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May 6, 1996

To: Members of the Executive Board

From: The Secretary

Subject: Republic of Moldova - Request for Extended Arrangement

Attached for consideration by the Executive Directors is a request from the Republic of Moldova for an extended arrangement in an amount equivalent to SDR 135 million, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 21.

Mr. Owen (ext. 38811), Mr. Wein (ext. 38794), or Mr. Kammer (ext. 34159) 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 European Bank for Reconstruction and Development (EBRD), the European Commission (EC), 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 the Request for an Extended Arrangement

Prepared by the European II and Policy Development and Review Departments

(In consultation with other Departments)

Approved by John Odling-Smee and Saleh M. Nsouli

May 3, 1996

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I. Introduction

The Moldovan authorities have requested a three-year extended arrangement (EFF) from the Fund in an amount equivalent to SDR 135 million (150 percent of quota). The EFF would support a medium-term program covering 1996-98, developed in close cooperation with the staffs of the Fund and World Bank, as set out in the Memorandum of Economic Policies attached to the letter of May 3, 1996 from the Prime Minister and the Governor of the National Bank of Moldova (NBM) (Appendix V). Discussions on the program were conducted in Chisinau during October 16-27, 1995, January 17-30, 1996 and March 28-April 3, 1996. 1/

The Government embarked on a program of economic reform, supported by use of resources under the Systemic Transformation Facility (STF), in the second half of 1993 (Appendix I). A first stand-by arrangement (SBA) was approved by the Board in December 1993, in support of a strengthening of the financial stabilization efforts, centered on the introduction of a new national currency, the leu. A second SBA, in an amount equivalent to 65 percent of quota, was approved by the Board in March 1995, and expired on March 21, 1996. Three purchases were made under this arrangement, and as of end-March 1996, Moldova's outstanding use of Fund resources was equivalent to 172 percent of quota.

The first review under the current SBA was completed on June 21, 1995, in conjunction with the 1995 Article IV consultations. Executive Directors commended the authorities' determination in adhering to tight financial policies, but noted that the uneven pace of structural reforms could undermine stabilization efforts. They expressed concern about the large accumulation of arrears throughout the economy, including government expenditure and tax arrears, and external energy arrears. They stressed the importance of enforcing financial discipline, and of establishing a market-based agricultural sector. The second review was not completed, because of concern about the direction of trade policy and about the financing of social expenditure in the draft budget for 1996 (see Section III).

Moldova continues to benefit from an extensive program of technical assistance from the Fund, as detailed in Appendix I. Moldova's relations

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1/ The missions included Messrs. Berengaut (head of October mission), Owen (head of January and March missions), Haley, Kammer and Wein (all EUR II), von Allmen and Desruelle (PDR), Ms. Stotsky (FAD), Ms. Sutch (IBRD), Ms. Marton (Interpreter), Mrs. Duffield-Sorkowitz and Ms. Coles (EUR II). Mr. Nielsen, the resident representative in Moldova, assisted the missions. The Moldovan negotiating team was led by the Deputy Prime Minister, Mr. Gutu, and included the Governor of the NBM, Mr. Talmaci, the Finance Minister, Mr. Chitan and other senior Government and NBM officials. The mission also met with President Snegur and Parliamentary Speaker Lucinschi. Mr. Botoucharov, Assistant to the Executive Director for Moldova, participated in the policy meetings in January.

with the IBRD and EBRD are set out in Appendix II. The timeliness and coverage of Moldova's macroeconomic data are sufficient both for monitoring performance under the arrangement and for Fund surveillance, as detailed in Appendix III. The quality of data continues to improve, though significant weaknesses remain, particularly in the national accounts and, to a lesser extent, in the fiscal and balance of payments accounts. The text of the extended arrangement is set out in Appendix IV.

II. Recent Developments and Performance Under the SBA

- ***All quantitative performance criteria under 1995 SBA were observed. Program on track at end-March 1996.***
- ***Inflation picked up at end-1995, following surge in monetary growth, though still lowest in CIS last year.***
- ***Output beginning to recover, interest rates down and leu stable.***
- ***Fiscal performance improving, with revenues up and expenditure down as shares of GDP. Tax and expenditure arrears under control.***
- ***External current account deficit still high, but less than expected; official reserves strong.***
- ***Voucher privatization completed, but uneven progress on other structural measures.***

Political tensions increased during 1995, following President Snegur's decision in June to leave the ruling party, though this has not prevented continued progress in economic reform. Negotiations on the constitutional status of Transnistria stalled in the second half of 1995, as the Transnistrian leadership came under attack at home for making too many concessions, but resumed recently with an agreement on customs issues.

All quantitative ***performance criteria under the SBA*** for all quarters of 1995 were observed (Table 2), most with large margins. However, the end-December ceiling for net banking system credit to the general government was met with only a small margin of Mdl 10 million (US$2 million). 1/ Reserve and broad money exceeded their end-September and end-December indicative targets, following rapid growth in the third quarter. All end-March 1996 financial targets established during the January mission appear to have been met (Table 3).

1/ In its efforts to meet this ceiling the Moldovan Government requested and received the agreement of the Russian authorities to postpone debt-service payments of US$2.8 million due in December. The payment was subsequently made on January 18.

Following six months of monthly ***inflation*** below ¾ percent, the inflation rate picked up sharply in the autumn before falling back to 1 percent by March 1996 (Chart 1). Nevertheless, inflation during 1995 was only 24 percent, the lowest in the CIS, albeit above the SBA target of 10 percent. In part the rise in late 1995 reflected increases in administered prices and seasonal increases in food prices. However, monetary developments also played an important role (see below).

There are encouraging signs that the decline in ***output*** has come to an end. Crop yields in 1995 were above 1994's drought affected levels and the trend in industrial production is now upward (Chart 2). Preliminary estimates indicate that real GDP, including Transnistria, fell by 3 percent in 1995, which suggests a modest rise in activity in the economy excluding Transnistria (Table 4). Recorded ***unemployment*** remains very low, at less than 2 percent, though this excludes around 12 percent of the workforce that are on "unpaid or partially paid leave." 1/ ***Real wages*** rose in 1995, but dollar wages, which averaged US$32 per month in 1995, remain low compared to those of neighboring countries (Chart 3).

The 1995 program's key monetary objective was to cut inflation to a sustainable, low level through tight credit policy. The NBM successfully achieved this aim in the first half of 1995: ***broad money*** growth decelerated from almost 120 percent in 1994 to about 30 percent (annual rate), and inflation fell to 15 percent at an annual rate (Tables 1 and 5).

However, strong ***capital inflows*** in the third quarter and in early October--probably in part reflecting reverse currency substitution--were monetized, because the NBM was reluctant to allow a significant appreciation of the leu. As a result there was a sharp rise in the growth of reserve money, and even faster growth in broad money, reflecting a reduction in the reserve requirement by 4 percentage points, to 8 percent, on October 1. In late October, as the inflationary consequences of these policies were becoming apparent, the NBM decided to give a significantly greater role in policy to the reserve money target. With a tightening of credit policy and sales of foreign exchange in November, it managed to reverse part of the excessive monetary growth by end-December. Monetary policy was tightened further in the first quarter of 1996, amid concerns that inflation remained too high. Pressure on the leu eased in the fourth quarter and it has since remained stable on average, though it has fluctuated in a wider range than earlier 1995. Confidence in the currency was reflected in a 20 percent fall in velocity in 1995, following a 10 percent fall in 1994.

Low inflation earlier in 1995 contributed to a substantial reduction in nominal ***interest rates*** (Chart 4). The auction-determined interest rate on NBM credits fell from around 40 percent at the beginning of 1995 to 19 percent in March 1996. Rates at Treasury bill auctions fell even more

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1/ The average length of unpaid or partially paid leave per affected worker was 67 days in 1995.

sharply, as the market for these instruments deepened, from over 80 percent at the first auction in March 1995, to 25 percent in October. However, the subsequent tightening of central bank credit exerted some upward pressure on the Treasury bill rate, which rose to around 45 percent in March 1996 (a real rate of 35 percent). Commercial banks' lending rates declined significantly through 1995, but margins between lending and deposit rates remained high. This reflects the poor state of the banking system, with nonperforming loans amounting to 10 percent of commercial banks' loan portfolios at year-end.

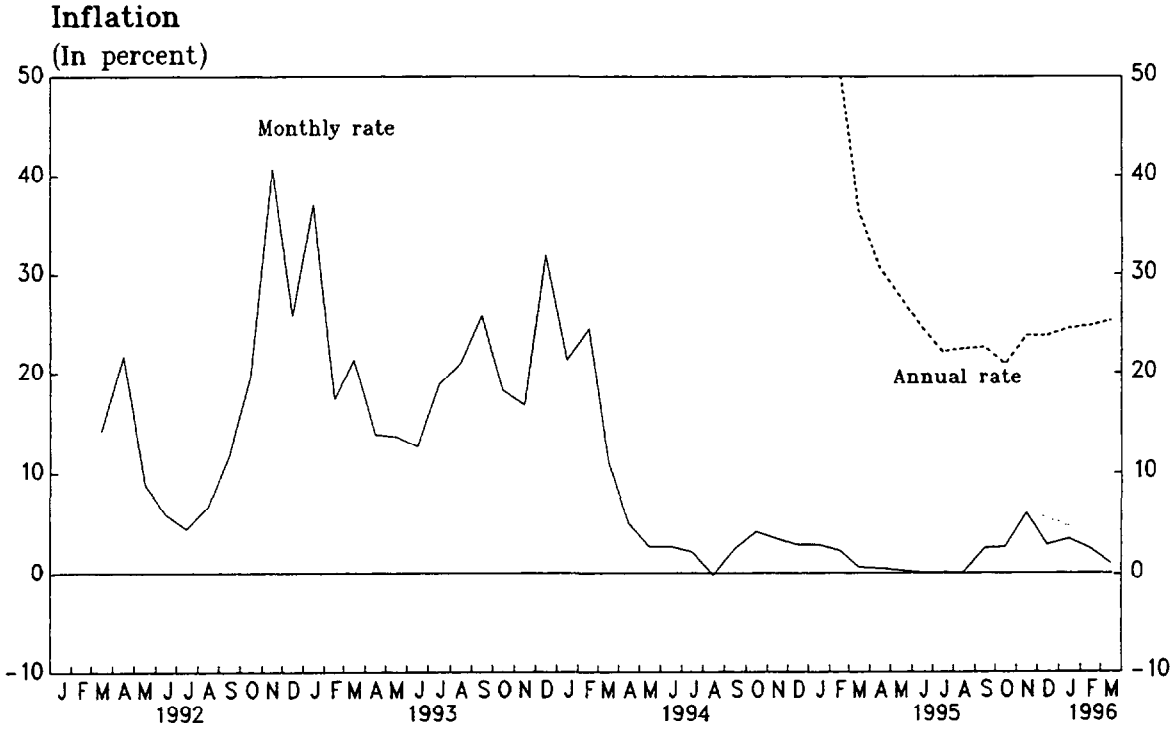
The ***money multiplier*** increased by over 15 percent in 1995 (Chart 5). Improvements in the payments system and better liquidity management of commercial banks allowed for a reduction in banks' excess reserve holdings, although they remain very high, at about 15 percent of deposit liabilities at end-December 1995. The currency-to-deposit ratio, however, increased during 1995 and reached 105 percent at year-end. While this may reflect the remonetization of a largely cash-based economy and increased circulation of leu notes in Transnistria, it also suggests that the public's trust in the still fragile banking system remains low.

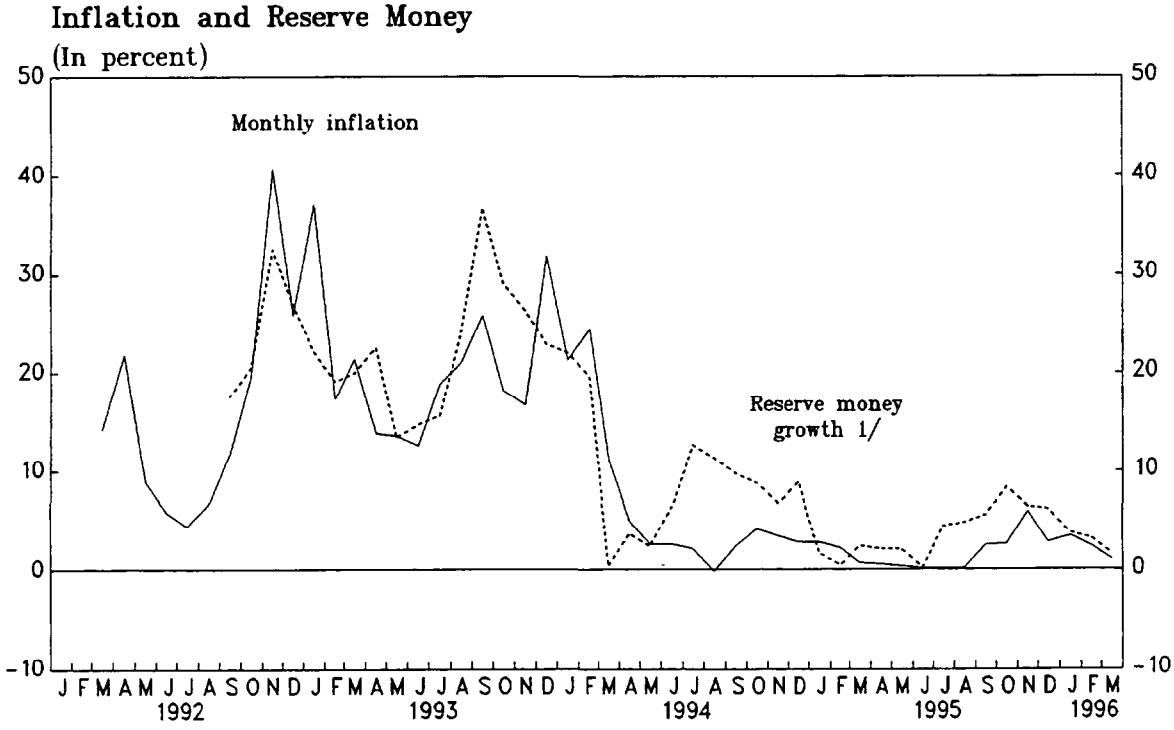
Fiscal performance improved in 1995 (Table 6), with the general government cash deficit falling to 5½ percent of GDP from 9 percent in 1994. Though larger than the program deficit of 3½ percent of GDP, it was financed by higher-than-expected net foreign financing, mainly as a result of the postponement of 1995 principal payments on one of Russia's credits to Moldova, pending the conclusion of discussions on rescheduling. Total revenues rose modestly as a share of GDP, while expenditures fell (Chart 6). Both revenue and expenditure arrears were reduced as a percentage of GDP, and the arrears position of the Social Fund stabilized toward the end of the year, after deteriorating in the first half. Partial data for the first quarter of 1996 suggest that the deficit was well within the target established during the January mission though revenues, especially excises, were somewhat weaker than expected.

Receipts of VAT in 1995 were particularly strong, helped by the collection of significant arrears. Excises were less impressive, despite the introduction in the fourth quarter of stamps on non-CIS imports (which serve in lieu of excise taxes). Excise revenues were further weakened in the first quarter of 1996 by uncertainty surrounding the regime regarding Moldovan exports of alcoholic drinks to Russia, pending finalization of an Economic and Trade Agreement for 1996. Following signature of the agreement in April, excise revenues are expected to strengthen. Profit and income taxes improved in 1995 but land tax collections continued to lag. Nontax revenues performed well, largely as a result of significant profit remittances from the NBM. Revenues from cash privatization continued to lag well behind expectations.

CHART 1
Moldova

Money and Inflation





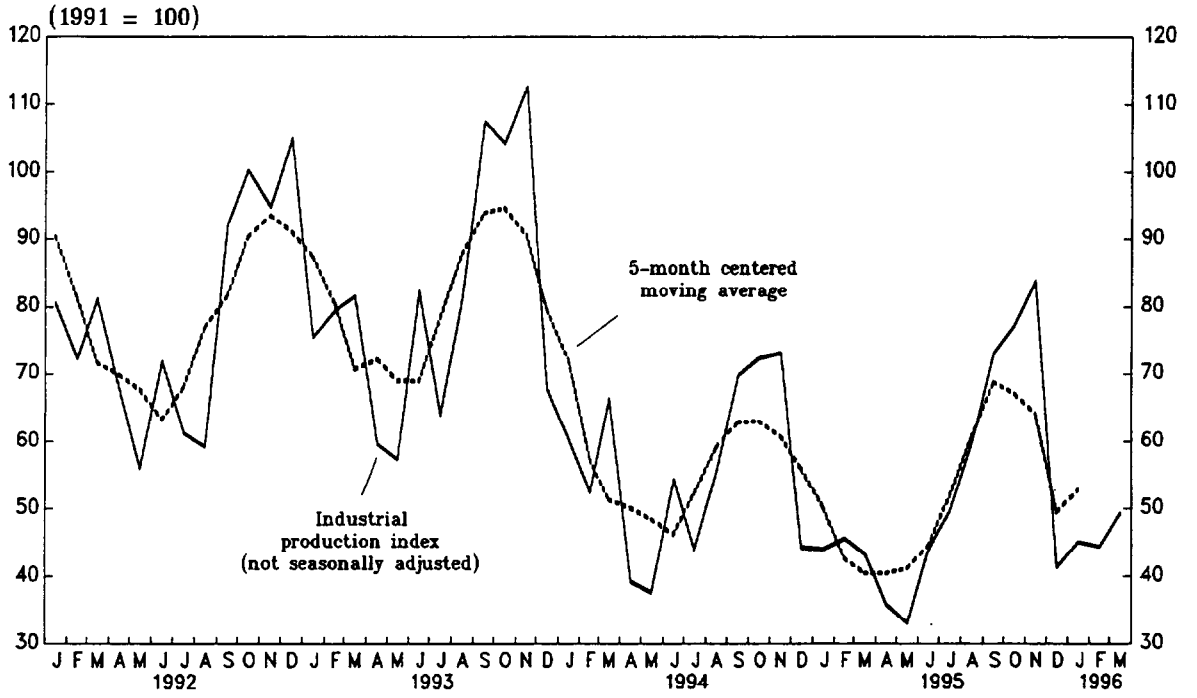
Source: Moldova Department of Statistics, National Bank of Moldova; and staff estimates.

1/ Six month backward moving average of monthly growth rate.

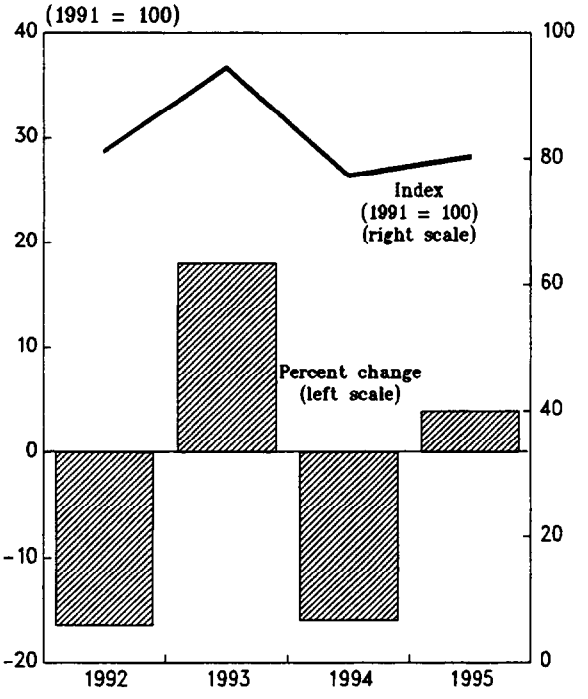
CHART 2
Moldova

Real Economic Indicators

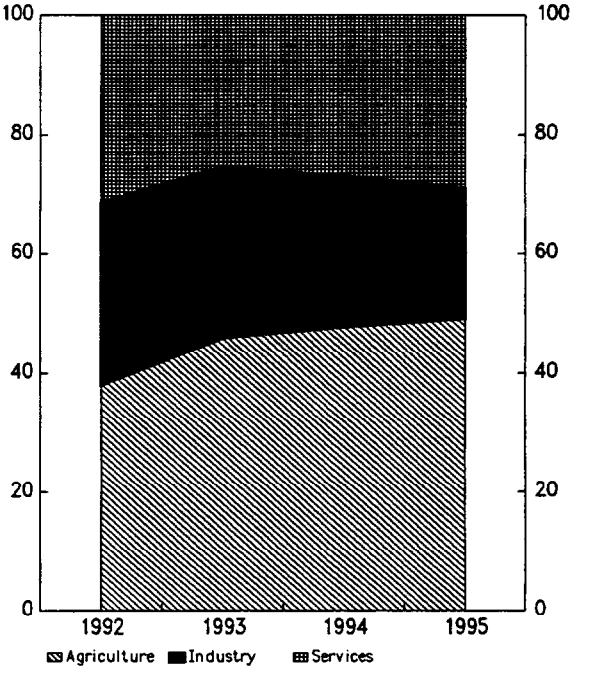
Industrial Production Index
(1991 = 100)



Agricultural Production
(1991 = 100)



Sectoral Distribution of GDP

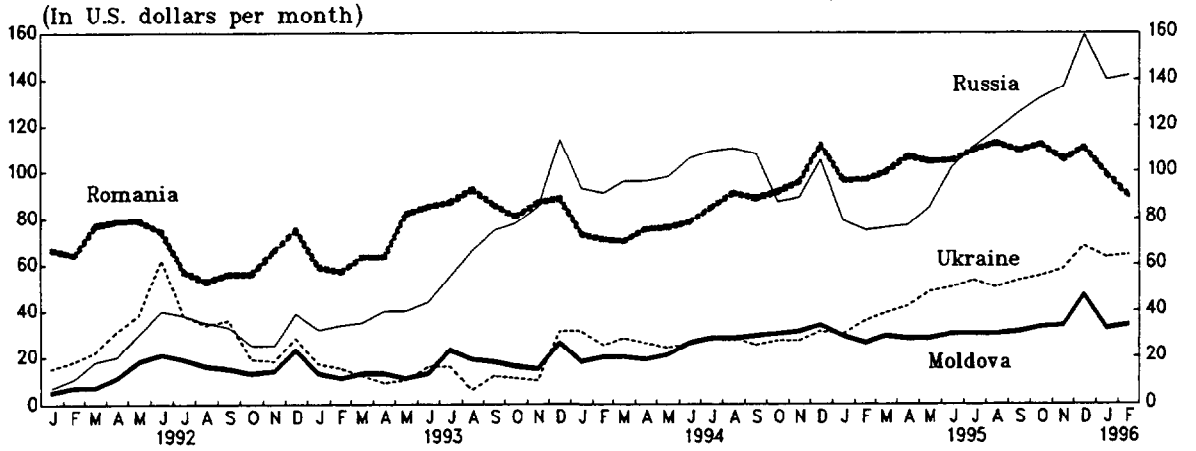


Source: Moldova Department of Statistics; and staff estimates.

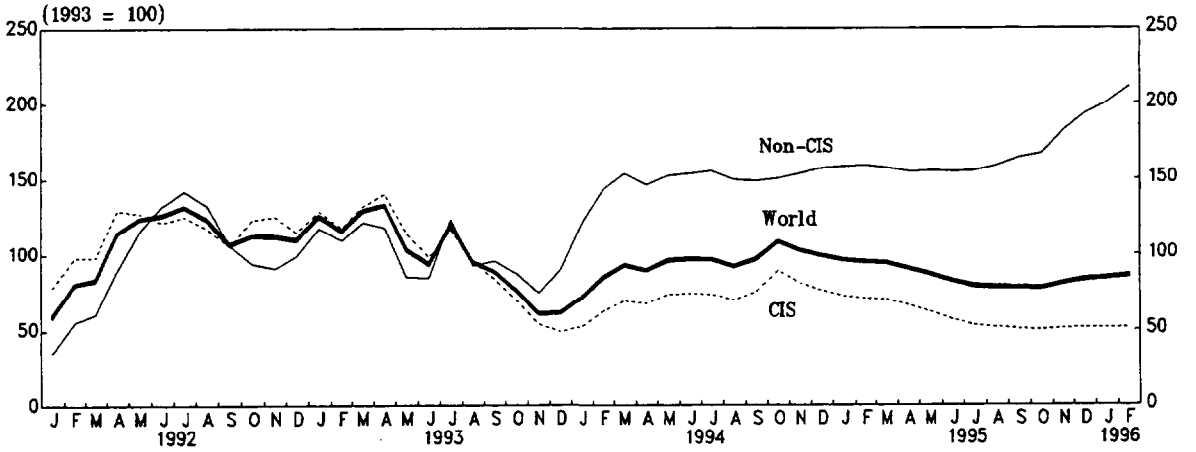
CHART 3
Moldova

Competitiveness Indicators

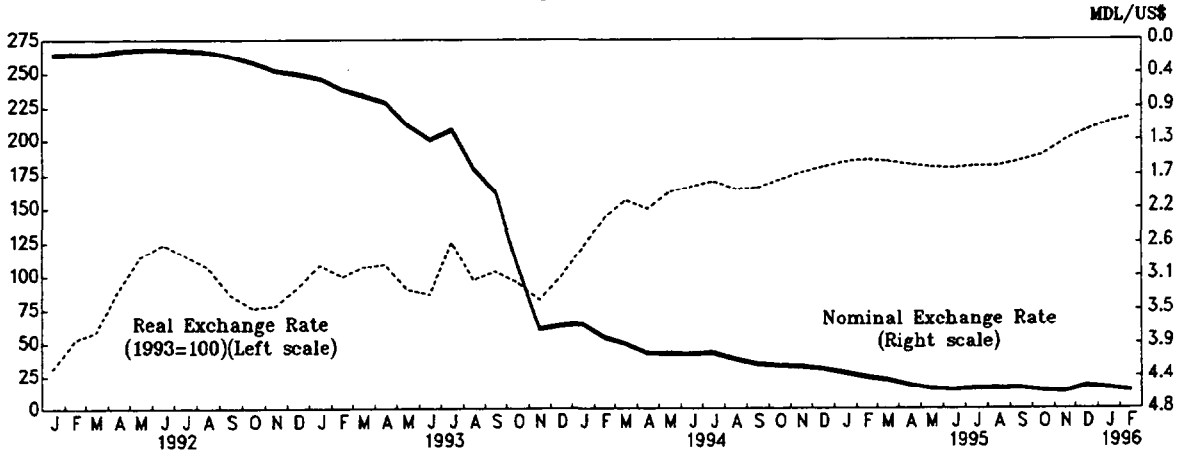
Average Wages
(In U.S. dollars per month)



Real Effective Exchange Rates 1/ 2/
(1993 = 100)



Bilateral Moldovan Leu-U.S. Dollar Exchange Rate 2/



Source: National Bank of Moldova, Moldova Department of Statistics, IMF IFS, and staff estimates.

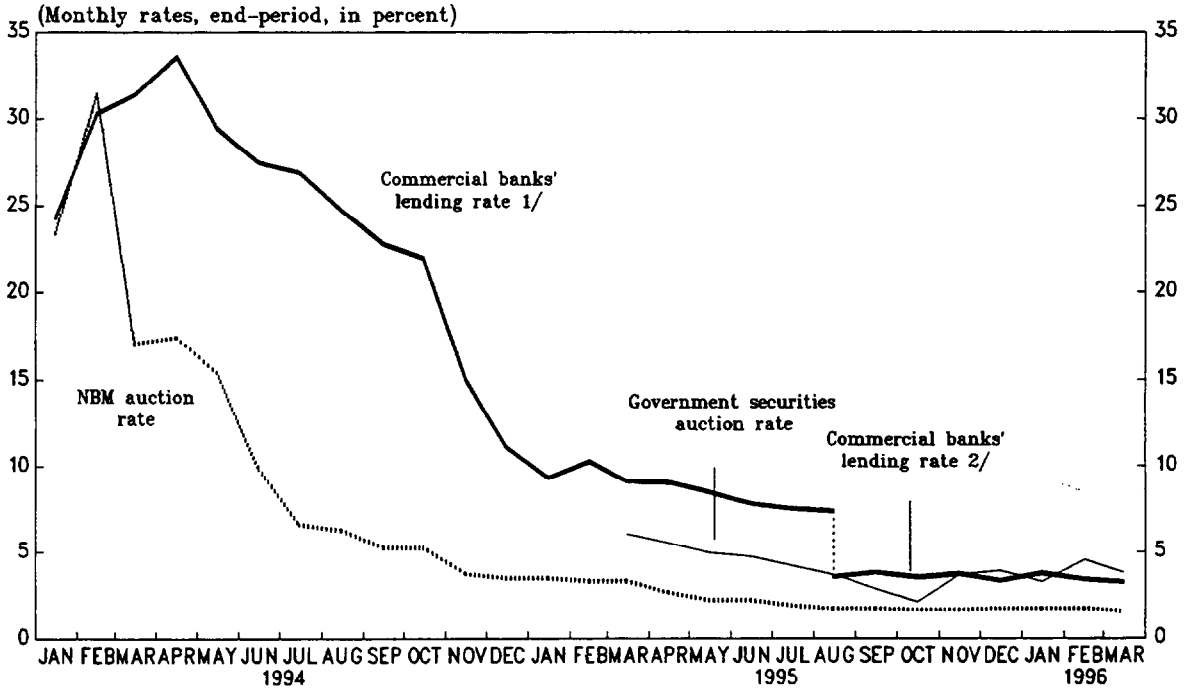
1/ Trade weighted (fixed 1994 weights, adjusted for energy imports) and CPI deflated.
2/ Increase indicates appreciation.

CHART 4
Moldova

Interest Rates

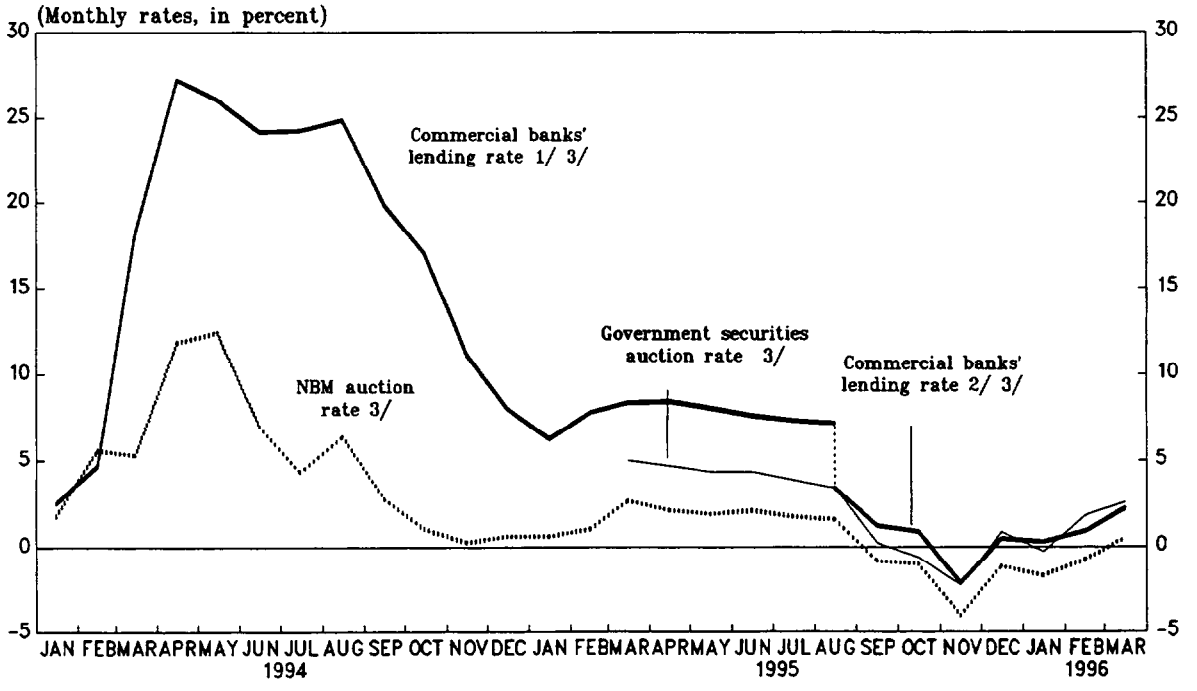
Nominal Interest Rates

(Monthly rates, end-period, in percent)



Real Interest Rates

(Monthly rates, in percent)

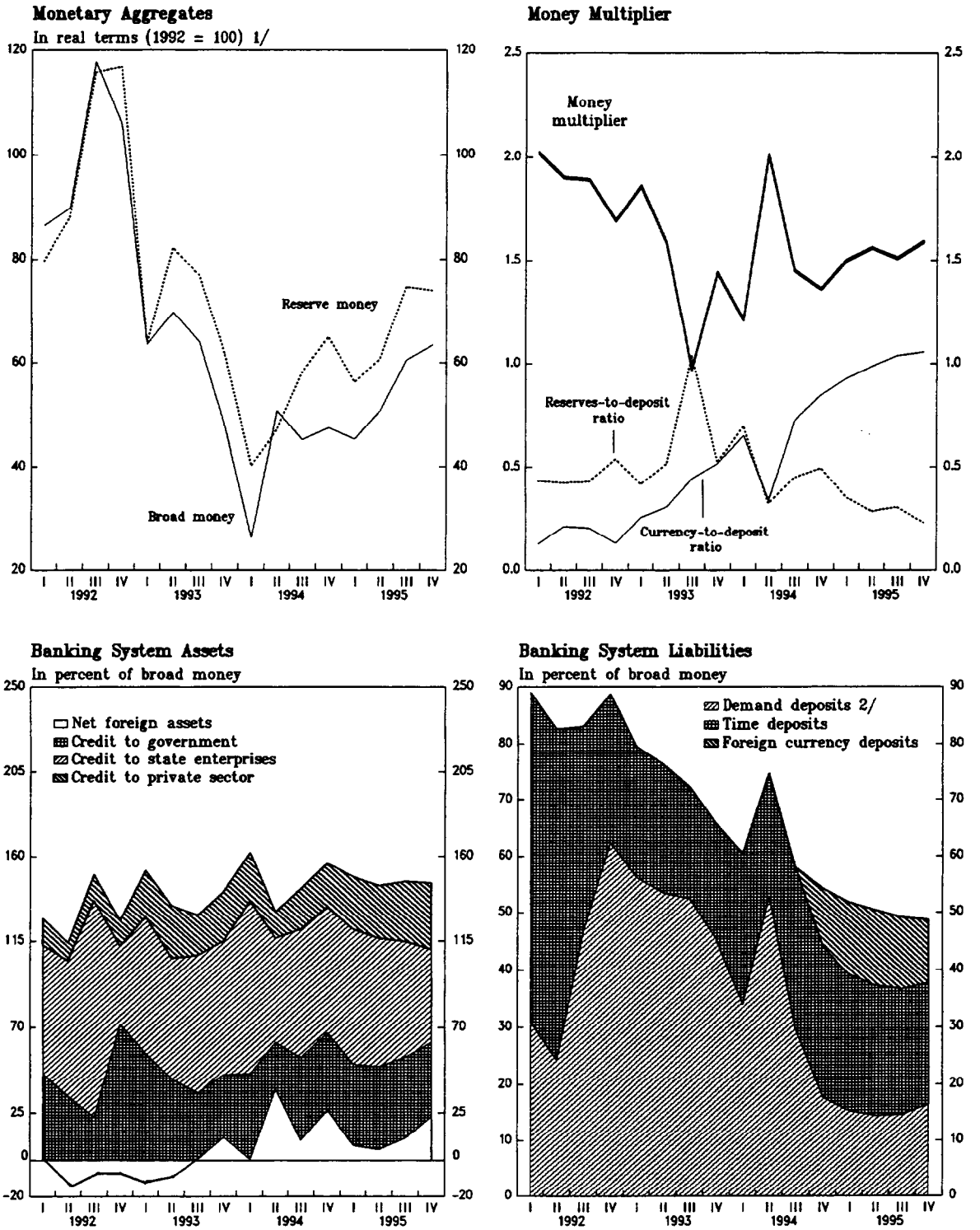


Source: National Bank of Moldova; and staff estimates

1/ Average interest rate on 3-month total credit outstanding by the three largest banks.
2/ Commercial banks' average interest rate on newly extended credit with 1-3 month maturity.
3/ Adjusted by current monthly inflation rate.

CHART 5
Moldova

Monetary Aggregates

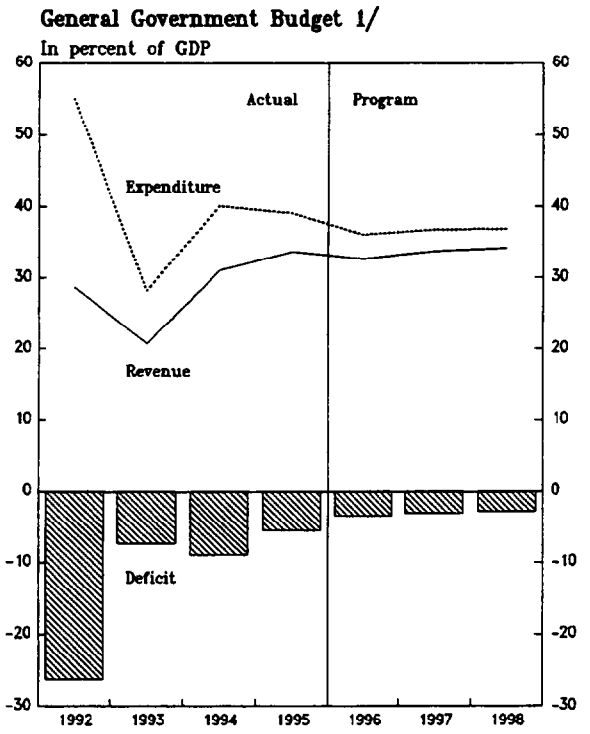


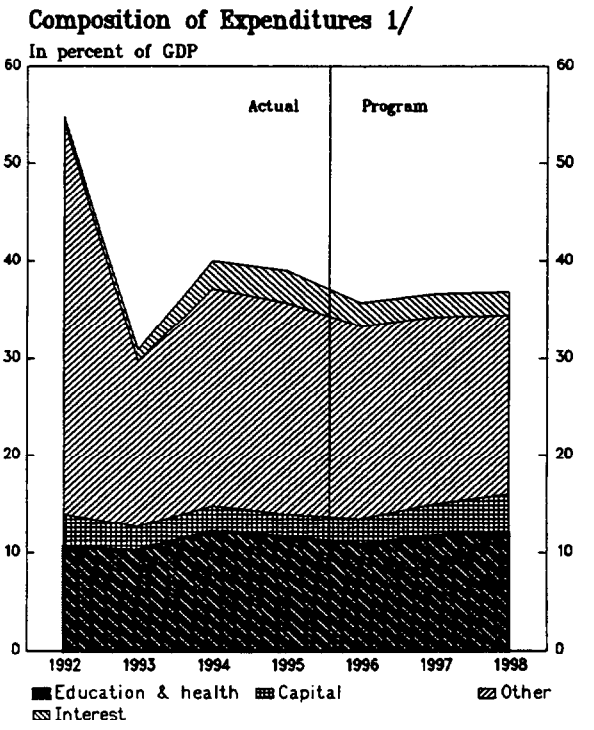
Source: National Bank of Moldova, Moldova Department of Statistics; and staff estimates.

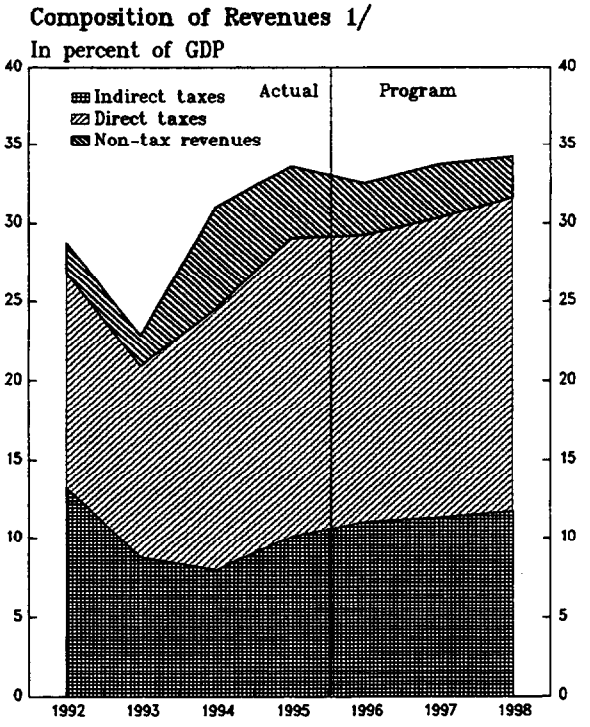
1/ CPI deflated.
2/ Including foreign currency deposits until 1994Q3.

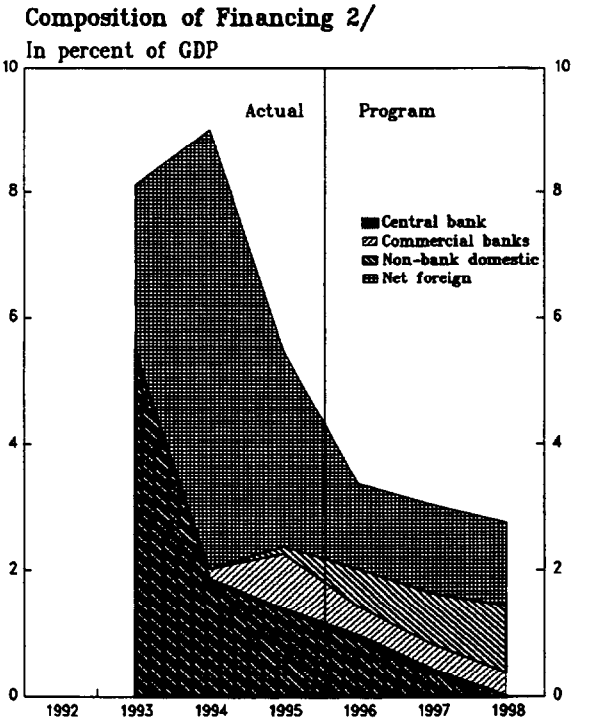
CHART 6
Moldova

Fiscal Indicators









Source: National Bank of Moldova, Ministry of Finance; and staff estimates

1/ Includes Social Fund operations on gross basis.
2/ All financing in 1992, amounting to 26% of GDP, was from the Central Bank.

The Government managed to cut ***expenditure*** as a percentage of GDP in 1995, while significantly reducing its stock of expenditure arrears. 1/ Net lending to enterprises fell compared with 1994, though the Government's resolve weakened toward the end of the year, when substantial loans to state agricultural and energy enterprises were extended. It was also obliged to cover Mdl 65 million of defaults on several previous domestic loan guarantees to state enterprises. However, the program's "provisioning" mechanism, under which the net credit to government ceilings were reduced by a proportion of guarantees outstanding, appears to have succeeded in restraining the issue of new guarantees.

Exports and imports rose rapidly in 1995 (Table 7), with trade with Central and Western Europe growing roughly twice as fast as trade with the Baltics, Russia and other countries of the former Soviet Union (BRO). The ***current account*** deficit was US$120 million (6.7 percent of GDP), similar to the revised 1994 deficit (US$100 million or 6.9 percent of GDP) and well below the deficit of US$180 million projected in the program. The deficit was mainly financed by disbursements from multilateral and bilateral official creditors. It was also financed in part by an increase in arrears on deliveries of energy products. With a current account deficit substantially lower than expected and intervention policy aimed at avoiding a nominal appreciation, gross official reserves increased by nearly US$80 million in 1995, to just over three months of imports of goods and nonfactor services, compared with the program assumption of little change.

Moldova accepted the obligations of Article VIII, Sections 2, 3, and 4 on June 30, 1995 and has maintained an ***exchange system*** free of restrictions on payments and transfers for current international transactions since then. Following its introduction in November 1993, the Moldovan leu depreciated gradually until early 1995, but since then the nominal rate has fluctuated in a narrow range around Mdl 4.5 per U.S. dollar. During 1995, the real effective exchange rate depreciated by about 15 percent, reflecting a depreciation against CIS trading partners only partly offset by an appreciation against non-CIS partners (Chart 3).

The maximum tariff on imports was lowered to 20 percent, with a few exceptions, on December 1, 1995; and the export quota on grain and grain products--the last remaining export quota--was lifted. These two measures constituted structural benchmarks under the SBA. However, in November 1995, the Government introduced a temporary ban on exports of some agricultural goods by enterprises in arrears on tax or energy payments. 2/ Around the same time, it also included in the draft 1996 budget law provisions on tariffs, tariff assessment and export taxation that raised fears of a reversal of the trade liberalization over the past two years (see Section III.4).

1/ Expenditures as a share of GDP exceeded the program target in 1995, partly as a result of downward revisions to GDP.

2/ This measure expired on February 1, 1996.

Important progress has been made on some of the ***structural reforms*** identified in the 1995 program. The remaining margin controls, that were specified in the 1995 budget law, lapsed with the passage of the 1996 budget. Though cash privatization revenues were disappointing, voucher privatization was completed in November 1995, with an auction of over 600 enterprises (Chart 7). In total, around 2,200 enterprises have now been privatized by this method. Roughly 70 percent of all apartments have been privatized, and housing privatization is scheduled to be completed by mid-1996. As envisaged in the program, liquidation proceedings have been initiated against 20 state enterprises, of which 10 have been completed.

However, much remains to be done to enforce ***financial discipline***. Progress on bankruptcy and collateral laws has been slow. A new law on bankruptcy was passed by Parliament in March 1996, but it does not appear to meet international standards. Despite progress by the Government in reducing its revenue and expenditure arrears, the chain of arrears throughout the economy remains a substantial problem (see Box 1). A significant source of arrears is the agricultural sector, where little progress has yet been made in breaking up collective farms and the old marketing arrangements.

III. The Medium-Term Program

1. Objectives and macroeconomic framework

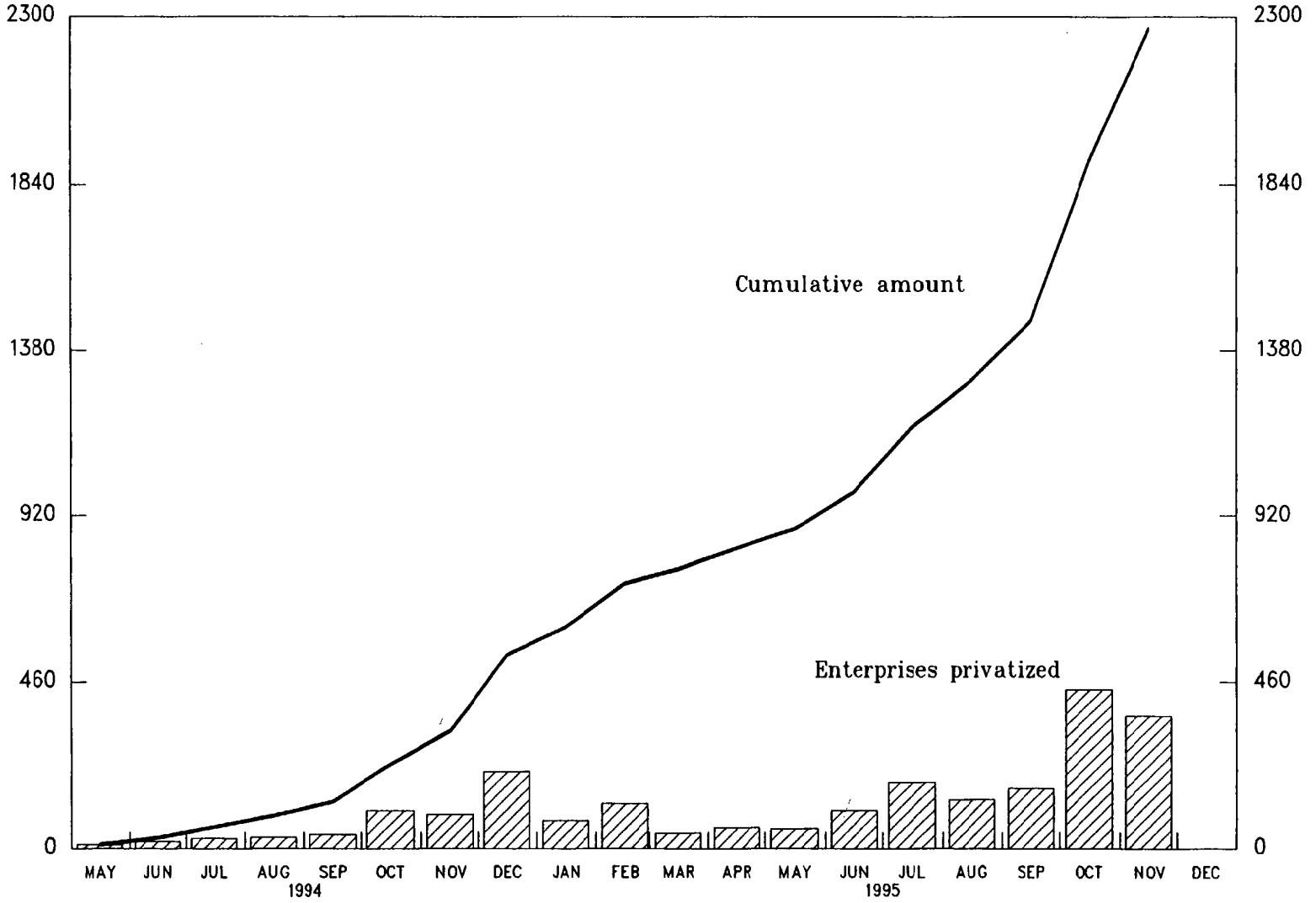
The ***objectives*** of the program are to maintain financial stability, and to establish all the institutions and mechanisms of a market economy by the end of the program period, so as to lay the basis for sustainable growth and a viable balance of payments. Financial stability will be maintained through continued control of credit growth, a further reduction in the budget deficit and the development of nonbank sources of budgetary finance. Structural and institutional reforms will focus on measures to: strengthen the banking system; improve revenue collection and expenditure control; establish a sound legal system; enforce financial discipline, especially in the energy sector; complete the privatization process; and establish a genuine private agricultural sector.

Output is expected to begin a sustained recovery in 1996, and growth is conservatively forecast to average 4-5 percent a year over the three program years (see Table 4, Chart 8, and paragraph 6 of the Memorandum of Economic Policies 1/). The recovery should be supported by continued expansion of exports, and rising investment financed partly by higher capital inflows from non-BRO countries, but mainly by increased domestic saving. The ***current account*** deficit is projected to widen a little in 1996, before narrowing over the medium term.

1/ Subsequent paragraph references in this section relate to the Memorandum of Economic Policies (Appendix V).

Chart 7
Moldova

Number of Enterprises Privatized 1/

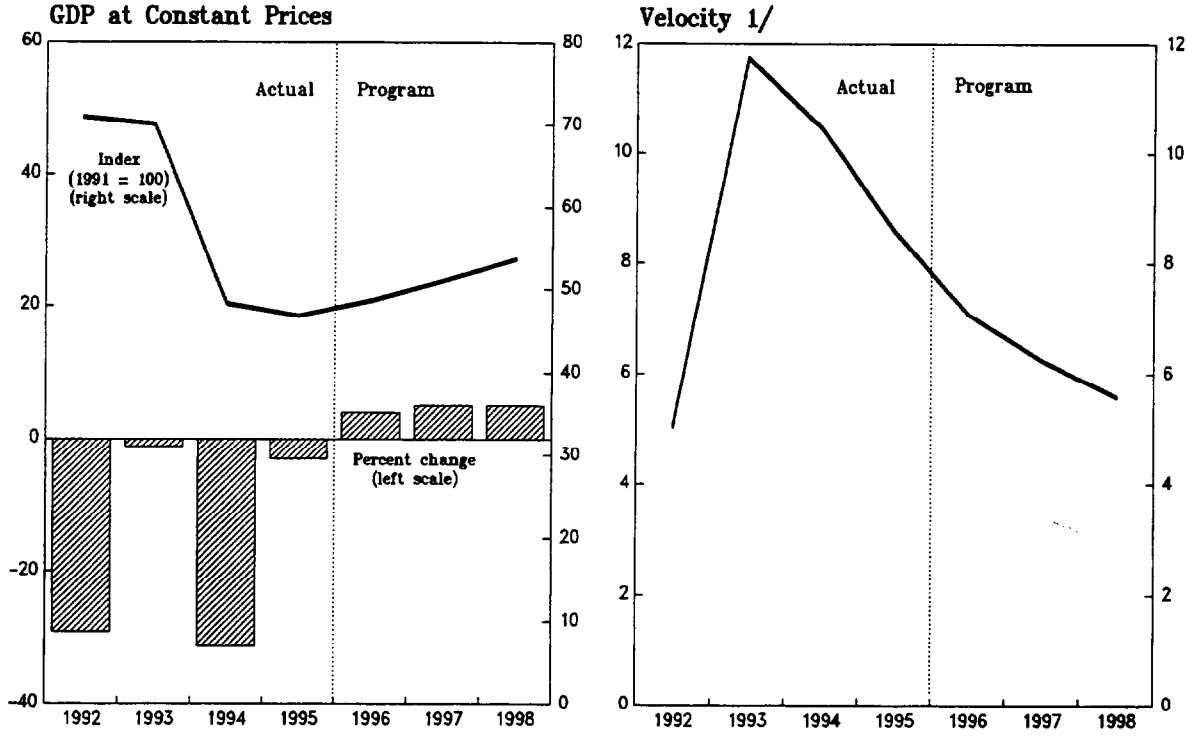


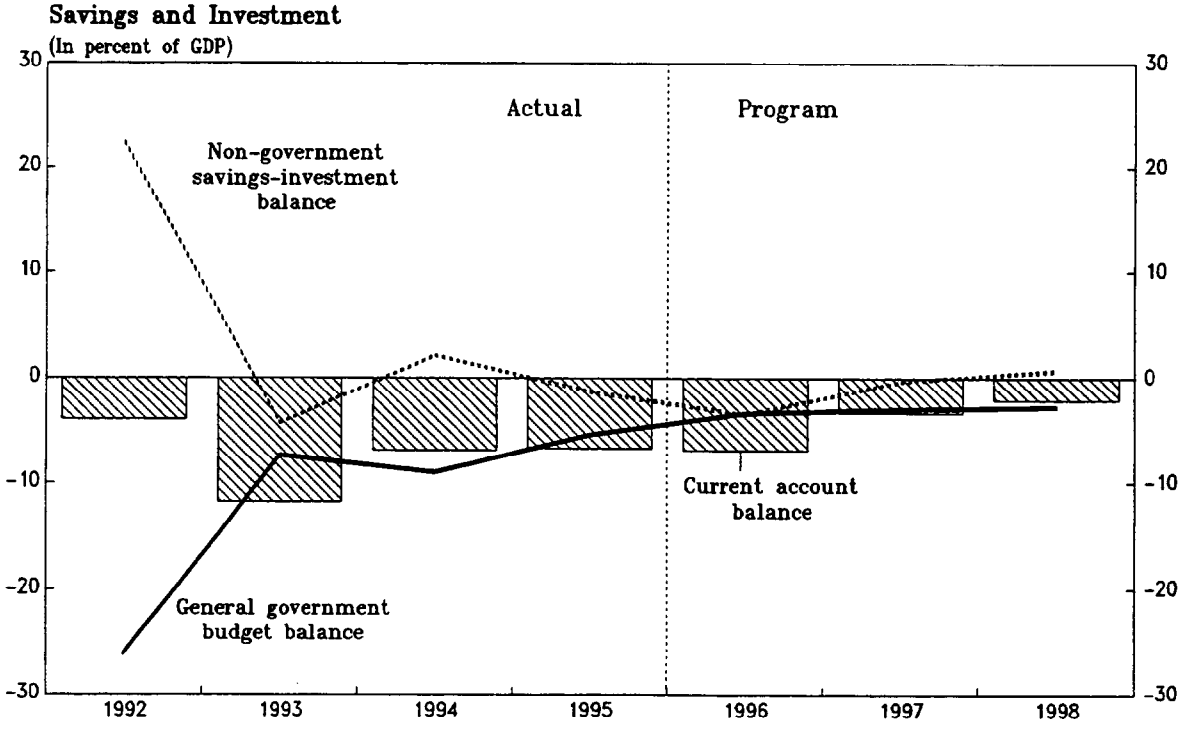
Source: Ministry of Privatization and State Property Management

1/ With the completion of voucher privatization in November 1995, over 70 percent of industrial enterprises have been privatized.

CHART 8
Moldova

GDP, Velocity, and Savings-Investment





Source: Staff estimates

1/ GDP divided by annual average broad money.

Box 1. Moldova: Domestic and External Arrears

Arrears remain a substantial problem in Moldova, even though some progress was made in stabilizing the situation during 1995. The Government recognizes the severity of the problem and is implementing policies to reduce the stock of old arrears and discourage a buildup of new arrears.

The emergence of arrears is a common feature of the transition to a market-based system. Enterprise managers are often slow to adjust production levels to lower demand conditions, resulting in inventory accumulation and arrears on payments for inputs. High inflation and inefficient financial intermediation (with high spreads between deposit and loan rates) give enterprises a strong incentive to delay payments, thereby obtaining cheap credit in the form of inter-enterprise indebtedness. Laws and institutions do not generally allow effective enforcement of contracts.

The chain of arrears in Moldova seems to begin in the agro-industrial complex. Collective farms, which are still mostly operating within old marketing arrangements, are not paid fully for products delivered to food processors. The farms, in turn, incur arrears to their suppliers, including to the electricity company Moldenergo. As a result, Moldenergo cannot pay for all its inputs, notably for gas from Moldovagas. Furthermore, with electricity tariffs set below cost recovery levels and an artificially low transfer price set for heating energy delivered to Termocom, Moldenergo's arrears to Moldovagas substantially exceed unpaid claims of its customers. Finally, Moldovagas accumulates arrears to its main supplier, Gazprom of Russia. Many enterprises in this chain are also in arrears on taxes, and on loan repayments to Government and commercial banks. The Government in turn, incurs expenditure arrears, in particular on wages and energy payments. The full extent of the arrears problem is hard to quantify, but the available data for some sectors are shown below.

The Government has taken several measures to tackle the problem. A World Bank sponsored project has targeted the elimination of newly emerging arrears. In order to participate, enterprises must submit a business plan, and remain current on all payments including taxes. In return, all arrears to energy companies, banks, government, and the Social Fund are rescheduled. Also, in 1995 there was a limited netting scheme involving the agro-industrial sector and the energy companies. And the Government has reduced its own expenditure arrears, in particular on wages. These measures have resulted in a stabilization of the overall arrears position as a percentage of GDP, but no substantial reduction so far. Further measures are envisaged in the program (see Section III.5). The essential requirement is the enforcement of hard budget constraints, through effective implementation of creditor friendly bankruptcy and procedural laws.

Selected arrears data (end of period)

	1994		1995	
Energy Sector	(million US$)	(% of GDP)	(million US$)	(% of GDP)
Moldovagas 1/				
Payables (to Gazprom) 2/	100	7.0	134	7.5
Receivables	128	9.0	163	9.1
(of which: Moldenergo)	100	7.0	124	6.9
Moldenergo				
Payables	179	12.6	235	13.1
Receivables	70	4.9	75	4.2
Termocom/energo				
Payables	45	3.2	38	2.1
Receivables	31	2.1	54	3.0
Budgetary Organizations	(million lei)	(% of GDP)	(million lei)	(% of GDP)
Central Government				
Expenditure arrears	400	6.9	270	3.4
Tax arrears	263	4.6	300	3.7
Social Fund				
Expenditure arrears	80	1.3	126	1.6
Revenue arrears	290	5.0	360	4.5
Banking System				
Non-performing loans	69	1.2	105	1.3

1/ Excluding Transnistria.
2/ Excluding penalties on arrears.

2. Monetary policy and banking sector reforms

- ***Monetary program targets 15 percent inflation during 1996.***
- ***Open-market operations to become key instrument of monetary policy.***
- ***Major challenge is to resolve problems of weak banks.***

The medium-term objectives of financial policy are to reduce inflation further, to strengthen the NBM's ability to implement policy using indirect instruments, and to tackle the problems of the banking sector. ***Inflation*** is targeted to fall to 15 percent during 1996 and 5-10 percent during the following two years. This allows for substantial increases in administered prices (e.g. of energy and housing) in 1996 and beyond.

