INTERNATIONAL MONETARY FUND

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The International Monetary Fund has approved credits totaling SDR 74.25 million (about US$103 million) for Moldova to support the Government's 1993/94 economic and financial program. Of this total, up to SDR 51.75 million (about US$72 million) may be drawn over the next 15 months under a stand-by credit and SDR 22.5 million (about US$31 million) is available as Moldova's second drawing under the systemic transformation facility (STF) 1/.

Economic activity in Moldova continued to decline sharply in 1993--by a projected 15 percent--after a difficult year in 1992, reflecting the ongoing restructuring of the economy, much lower-than-expected volume of energy imports, and persistent difficulties in obtaining key raw materials from other states of the former Soviet Union. Inflation accelerated in the autumn of 1993 owing to a flight from Moldovan coupons, a transitional currency, following the announcement of the currency conversion in Russia, a larger-than-anticipated upward adjustment in administered prices, and higher than expected energy costs. The balance of payments also came under severe pressure in 1993, reflecting the effects of the 1992 drought and higher energy costs. Nevertheless, important progress was achieved: the fiscal position improved; the privatization process was launched; and the new currency, the leu, was introduced on November 29, 1993 with the full support of the IMF.

The economic program seeks to reduce substantially the monthly level of inflation and to achieve price stability in 1994; to contain the decline in output to 3 percent of GDP in 1994; and to build up the level of gross international reserves.

To achieve these objectives, monetary and credit policy will be consistent with the targeted reduction in inflation; monetary policy will continue to promote market forces in the determination of interest rates and

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1/ The IMF established the STF as a temporary financial window to provide assistance to member countries facing balance of payments difficulties arising from severe disruptions of their traditional trade and payments arrangements. These disruptions may be manifested in particularly sharp falls of export receipts owing to a shift to multilateral, market-based trade from heavy reliance on trading at nonmarket prices such as prevailed among members of the disbanded Council for Mutual Economic Assistance (CMEA) and among the states of the former Soviet Union.

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in the allocation of central bank credit. In support of this, the overall budget deficit in 1994 will be brought below 3.5 percent of GDP. Exchange rate policy will aim at achieving and maintaining a unified, market-determined, official exchange rate, and foreign exchange regulations will be reviewed to ensure they are consistent with current account convertibility.

The program also envisages a broad range of structural reforms: trade and prices will be liberalized further, augmenting the actions already taken in these areas under the STF supported program; most state-owned enterprises will be privatized; and direct state intervention in economic activity, including the use of state orders, will be reduced considerably. These measures will be supported by a tightening of budget constraints on public enterprises and the reform of the financial sector.

Special measures to protect the most vulnerable segments of the population have also been incorporated in the program to facilitate price liberalization and the elimination of open-ended subsidies. Existing social protection arrangements will be reformed to ensure effective coverage of the targeted group and to ensure its long-term viability.

Moldova joined the IMF on August 12, 1992 and its quota 1/ is SDR 90 million (about US$125 million). Moldova's outstanding financial obligations to the IMF currently total SDR 36 million (about US$50 million).

1/ A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs.