

MASTER FILES
ROOM C-525

0418

December 16, 1993

Statement by Mr. Posthumus on the Republic of Moldova
Executive Board Meeting 93/172
December 17, 1993

Today's meeting takes place three months after this Board discussed, and approved, the first purchase by Moldova under the Systemic Transformation Facility. Through the determined and sustained efforts of my authorities, the program supported by the STF is broadly on track, and the quantitative criteria and benchmarks were observed. All prior actions preparing the introduction of an SBA were implemented. As a result of these actions and working in close cooperation with the Fund's staff and technical missions, my Moldovan authorities are now ready to request the second tranche under the STF, as well as the first Stand-by Arrangement. I would like to limit myself in this statement to highlighting certain aspects that demonstrate the strong commitment of my authorities to continue their adjustment efforts. In my view, the Board may rest assured that Moldova indeed fully deserves the support of the Fund and the international community. It is therefore a matter of great satisfaction that the European Union, Japan, and the United States as well as other countries and international organizations have pledged to support Moldova's program in 1994 with balance-of-payments financing and technical assistance.

First and foremost, the national currency, the "leu", was introduced according to schedule. The leu is now the only legal tender in Moldova, being widely accepted except in the Trans Dniester region. Within two weeks after introduction of the leu, confidence in the domestic currency returned as evidenced by the slight appreciation of the leu vis-à-vis the dollar (the rate is now \$1 = lei 3.70, compared with lei 3.85 on November 29). The authorities will maintain the floating of the leu, and they are now in the process of overhauling the foreign exchange regulations in order to ensure the current account convertibility.

Monetary policy is the core of the stabilization program, and the authorities will monitor closely monetary developments and observe the credit ceilings. The monetary program was on target; in order to attain this with inflation in October and November still very high, the National Bank of Moldova raised its financing rate from 170 percent to 250 percent.

During the first ten months of 1993, a major fiscal consolidation was achieved, broadly in line with the program. The 1994 budget has been approved by the Government and signed by the President. The major provisions of the budget law that are expected to strengthen the fiscal position of Moldova are: (1) the introduction of an excise tax on petroleum products, and (2) a significant broadening of the excise tax base, even beyond what was envisaged in the program. In parallel, the phasing out of subsidies will continue as scheduled.

Concerned about the considerable impact of the price increases on the most vulnerable groups of the population, a social safety net was designed and explicitly included in the program.

Stabilization without structural change in the industrial, banking, and agricultural sectors would only lead to a stable but continuously shrinking economy, and therefore to an unsustainable situation. My authorities are aware of this, and they attach high priority to the implementation of their market-oriented reform program:

--Price liberalization will be fully achieved during the program period. This can indeed be considered a very ambitious undertaking on the part of the authorities.

--Full liberalization of trade is planned to be attained in mid-1994. I would like to convey the concern of my authorities that all of Moldova's efforts can only be beneficial if trade between the FSU countries is also liberalized, and if their Western trading partners will remove the tariff and non-tariff barriers.

--My Moldovan authorities recognize that the privatization process is difficult and time-consuming. The distribution of vouchers continues and is expected to be concluded by end-January 1994. The authorities are now preparing a number of auctions, after a successful pilot auction, of small-scale enterprises. The housing privatization is going quite fast (75 percent of housing being now in private hands), and the other privatization measures are progressing according to schedule.

All the above mentioned aspects clearly show the determination of my authorities to implement the envisaged program. The circumstances under which it has to be implemented are not easy. The Trans Dniester problem gets the highest attention of my authorities, and they are confident that, with persistent endeavors of all parties involved, the economic reintegration can finally be achieved. The energy situation continues to remain critical, and therefore the timely delivery of foreign assistance is essential to reduce the cost of adjustment for the population. The program is comprehensive. However, the inherent institutional and technical weaknesses require continued technical assistance from the IMF, so as to help the authorities monitor and coordinate the implementation of the program.