The ***1996 monetary program*** assumes a further 10 percent decline in velocity as confidence in the leu continues to strengthen. Broad money is therefore targeted to increase by just over 35 percent during 1996, compared with 65 percent in 1995. Monetary conditions in the first half should be relatively tight, with seasonally strong demand for credit from the private sector not fully accommodated, so as to offset the lingering inflationary effects of rapid monetary expansion in the second half of 1995. The money multiplier is expected to increase substantially in the first half of 1996 following a change in reserve requirement regulations on February 1, from a daily minimum to an average maintenance requirement. Reserve money is therefore programmed to grow by about 25 percent in 1996, well below the growth of broad money. The ***medium-term monetary program*** envisages further declines in velocity of 10 percent a year, and a continued rise in the money multiplier reflecting both reductions in excess reserves of commercial banks and increasing public confidence in the banking system (Table 5).

Monetary policy will increasingly be implemented through ***indirect monetary instruments*** (paragraphs 9-11). The program envisages a gradual phasing out of credit auctions and their replacement by open-market operations. To facilitate this development, the authorities will take a range of measures to deepen the markets for government securities and commercial bills of exchange. The NBM has already taken several measures to reduce the need for banks to hold excess reserves (paragraph 12-13), which impose a significant cost on financial intermediation. The recent introduction of a Lombard facility and the development of the interbank money market should further improve banks' liquidity management.

The authorities recognize that a high priority must be given to strengthening the ***banking system***, which remains fragile and weak (paragraphs 14-18). The NBM has already strengthened banking supervision, recently increased the minimum capital requirement to Mdl 4 million (just under US$1 million), and raised the risk weighted capital-to-asset ratio to 12 percent. It will increasingly use its new powers under the Financial Institutions Law (FIL), including putting any bank with negligible or

negative capital into receivership. International Accounting Standards (IAS) for commercial banks, which will facilitate a more accurate assessment of the scale of banking system problems, will be adopted from the beginning of 1997.

Following the publication of the FIL on January 2, 1996, and the increase in the minimum capital requirement, five small banks were found to be in noncompliance. 1/ Two of these have already increased their capital sufficiently while one is in the process of issuing new share capital. The remaining banks are considering voluntary liquidation. The NBM has restricted the operations of these banks and will initiate liquidation proceedings if necessary. In January, the NBM revoked the license of one small commercial bank with negative capital, and initiated liquidation proceedings. However, the commercial bank's owners challenged the decision and the Arbitration Court subsequently ruled against the NBM and ordered the restoration of the bank's license. The NBM is currently appealing this decision.

3. Fiscal policy

- ***Budget deficit to fall to 3 percent of GDP by 1997; central bank financing to cease by 1998.***

- ***Tax revenues to be strengthened, expenditure to be switched from public administration and enterprise support to priority areas.***

- ***Social safety net to be refocused to target most needy and promote economic restructuring.***

The program envisages further significant cuts in the budget deficit, from 5½ percent of GDP in 1995 to 3½ percent in 1996, and to just under 3 percent by 1998 (Table 6 and Chart 6). Reforms of the tax structure and administration should produce a more market-oriented tax system and increases in tax revenues as a share of GDP. Expenditure is expected to fall further as a proportion of GDP in 1996, but then to rise slowly, with increased shares going to health, education and capital spending--a World Bank public expenditure review, due to be completed by mid-1996, will make detailed recommendations. Net foreign financing is projected to be around 1½ percent of GDP a year, with domestic financing falling from 2 percent in 1996 to 1½ percent in 1998. Within domestic financing, central bank finance will cease from 1998, and the Government will seek to develop nonbank sources of financing by then, so as to raise just over 1 percent of GDP.

Parliament has approved the ***1996 budget***, with deficit and financing figures in line with the program. Gross foreign loans of around US$65 million are expected, including US$20 million from the European Union and US$30 million from the IBRD. However, foreign financing is expected to

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1/ There are currently 22 commercial banks in Moldova.

be concentrated in the second half of the year, and domestic financing will consequently be weighted toward the first half. The Government intends to submit contingency fiscal measures to Parliament in May, in case revenues or net foreign financing fall short of budgeted levels (paragraph 21). They would likely include the postponement of expenditure on the indexation of Savings Bank deposits, and the auctioning (rather than on-lending) of commodities financed by external loans.

The 1996 budget strengthens ***revenues*** and includes several of the measures outlined in the medium-term plan for tax reform (paragraphs 40-46). The Government has introduced a new excise tax on petroleum imports and increased excises on virtually all excisable goods. It has eliminated the excess wage tax on enterprises and, to sustain profit tax revenues, it has postponed a planned revaluation of assets, which would have increased depreciation allowances. The Government will strive to eliminate all ***expenditure*** arrears in 1996 (paragraph 37). A budgeted 20 percent across-the-board increase in wages to government employees became effective on March 1. By end-September, there will be a review of civil service employment and wage policy, with a view to cutting civil service numbers in 1997 and increasing incentives (paragraph 26). The Government will further reduce new guarantees of enterprise loans, and will require full payment for commodities financed by foreign loans with effect from 1997 (paragraph 36).

The Government is strongly committed to ***institutional improvements*** in the areas of tax administration and expenditure management (paragraphs 23, 37-39, and 47), including the development of a macroeconomic analysis unit and a full-fledged Treasury within the Ministry of Finance, and the strengthening of the State Tax Inspectorate. However, it has stressed that rapid progress in these areas will depend heavily on continuing technical assistance from the Fund, the World Bank, and others.

The medium-term program outlines a strategy for restructuring ***social spending***, in order to better target the most needy, while providing greater incentives for labor supply, mobility and retraining (paragraphs 28-35). In line with this, the Ministry of Finance (MOF) has drafted legislation which would improve the structure of social allowances (paragraph 28), and will reform the system of unemployment benefit and severance pay (paragraph 33) with the aim of eliminating or sharply reducing severance pay, and replacing it with a flat rate unemployment benefit. The Government has also submitted to Parliament a plan for increasing the pension age, from 60 to 65 for men, 55 to 60 for women, in three month increments each year, beginning in 1997.

From 1996, the Government shifted responsibility for paying family allowances and price compensations from the general government to the Social Fund, but draft 1996 budgetary proposals did not involve additional resources for the Social Fund to finance the new obligations. However, following discussions with staff last October, the Government took several measures to ensure that there would be adequate financing for these obligations. The Social Fund dropped plans to lower the payroll tax rate this year; increased the share of its resources going to the Pension Fund

(which is responsible for paying out social allowances); and shifted responsibility for collecting Social Fund revenues from its own personnel to the State Tax Inspectorate, which has stronger enforcement powers. The authorities have also undertaken to ensure that the expenditure obligations of the Social Fund are fully financed (paragraph 30). The staff felt that these measures were adequate to cover the Social Fund's obligations, though it will strengthen monitoring to ensure that Social Fund expenditure arrears are progressively reduced.

4. External issues

- ***The program is fully financed.***

- ***Government has taken strong actions to reaffirm commitment to liberal trade regime.***

- ***Authorities recognize need for exchange rate appreciation in response to future capital inflows.***

Exports and non-energy imports are expected to continue growing in 1996 at a robust pace, while energy imports should grow significantly more slowly in response to domestic price increases. The ***current account*** deficit is projected to widen only slightly. Gross reserves should increase by about US$35 million and amount to 3½ months of imports of goods and nonfactor services at end-1996. In 1996, the current account deficit and the accumulation of reserves is expected to be fully financed through disbursements from bilateral and multilateral creditors and use of Fund resources under the EFF (Table 7). A commitment of ECU 15 million (approximately US$20 million) from the EU has been made and discussions on a US$10 million loan from the US are expected to be concluded in the near future. Disbursements of approved EBRD loans are expected to amount to US$10 million per quarter in 1996; the actual figure for the first quarter was US$12.8 million. Anticipated disbursements of US$38 million from the World Bank depend in part upon approval of a second structural adjustment loan currently under negotiation.

The authorities recognize the importance of a ***free trade regime***, particularly given Moldova's limited domestic market and dependence on imported energy. However, the 1996 Budget Law contained several ***restrictive trade measures***, which suggested that previous reforms in this area might be under threat. These included: increases in import tariffs from January 1, 1996 for a number of important products, above the 20 percent maximum level introduced on December 1, 1995; the introduction of reference prices based on domestic prices for assessment of trade taxes; and the introduction of excise taxes on exports of wine materials and unprocessed tobacco to non-CIS

countries (in line with the tax treatment of exports to CIS countries, 1/ but inconsistent with international practice). The authorities argued that the measures were needed to prevent avoidance of taxes, through under-invoicing of imports or misrepresentation of the destination of exports, and to protect domestic industry, especially wine and tobacco processors.

The staff stressed the distortionary nature of these measures. It pointed out that tariff increases were inconsistent with previous understandings under both the SBA and the World Bank's Structural Adjustment Loan (SAL), and that the proposed system of reference prices would hamper Moldova's efforts to accede to the World Trade Organization (WTO). The staff urged the authorities, instead, to strengthen customs administration. In this regard, the recent agreement with the Transnistrian authorities to set up Moldovan customs posts along the Transnistria-Ukraine border, should be helpful. The Government also intends to require the Customs Department to report to the MOF with effect from mid-1996.

After discussions, it was agreed that the maximum tariff rate would be restored to 20 percent, with very few exceptions, and that the provision in the 1996 Budget Law on reference prices would be modified in line with WTO rules (paragraph 74). Beside the limited exceptions (Annex I, Appendix V), the tariff structure will then be composed of five bands, with a minimum tariff of zero and a maximum tariff of 20 percent. It was also agreed that imposition of excise taxes on exports of wine materials and unprocessed tobacco to non-CIS countries would be repealed by July 1, 1996.

The authorities expressed concerns regarding the possible implementation of quantitative trade restrictions and high excise taxes by Russia on Moldovan exports of alcoholic products, a major component of Moldova's exports. The staff understands that these issues have been resolved in the context of discussions on the Economic and Trade Agreement for 1996.

The Government is determined to carefully monitor and control the ***external debt*** position (paragraph 76). The MOF will therefore retain the sole authority to borrow or guarantee external loans on behalf of the Government. Discussions are taking place on the servicing/restructuring of debt arising from the 1992-93 Economic and Trade Agreement between the Governments of Moldova and Russia. Pending the outcome of these discussions, the Moldovan authorities have postponed payments of obligations that fell due in the first quarter of 1996 (approximately US$6 million). The Moldovan authorities have assured the staff that, if a restructuring agreement has not been concluded, these payments will be made before Board discussion of Moldova's request. The Government is firmly committed to remain current on its external obligations.

1/ For goods produced and traded among CIS countries, VAT and excise taxes are applied on an "origin principle", which is to say that goods are taxed where they are produced rather than where they are consumed.

The authorities believe that the present ***exchange rate*** poses no threat to the competitiveness of Moldova's exporters, but they are clearly concerned about the possible impact of a rapid appreciation. Given the low level of dollar wages in Moldova, a real appreciation is likely to occur as structural reforms lead to productivity increases, as in other transition countries. The authorities recognize that it would be preferable if this were to come about mainly through nominal appreciation, rather than higher inflation, and that greater exchange rate flexibility will be needed in response to future episodes of sustained capital inflows (paragraph 72). In these circumstances, the authorities will consult with Fund staff on the appropriate response should reserve money exceed its indicative target.

5. Structural measures

- ***Privatization program to open to foreign investors.***

- ***Residential electricity and heating tariffs to rise by 50 percent immediately; all energy tariffs to rise to full cost recovery levels by end-1997.***

- ***Market for agricultural land to be established.***

Structural measures will focus on completion of the privatization process, the imposition of financial discipline throughout the economy, but especially in the energy sector, and on liberalization of the market for agricultural land. With the completion of the voucher ***privatization*** process, the next stage--cash privatization--will intensify (paragraphs 53-54). Foreign investors have been invited to take part in tenders for controlling stakes in the tobacco industry and in 41 other enterprises. The 1997/98 privatization program, to be submitted to Parliament by end-1996, will identify those enterprises which will remain in the public sector, and complete the sale or liquidation of the remainder.

Financial discipline will be promoted by the continuation of bankruptcy proceedings against loss-making state enterprises (paragraph 56). The Government will strictly limit loan guarantees and budgetary transfers to state enterprises, and any such transfers will be fully budgeted. The recently passed Law on Bankruptcy does not appear to meet international standards, and revisions are likely to be necessary. Progress in implementing and enforcing effective laws on bankruptcy and collateral will be the subject of a program review in the fall of 1996.

