success of the new currency and a major boost to the reform process in Moldova.

The medium-term scenario presented by the staff shows that Moldova's external position will remain difficult with continued reliance on exceptional financing over the next few years. While some progress toward external viability is foreseen, Moldova's balance of payments outlook will be improved substantially if the financing gap under the program is covered through concessional terms. There are, however, risks and uncertainties surrounding the medium-term prospects of the Moldovan economy, and Moldova's capacity to repay the Fund will hinge on a sustained implementation of adjustment policies initiated under the STF program.

The program outlined above entails significant risks. First, while the authorities have demonstrated their commitment to taking strong measures, they are still building up their capacity to implement and monitor the program. Second, the weak macroeconomic data base, lack of timely information in key financial areas and the uncertainties surrounding developments in the rest of the FSU, impose the need to be particularly vigilant. The authorities should be prepared to react swiftly to any signs

that the program is not progressing as intended. Notwithstanding these risks, on the basis of the authorities' strong commitment and their track record in cooperation with the Fund, the staff expects to recommend that the Fund grant approval of the proposed SBA and the second purchase under the STF.

Assuming all prior actions have been implemented including the introduction of the leu, indications that the monetary program remains on track, and financing assurances have been provided, the staff will issue a supplement which will also include the required draft decisions.

VIII. Moldova: Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated November 15, 1993 from the Prime Minister of the Republic of Moldova and the Governor of the National Bank of Moldova requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the authorities of Moldova intend to pursue for the period of this stand-by arrangement; and

(b) understandings of Moldova with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Moldova will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from December __, 1993 to March __, 1995, Moldova will have the right to make purchases from the Fund in an amount equivalent to SDR 51.75 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 4.50 million until February 15, 1994, the equivalent of SDR 11.75 million until May 15, 1994, the equivalent of SDR 21.75 million until August 15, 1994, the equivalent of SDR 31.75 million until November 15, and the equivalent of 41.75 million until February 15, 1995.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Moldova's currency subject to repurchase beyond 25 percent of quota.

3. Moldova will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Moldova's currency subject to repurchase beyond 25 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that:

(i) the limit on the Net Domestic Assets of the National Bank of Moldova described in paragraph 6 and in Appendix I of the Memorandum, or

(ii) the limit on Net Credit from the Banking System to the General Government described in paragraph 13 and in Appendix II of the Memorandum, or

(iii) the limit on the Net International Reserves of the National Bank of Moldova described in paragraph 38 and in Appendix III of the Memorandum, or

(iv) the limit on the contracting or guaranteeing by the Government or the National Bank of Moldova of external debt of maturities between one and 12 years described in paragraph 39 and in Appendix IV of the Memorandum, or

(v) the limit on the contracting or guaranteeing by the Government or the National Bank of Moldova of external debt of maturities between one and five years described in paragraph 39 and in Appendix IV of the memorandum,

is not observed; or

(b) if, at any time during the period of the stand-by arrangement,

(i) the limit on the accumulation by the Government of external payments arrears, or

(ii) the limit on the contracting or guaranteeing by the Government of external debt of maturities of less than one year,

described in paragraph 39 and in Annex IV of the Memorandum is not observed; or

(c) after May 14, 1994 and November 14, 1994, until the respective reviews contemplated in paragraph 47 of the Memorandum are completed; or

(d) if, at any time during the period of the stand-by arrangement, Moldova

(i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions; or

(ii) introduces or modifies multiple currency practices; or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII; or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Moldova is prevented from purchasing under this stand-by arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and Moldova and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. Moldova will not make purchases under this stand-by arrangement during any period in which Moldova has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation (a) in respect of a noncomplying purchase pursuant to Decision No. 7842-(84/165) on the Guidelines on Corrective Action, or (b) in respect of a purchase in support of debt and debt-service reduction operations pursuant to Decision No. 9331-(89/167), as amended, or (c) pursuant to subparagraph 16(a) or 33(a) of Decision No. 8955-(88/126), as amended, on the Compensatory and Contingency Financing Facility.

5. Moldova's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Moldova. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Moldova and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of Moldova, the Fund agrees to provide SDRs at the time of the purchase.

7. Moldova shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

8. (a) Moldova shall repurchase the amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Moldova's balance of payments and reserve position improves.

(b) Any reductions in Moldova's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the stand-by arrangement Moldova shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Moldova or of representatives of Moldova to the Fund. Moldova shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Moldova in achieving the objectives and policies set forth in the attached letter and annexed Memorandum.

10. In accordance with paragraph 46 of the attached Memorandum, Moldova will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 above have not been observed or because the Managing Director considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Moldova has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Moldova's balance of payments policies.

Appendix I

Moldova: Policy Matrix for the SBA and the Second Purchase under the STF

Policy Area	Objectives	Strategies/Measures	Timetable
1. Monetary	Reduce monthly inflation to a low single-digit figure by December 1993 and to one percent by December 1994.	Introduction of the national currency.	Prior action; before end-Nov., 1993.
		Approve the monetary program for 1994 consistent with the inflation objectives and the programmed accumulation of international reserves.	Prior action; by Dec. 1, 1993
		Increase the NBM finance rate to 250.	Prior action; not later than Nov. 20, 1993.
		Strengthen the operational independence of the NBM.	During the program period.
	Increase reliance on market mechanisms to allocate credit and determine interest rates.	Allocate 80 percent of NBM credit through auctions.	Starting Jan. 1, 1994.
		Commitment not to request or extend preferential credits.	Prior action and throughout the program period.
		Any remaining interest subsidies are to be fully budgeted and accommodated within the budget target.	During the program period.
	Improve the transparency and accountability of the financial relationship between the MOF and NBM.	Agreement on the apportioning to the budget of NBM profits in excess of what is needed to ensure its targeted capital and reserve base.	By the introduction of the national currency.
2. Budgetary	Reduce the overall budget deficit in 1994 to no more than the 3.5 percent of GDP with no domestic bank financing.	Present for approval a budget for 1994 consistent with a 3.5 percent deficit target.	Prior action.
	Phase out consumer subsidies in the context of a well-targeted social safety net. Maintain other expenditures virtually constant in real terms while increasing social expenditure.	Increase gradually the prices of subsidized goods to their full cost (see social safety net).	During the program period.
	Improve revenue performance.	Introduce a new customs tariffs on non-CIS imports and extend VAT and excise taxes to these imports.	November 1993.
		Extend excise taxes to additional commodities.	November 1993.
		Increase the excise rate on cigarettes.	November 1993.

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Policy Area	Objectives	Strategies/Measures	Timetable
		Increase the rate applicable to the land tax for 1994.	November 1993.
		Introduce a surcharge of five percent on VAT rates applicable to exports to FSU countries with a VAT rate higher than 20 percent.	In 1994.
		Introduce a new tax on the physical assets of enterprises, and a tax on natural resources. Broaden the present real estate tax.	Jan. 1, 1994.
		Introduce a new excise tax on petroleum products if revenue performance is weaker-than-anticipated.	Before mid-1994.
		Continue the moratorium on granting new tax exemptions and holidays.	During the program period.
		Review tax exemptions with a view to their elimination.	Before end 1993.
	Promote nonbank financing.	Accelerate efforts to develop nonbank financing instruments by, inter alia, offering market-based interest rates.	During the program period.
	Mobilize foreign financing.	Strengthen the monitoring and collection of the counterpart funds to foreign commodity loans.	During the program period.
	Strengthen the budget expenditure control mechanism.	Establish a Treasury.	During the program period.
	Strengthen revenue collections.	Improve tax administration in line with IMF technical assistance recommendations.	During the program period.
3. Safety net	Protect vulnerable segments of the population by introducing a well-targeted social safety net system.	Improve targeting of cash compensation; reduce the level of compensation while broadening eligibility.	During the program period.
		Unify the payroll tax at a level that ensures that the Pension Fund is wholly self-financing. Review benefits in line with recommendations of the staffs of the Fund and the World Bank.	During the program period.
4. Exchange rate	Foster a market-based unified exchange system.	Ensure the NBM's official exchange rate reflects the rate in the foreign exchange market.	Prior to the introduction of the leu.
		Adopt a free float for the leu. The NBM will intervene in the market only to smooth exchange rate fluctuations.	At the time of the introduction of the leu.
		Abolish requirement for some taxes to be paid in foreign currency.	End Nov. 1993.

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Policy Area	Objectives	Strategies/Measures	Timetable
		Replace the obligatory sale of 35 percent of export proceeds to NBM by a requirement that exporters sell 35 percent of export proceeds to the market.	By end-1993.
		Adopt a foreign exchange law that enhances the NBM's authority and flexibility in the setting of foreign exchange regulations and policy and in the management of foreign exchange reserves.	By end-1993.
		Overhaul the foreign exchange regulations.	During the program period.
		Strengthen the international reserve position.	During the program period.
		Eliminate the foreign exchange surrender requirement and replace it with a repatriation requirement.	By end 1994.
5. Trade	Take further steps toward trade liberalization.	Abolish Soviet-era export and import taxes and tariffs.	Done; early-Nov., 1993.
		Introduce tariffs on non-CIS imports with average rate of 15 percent and with a minimum dispersion.	Done; early-Nov., 1993.
		Limit the use of export quotas and licenses to meat, tobacco, leather, grains, sugar, and vegetable oil.	By Jan. 1, 1994.
		Prohibit barter trade with countries with convertible currencies and, if necessary, introduce a uniform tax on barter transactions.	By Jan. 1, 1994.
		Remove all export licenses and quotas.	End-June 1994.
6. Prices and subsidies	Price liberalization.	Eliminate margin controls on commercial enterprises, with the exception of those on natural monopolies.	End 1993.
	Phase out consumer subsidies in the context of the implementation of the social safety net.	Raise administered prices of bread and milk to:	
		60 percent of their costs;	November 1993.
		75 percent of their costs;	January 1994.
		85 percent of their costs;	April 1994.
		100 percent of their costs.	End-June 1994.
		Ensure a full pass through to consumers of any increase in the cost of energy imports.	During the program period.

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Policy Area	Objectives	Strategies/Measures	Timetable
7. Wage policy	Keep wages under review.	Increase minimum wage to Mrub 10,000 per month and ensure that on average the minimum wage remains below Mrub 15,000 per month.	Nov. 1993.
8. External debt	Ensure that external debt obligations are consistent with capacity to repay.	Sign the "zero option".	Done; mid-Oct.
		Establish an improved system of recording and monitoring external debt. Assign to the External Borrowing Council the responsibility of formulating and implementing the borrowing strategy of the government.	Before end-1993.
		Enact legislation that will establish the legal basis for external borrowing and set the guidelines for issuance of government guarantees.	Before end-1994.
9. Structural	Reduce direct government intervention in the economy.	Phase out state orders and base state purchases solely on market mechanisms.	By end 1993.
		Reduce dependence on interstate barter agreements.	In 1994.
		Abolish restrictions on the ability of enterprises to freely sell output.	Dec. 1, 1993.
		Reduce non-market transfers to public enterprises and develop a plan to make such transfers contingent on restructuring measures.	By end 1993.
	Implement the 1993-94 privatization program in accordance with the targets and the timetable agreed to with the staffs of the Fund and the World Bank.	Begin the distribution of patrimonial bonds.	End-Sept., 1993 (In progress).
		Conduct pilot auction.	First cash auction held Sept. 11th.
		Introduce a streamlined auction procedure for the sale of small-scale units.	First voucher auction using new procedure held Oct. 9th
		Complete the privatization of small-scale establishments.	By July 1, 1994.
		Initiate the sale of medium- and large-scale units.	By end 1993.
		Issue regulations on the mechanisms for transforming state-owned enterprises into joint-stock ventures.	By end 1993.
		Complete the distribution of patrimonial bonds.	By end 1993.