Financial discipline is particularly weak in the ***energy sector*** (paragraphs 64-67). Low domestic tariffs and a poor collections record, partly reflecting arrears of the Government on payments to domestic energy enterprises, have led to rising external arrears to the main energy supplier, Gazprom. Discussions are currently underway with Gazprom which may result in the Government's assumption of part of these arrears. The Government has decided to limit any assumption of arrears to US$50 million, equivalent to its own arrears to the energy enterprises, which would then be

written-off. Fund staff will be fully consulted on the terms of any agreement with Gazprom, and following an agreement, adjustments will be made to the financial program (Annex VII, Appendix V). Remaining arrears to Gazprom, including those of Transnistrian enterprises, will be settled at the enterprise level, and the non-assumption by the Government of any further enterprise arrears will be a performance criterion under the program.

Box 2. Moldova: Energy Costs and Tariffs
(in U.S. dollars)

	Gas per 1000 m^3	Electricity per 100 Kwh	Heat per Gcal
Average variable costs 1/	69	3.8	18.2
Current tariffs 2/ 3/			
Households	62	3.1	6.3
Lifeline consumption	...	2.6	...
Above lifeline consumption	...	5.1	...
Industry	77	4.4	61.1
Average	74	3.9	15.4
OECD tariffs (1993) 4/			
Households			
Low - High	116 - 1084	5.8 - 23.0	...
Average	308	11.3	...
Industry			
Low - High	67 - 418	3.3 - 16.3	...
Average	115	7.6	...

Source: Moldovan authorities, World Bank, International Energy Agency; and staff estimates.
1/ World Bank estimates.
2/ Converted at Mdl 4.5 = US$1.
3/ Excluding VAT.
4/ End-user prices.

The Government has proposed a strong package of measures to address the problems of the energy sector and reduce the risk of any further build-up of external arrears. As prior actions, it has raised residential electricity and heating prices by 50 percent. It has also decided to raise industrial electricity tariffs by 13 percent. As a result, average tariffs for gas and electricity are now around operating cost recovery levels while average heating tariffs are still below (see Box 2). The staff expressed its concern about the continuing substantial cross-subsidies from gas and electricity consumers to district heating consumers, and from industrial to residential energy users. The Government agreed to complete a review by

end-June 1996 to determine a schedule for raising all energy tariffs to full cost recovery levels by end-1997 and to achieve a substantial reduction in cross-subsidization during 1997, including by a further large increase of more than half in the residential heating tariff by mid-1997. Also as a prior action, it has eliminated most restraints on the powers of energy utilities to cut off nonpaying customers, and it has set ambitious targets for raising collections. Negotiations on a World Bank energy project loan providing, inter alia, for a pilot program of gas meter installation have been completed. Targeting of the social benefit system will be improved, to allow larger cash compensation payments to assist the poor with higher energy charges. Progress on energy reform will be examined during the first program review.

Some progress has already been made in establishing a ***land market*** (paragraphs 59-63). Residential property and urban land are now tradeable, a requirement that private farmers be certified has been eliminated, and land certificates, establishing farmers' right to land ownership, have been distributed. However, sales of agricultural land are not permitted. Parliament discussed in March a Presidential proposal to permit trading in agricultural land, but did not take a decision, and asked the Government to submit more detailed proposals by December 1, 1996. The staff expressed its concern about continued delays in creating a market for agricultural land, and emphasized the importance of a dynamic private agricultural sector for growth of output and exports. Following discussions, the Government decided to submit the necessary legislation by September 1, 1996 and will aim to have the legislation passed in time to take effect from the beginning of 1997.

Several other measures are planned to establish a market-based agricultural sector. To facilitate the pledging of land as collateral, a Republic-wide land registry will be developed. The Government will reduce its controlling stake in the constituent enterprises of the former state agricultural monopolies, Cereale and Fertilitatea, to minority holdings by end-December 1996. Finally, the Government will eschew the use of state trading orders or any other form of intervention which has the effect of distorting agricultural prices. Progress in these areas will be examined in program reviews during 1996.

6. Medium-term balance of payments and capacity to repay the Fund

- ***Medium-term scenario assumes 5 percent a year growth; current account deficit to fall to 2 percent of GDP by 1998.***

- ***Debt service burden to peak in 1998 at a manageable level.***

The ***medium-term scenario*** (Table 8) is based on firm implementation of the structural reform program and continued restrained financial policies. It assumes a steady appreciation of the real exchange rate, a real rate of growth of GDP of 5 percent a year and a continuous improvement in energy efficiency. On this basis, the current account deficit is projected to

decrease steadily from 1996 onwards. The counterpart is assumed to be a declining fiscal deficit, and a rise in the private saving-investment balance (Chart 8). Debt service is projected to peak in 1998 with a debt-service ratio of 17 percent (Chart 9). While fairly substantial, this should not create major difficulties if debt accumulation is carefully managed and the appropriate policies are implemented.

Assuming that all proposed purchases are made, Moldova's outstanding ***obligations to the Fund*** would rise to 238 percent of quota by 1997 (see also Table 9). As a percentage of total external debt, outstanding use of Fund resources would rise to around 37 percent in 1997 and then decline (Table 10). Moldova's obligations to the Fund would peak in 1998-99, reaching 9 percent of exports and 32 percent of gross official reserves.

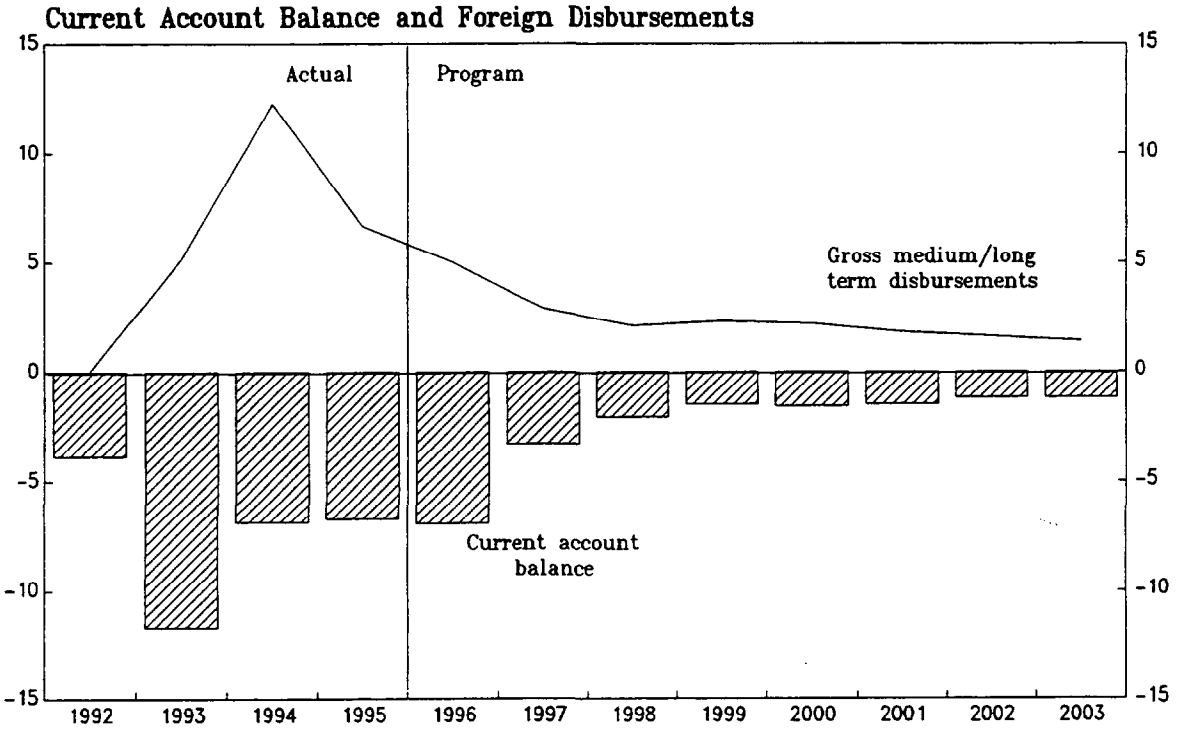
The evolution of these indicators could be significantly worse if there were setbacks in the implementation of trade and energy policies. For instance, attempts to protect domestic processing industries through controls or taxes on exports of raw materials could dampen the expected growth of exports; a failure to impose hard-budget constraints on energy consumers could delay improvements in efficiency of energy use and thus lead to higher imports. Quantitatively, ceteris paribus, a reduction in the annual rate of growth of exports of 1 percent over the whole program period would result by 1998 in a current account deficit larger by 0.8 percent of GDP, gross reserves lower by US$50 million and Moldova's obligations to the Fund reaching 37 percent of gross official reserves. A reduction in the annual rate of increase of energy efficiency (defined as the ratio of energy consumption to GDP) of 2 percent would have the same quantitative effect. Conversely, of course, faster progress on the energy front, which may be feasible given the very high current ratio of energy consumption to GDP (about six times the level in Western Europe), would result in significantly better debt indicators. For instance, a boost to the annual rate of increase of energy efficiency of the same 2 percent over the program period would lower Moldova's obligations to the Fund to 27 percent of reserves in 1998. Also, if the pace of agricultural reform increased markedly, exports could grow significantly faster than envisaged at present. Overall, assuming strict implementation of the program, and given the safeguards provided by the prior actions and the reviews, the staff judges that Moldova should be able to meet its debt-service obligations to the Fund on a timely basis.

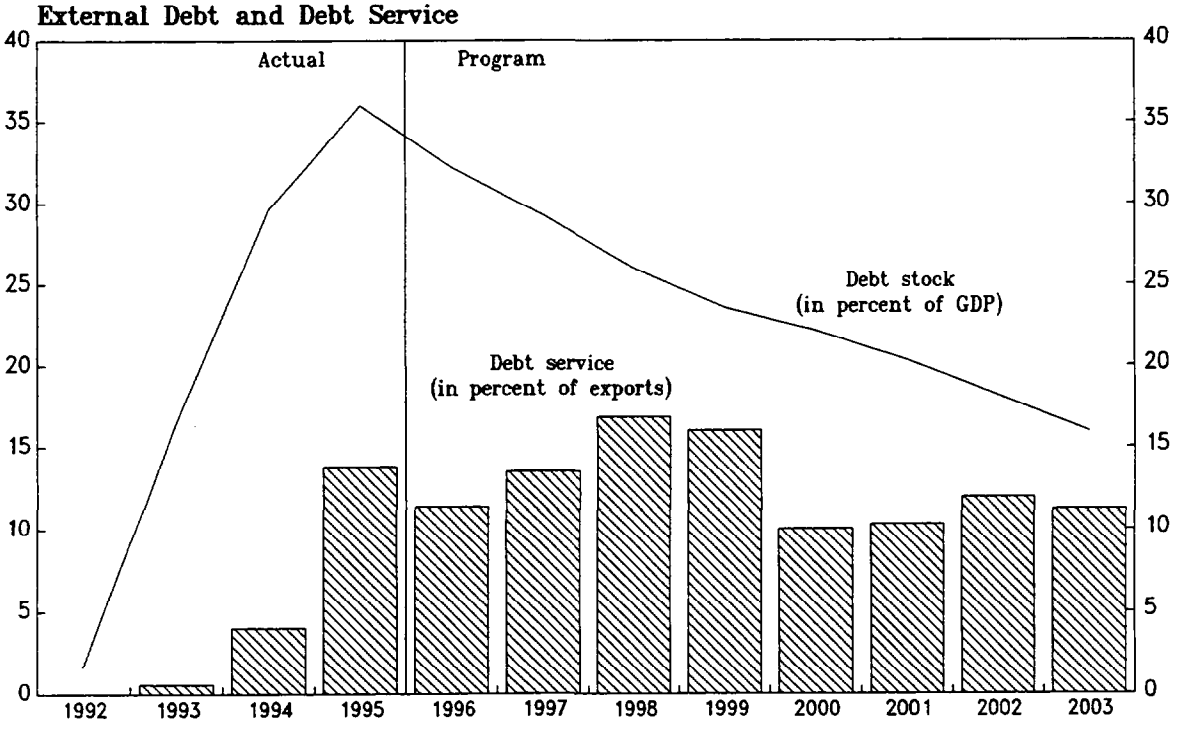
The high ***level of access*** requested under this arrangement is consistent with Moldova's balance of payments need, taking account of its very limited possibilities for bilateral assistance. This inevitably means that international financial institutions, in particular the Fund and the World Bank, will account for a large share of Moldova's external debt. The level of access is justified by the strength of the program, Moldova's excellent track record under previous Fund arrangements, and the manageable overall debt-service burden which is projected. The authorities have requested equal quarterly purchases throughout the period of the arrangement (Table 11).