Appendix 1

Policy Area	Objectives	Strategies/Measures	Timetable
		Privatize the state-owned housing stock in accordance with the commitments under the STF.	During the program period.
		Continue land, farm and housing privatization.	During the program period.
	Promote farm reorganization to enhance efficiency and continue land reform.	Continue collective farm restructuring.	Ongoing.
	Improve performance of enterprises to be retained in public sector.	Harden budget constraints through performance-based credit allocation and reduced subsidies.	During the program period.
	Foster the development of financial markets.	Introduce a law on collateral.	Done; new law takes effect Dec. 1, 1993.
		Develop a plan on the restructuring of savings banks.	End 1993.
		Amend bankruptcy law to allow for debtor rehabilitation and the prioritization of creditors.	During the program period.
		Improve the supervision of financial institutions, modify accounting standards, and strengthen the banking system's capital-adequacy requirement in line with MAE recommendations.	During the program period.
10. Implementation and Monitoring	Strengthen the capacity of the Government to design, implement and monitor macroeconomic policy and structural reforms.	Develop a program of internal and external training.	During the program period.
		Improve data in the fiscal, monetary, prices, and balance of payments areas and raise to international standards national accounts data.	During the program period.

Moldova: Fund Relations
(As of October 31, 1993)

I. Membership Status: Joined 8/12/92; Article XIV

II. General Resources Account:	SDR Million	% Quota
Quota	90.00	100.0
Fund holdings of currency	126.00	140.0
Reserve position in Fund	.00	.0

III. SDR Department:	SDR Million	% Allocation
Holdings	21.75	N/A

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
CCFF	13.50	15.0
Systemic transformation facility	22.50	25.0

V. Financial Arrangements: None

VI. Projected Obligations to Fund (SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	10/31/93	1993	1994	1995	1996	1997
Principal					5.1	6.8
Charges/interest		.3	1.9	1.9	1.7	1.4
Total		.3	1.9	1.9	6.8	8.2

VII. Exchange Rate Arrangement:

Up to July 25, 1993, the Russian ruble was the legal tender and was supplemented by NBM-issued coupons introduced on June 10, 1992. By end-June 1993, coupons accounted for 80 percent of cash in circulation. The official exchange rate against the U.S. dollar was fixed at the value of the Russian ruble against the U.S. dollar as determined by the Central Bank of Russia on the basis of the Moscow Interbank Foreign Currency Exchange rate.

On July 25, 1993, following the currency conversion by Russia, pre-1993 Russian rubles were withdrawn from circulation and, starting August 1, 1993, 1993-Russian ruble banknotes were bought and sold at exchange bureaus. On August 9, 1993, a distinction was officially introduced between Moldovan rubles and rubles from other countries in the ruble area. The NBM started to quote official rate of the Moldovan ruble against the Russian ruble

adjusting it periodically to follow developments in the exchange market. The official rates against hard currencies are obtained by using the cross rate of the Moldovan ruble against the Russian ruble and the value of the Russian ruble on the MIFCE.

The official exchange rate applies to foreign exchange surrender requirements, official external debt-service payments, accounting, and tax valuation purposes.

The Chisinau Interbank Foreign Currency Exchange which started operations at the beginning of the year and was closed shortly afterward owing to a lack of foreign exchange, recommenced operation on October 14, 1993. It has since been held on a weekly basis. A foreign exchange cash market within authorized banks and bureaux of foreign exchange has also remained quite active.

Moldova maintains various restrictions on current international payments under Article XIV. These measures include multiple currency practices arising from the divergence between the official and the market exchange rates; exchange restrictions arising under the operation of the correspondent accounts with other FSU countries; and exchange restrictions on tourist and business travel; and bilateral payment agreements.

On October 28, 1993, the NMB official rate against the Russian ruble was 2, and 2,378 against the U.S. dollar, while the average cash market rate was 2,825 per U.S. dollar.

VIII. Article IV Consultation:

The first Article IV consultation was concluded on February 4, 1993 (SM/93/8, January 15, 1993, and SM/93/20, January 27, 1993).

IX. Use of Fund Resources:

On February 4, 1993, Moldova purchased Fund resources totaling SDR 13.5 million, equivalent to 15 percent of quota under the Compensatory and Contingency Financing Facilities (EBS/93/8, January 15, 1993). This was followed by a first drawing under the Systemic Transformation Facility of SDR 22.5 million, equivalent to 25 percent of quota, which was approved by the Board on September 16, 1993 (EBS/93/149).

X. Technical Assistance:

The following table summarizes the technical assistance provided by the Fund to Moldova since January 1992.

Fund Technical Assistance in Moldova

Dept.	Subject/ Identified Need	Action	Timing	Counterpart
1992				
STA	Trade statistics	Mission 1/	January	State Dept. of Statistics (SDS)
FAD	Multitopic (tax policy, tax administration, expenditure policy, social safety net)	Mission	March	Ministry of Finance (MOF)
INS	Seminar for high-level officials on macro-economic and financial policies	Mission	April	National Bank of Moldova (NBM)
MAE	Modernization of Central Bank	Mission	April	NBM
STA	Monetary statistics	Mission 2/	April/May	NBM
STA	Monetary and balance of payments statistics	Mission 1/	May	NBM/SDS
STA	Monetary statistics	Mission	August	NBM
MAE	Monetary and Central Operations	Mission	August	NBM
INS	Financial Programming Seminar	Mission	December	NBM/MOF
FAD	Tax policy	Mission	November	MOF
1993				
STA	Balance of payments	Mission	January/Feb.	NBM/SDS
MAE	Banking Supervision and Accounting	Mission	February	NBM
FAD	Treasury	Mission	March	MOF
MAE	Central Bank Modernization	Mission	April	NBM
FAD	Treasury	Mission	May/June	MOF
FAD	Treasury	Mission	June	MOF
STA	Money and Banking	Mission	July	NBM
FAD	Social Safety Net	Mission 1/	September	MOF MOLabor
FAD	Treasury	Mission 3/	September	MOF
MAE	Foreign Exchange Market	Mission 3/	September	NBM
MAE	Assistance in Drafting Foreign Exchange Law and Introduction of the leu	Mission 4/	November	NBM

1/ In conjunction with EUR II.
2/ In conjunction with MAE.
3/ Short visits by consultants.
4/ In conjunction with Legal.

X. Resident Representative:

Mr. Michael Blackwell, Resident Representative, since August 17, 1992.

XI. Resident Advisor:

Mr. Herskovitz, resident advisor on central banking issues, since July 2, 1993.

XII. Short-term Assistance:

Mr. Bruneau of the Banque de France will make multiple visits to Moldova to advise the NBM on foreign exchange issues. The first visit was undertaken in September 1993. This was followed by a visit in November that was held in conjunction with the technical assistance mission from MAE.

Moldova: Relations with IBRD

The Republic of Moldova joined the IBRD on August 12, 1992. An Emergency Drought Recovery Loan was approved by the Board of IBRD on March 11, 1993 for US$26 million. This loan is financing key agricultural inputs for the 1993 agricultural season. A Rehabilitation Loan for an amount of US$60 million was approved on October 21, 1993. The loan finances essential imports in support of the structural reform program. Loans in the energy and agricultural sectors are under preparation as is a loan to support the restructuring of the financial and enterprise sectors. The Bank organized a Consultative Group meeting for Moldova on October 26, 1993. A Country Economic Memorandum, an Agricultural Sector Review and studies of the social sectors have been completed; reports on trade and public expenditure issues will be prepared in 1994.

Moldova: Relations with the EBRD

A strategy paper for Moldova was issued following an EBRD mission in December 1992. The EBRD expects to focus on loans for agriculture and agri-business (in particular, wine production), for small business, for improving energy efficiency, and for telecommunications. Disbursements in these areas are expected to begin in 1994. Technical assistance to the wine, power and transport sectors is also being provided by the EBRD.