CHART 9
Moldova

External Indicators

(In percent of GDP)





Source: National Bank of Moldova; and staff estimates

IV. Program Monitoring and Reviews

The program includes a series of ***prior actions*** before Board approval, in the key areas of trade and energy (paragraph 80). These comprise: Parliamentary approval of reductions in a number of import tariffs and amendments to the system of reference prices; submission to Parliament of a proposal for a phased reduction to 20 percent in the import tariff on fresh fruit; a 50 percent rise in residential electricity and heating prices; and a strengthening of powers to deal with nonpaying energy customers.

The proposed ***performance criteria and indicative targets*** are described in paragraph 77 and set out in Annexes II-VI of the Memorandum of Economic Policies (see also Table 12). ***Structural benchmarks*** during the first year will relate to targets for liquidation of state enterprises, and submission to Parliament of legislation concerning land tradeability. ***Program reviews*** to be completed by end-September and end-December 1996 (paragraph 79) will be used to ensure that good progress is made in all key structural areas.

V. Staff Appraisal

Following more than two years of economic reform, supported by two SBAs, financial stabilization has largely been achieved in Moldova. Inflation in 1995 was the lowest among CIS countries. Interest rates have fallen to moderate levels, and the exchange rate has been stable. Exports are rising, particularly to non-CIS countries, and economic activity is recovering. Good progress has also been made in some areas of structural reform, notably price and trade liberalization, and privatization.

However, only limited success has been achieved so far in enforcing hard-budget constraints on enterprises, and in developing a private agricultural sector. As government subsidies and loans have been cut, enterprises have managed to avoid restructuring by running increasing arrears. Enforcement powers, in particular the bankruptcy process, have proved inadequate. Rising nonperforming loans could pose a threat to the banking system. And despite successes in many areas, Moldova has so far failed to attract significant foreign investment. The authorities have prepared a strong and comprehensive three-year program, designed to tackle these problems, while maintaining financial stability.

The NBM has an excellent track record of implementing credit policy. The ***monetary program*** for 1996 is designed to maintain downward pressure on inflation, while allowing room for essential relative price adjustments, and for substantial credit to the economy to support investment and economic recovery. The NBM has already made impressive progress in adopting market-based methods of monetary control. The staff welcomes the plans to move to open-market operations as the main instrument of monetary control as soon as the market for government securities is adequately developed.

The biggest challenge facing the NBM is to implement its strategy for dealing with ***problem banks***. The new central bank and financial institutions laws provide an excellent basis for carrying out this plan, which was devised with substantial support from the Fund. The staff welcomes the speed with which the NBM moved to liquidate one small bank, as soon as the FIL had been promulgated, but is concerned about the legal challenge to its new powers by the bank's owners. The staff urges the authorities to clarify the position as soon as possible, so that the NBM can proceed to deal with other weak banks.

Great strides have also been made to rein in the ***fiscal deficit***, from over 25 percent of GDP in 1992 to 5½ percent in 1995. Transfers to state enterprises have been cut dramatically, and revenue collection has been strengthened. The program envisages further cuts in support to enterprises, a reduction in the size of public administration, and improved targeting of social benefits, to make room for higher spending in priority areas such as health, education and investment. The staff is, however, concerned about the Government's willingness to provide guarantees for loans to state enterprises, and to on-lend commodities financed by external loans, with little prospect of eventual repayment. It urges strict implementation of the decision to phase out these transfers and guarantees rapidly.

The authorities have so far resisted nominal ***exchange rate*** appreciation. Given the relatively strong official reserves position, the low level of dollar wages, and the recent pick up in inflation following monetary expansion, the staff believes that, in the face of renewed capital inflows the NBM should be prepared to allow a substantial nominal appreciation before contemplating intervention. Should reserve money exceed its indicative targets as a result of intervention, the staff will use its consultations with the authorities to ensure that exchange rate policy remains consistent with achievement of the program's inflation targets.

Moldova has moved rapidly to liberalize its ***trade regime***. By late 1995, it had eliminated all export and import quotas, all export taxes, and substantially reduced both the average level and dispersion of import tariffs. Given the importance of trade to a small country like Moldova, the staff was very concerned about the protectionist drift in economic policy that became evident from the fall of 1995. The proposed measures were motivated by an understandable concern to reduce tax evasion, but also by a desire to protect the struggling industrial sector, especially the wine and tobacco processing sectors that depend on cheap raw material inputs. The staff believes strongly that restructuring and investment, including foreign investment, is the answer to the problems of these industries, not protection. It therefore welcomes the strong measures which the Government is taking, as prior actions, to reaffirm its commitment to free trade.

The key ***structural measures*** in the program to tackle lack of financial discipline are the completion of privatization, liquidation of insolvent state enterprises, strengthening of bankruptcy and collateral laws, reform of energy pricing and enforcement, and the creation of a genuine private

agricultural sector. ***Privatization*** is entering an important new phase, in which major enterprises will be sold for cash. The staff welcomes the Government's willingness to open the process to foreign investors and allow them to bid for majority stakes, especially in major sectors such as the tobacco industry. The key to securing foreign investment will be the maintenance of financial stability and an open trade regime, and a strengthening of the legal framework in line with international standards.

The Government is to be commended for the strong actions it has taken to address the problems of the ***energy sector*** and to establish a credible commitment to no future involvement in the commercial transactions of energy enterprises. The staff recognizes that these will impose significant burdens on the population, but believes there is no alternative if the unsustainable growth of arrears to energy suppliers is to be halted and reversed. Assistance to the most needy should take the form of fully budgeted financial transfers, as part of a well-targeted social safety net, and not through government intervention in the allocation and pricing of energy. The staff remains concerned about the relatively low tariff for residential heating and the extent of cross-subsidization from industrial and government to residential energy users. It welcomes the Government's intention to substantially reduce cross-subsidization in the energy sector during 1997.

The current situation in the ***agricultural sector***, in which there are barriers to the break up of collective farms, and cross-ownership arrangements between collective farms and processing industries, is preventing farmers from maximizing income and allowing processing companies to postpone restructuring. The staff welcomes the steps that have already been taken to distribute land certificates to members of collective farms. However, a successful private sector will only emerge when trading in agricultural land is permitted. Delays in this area partly reflect the lack of a clear lead from the Government. The staff therefore urges the Government now to promote widespread support for its decision to establish a free land market with effect from the beginning of 1997.

The staff is confident that the authorities are firmly committed to this program, and that if it is strictly implemented, a period of sustained growth and rising living standards is in prospect. There are, of course, significant ***risks***. These include the possibility that structural reforms might continue to lag, or that the Government might find protectionist pressures irresistible. A continued failure to impose financial discipline and break the chain of arrears could undermine the progress that has already been made on financial stabilization. As in other transition countries, it could also precipitate a banking crisis. The reintegration of Transnistria, if it were to happen, would need to be handled very carefully, to avoid financial destabilization. Conversely, however, successful implementation of the program could well set the stage for faster growth and higher levels of foreign investment than have cautiously been assumed in the program. Overall, the staff believes that the excellent track record of the authorities in implementing Fund programs over the past 2½ years, combined

with the strong prior actions and the wide-ranging program reviews that are envisaged, provide adequate safeguards, and the staff therefore recommends approval of the arrangement.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Government of the Republic of Moldova has requested an extended arrangement in an amount equivalent to SDR 135 million for a period of three years from May ..., 1996.

2. The Fund approves the extended arrangement set forth in EBS/96/68.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Table 1. Moldova: Basic Data

Social and demographic indicators 1/

Area	33,800	sq. km.
Population	4.335	million
Share of urban population	46	percent
Rate of population growth	−0.3	percent
Life expectancy at birth	67.8	years
Infant mortality rate (per 1,000 live births)	21.5	
Hospital beds (per 10,000 people)	131.0	

	1991	1992	1993	1994	1995 2/
GDP 3/		(In millions of lei)			
Nominal GDP	26	192	2,210	5,780	8,018
GDP per capita (in US$)	...	232	310	325	411
Real GDP (percentage change)	−17.5	−29.1	−1.2	−31.2	−3.0
Sectoral distribution of GDP		(In percent of GDP)			
Agriculture, hunting, forestry, and fishing	33	38	46	48	49
Mining, manufacturing, and energy	30	31	29	25	22
Construction and services	37	31	26	27	29
Trade		(In millions of lei)			
Total exports of goods	...	165	740	2,530	3,330
(in percent of GDP)	...	86	33	44	42
Total imports of goods	...	172	1,034	2,750	3,475
(in percent of GDP)	...	90	47	48	43
General Government 4/					
Total revenue	6	43	364	1,353	1,916
(in percent of GDP)	25	23	16	23	24
Total expenditure	6	55	517	1,763	2,282
(in percent of GDP)	25	29	23	31	28
Net lending	--	39	10	111	71
(in percent of GDP)	--	20	--	2	1
Overall surplus (+) or deficit (−)	--	−50	−163	−521	−438
(in percent of GDP)	--	−26	−7	−9	−5
Money and Credit (end of period)					
Net foreign assets 5/	--	−7	42	198	286
Domestic credit	16	104	451	977	1,523
Claims on general government (net)	7	59	117	308	489
Broad money (M3)	18	83	349	753	1,244
Other selected indicators		(Annual percentage changes)			
GDP at current prices	103	641	1,052	162	39
Consumer prices	...	1,277	789	330	30
Average nominal wage	...	...	791	244	31

Source: Moldovan authorities, and staff estimates.

1/ Data for 1994, except for 1990 data on life expectancy at birth, and hospital beds.
2/ Staff estimates.
3/ GDP data are inclusive of Transnistria. Insufficient coverage of the newly emerging private sector is likely to be reflected in an underestimation of aggregate output growth.
4/ Extrabudgetary funds and the Social Fund are included on a net basis.
5/ At actual exchange rates.

Table 2. Moldova: Performance Under the SBA, December 1994 – December 1995 1/

		1994	1995					
		December Prog. 2/	Sept. Prog.	Sept. Actual	Dev.	Dec. Prog.	Dec. Actual	Dev.
				(In millions of lei)				
I.	NBM net domestic assets 3/	459.0	904.0	724.2	−179.8	970.0	616.7	−353.3
II.	Banking system net claims on general government 3/ 4/	304.4	405.9	386.9	−19.0	429.3	418.9	−10.4
III.	Reserve money 5/ 6/	552.0	570.0	702.1	132.1	601.2	780.5	179.3
IV.	Broad money 5/	753.0	803.0	1060.7	257.7	836.0	1243.8	407.8
V.	Budget deficit 3/	...	...	...	...	...	...	...
				(In millions of U.S. dollars)				
VI.	NIR denominated in convertible currencies 3/ 7/	15.9	−69.5	−6.6	62.9	−73.5	30.5	104.0
VII.	Gross reserves denominated in convertible currencies 5/ 7/	178.8	155.0	218.8	63.8	170.0	255.9	85.9
VIII.	Limits on contracting and guaranteeing of external debt from January 1, 1995: 3/ 8/							
	1 – 12 year maturity	...	200.0	55.6	−144.4	200.0	127.8	−72.2
	1 – 5 year maturity	...	70.0	2.8	−67.2	70.0	36.8	−33.2
IX.	Limits on guaranteeing of external debt from January 1, 1995: 3/ 9/							
	1 – 12 year maturity	...	100.0	8.9	−91.1	100.0	21.8	−78.2
	1 – 5 year maturity	...	50.0	2.8	−47.2	50.0	15.7	−34.3
	Memorandum item:							
	Government guaranteed domestic enterprise debt (in millions of lei)	...	...	92.5	...	...	50.4	...

Sources: Moldovan authorities; and staff estimates.

1/ Performance criteria at constant exchange rates; unless otherwise indicated.
2/ As set out in EBS/95/26 (3/2/95).
3/ Performance criteria.
4/ Ceiling on Government borrowing is adjusted downward by 20 percent of Government guaranteed domestic enterprise debt. Banking system net claims on Government is exclusive of banks' holding of government securities, up to Mdl 70 million.
5/ Indicative targets.
6/ December reserve money target is adjusted downward by Mdl 14.8 million for decrease in the legal reserve requirement ratio.
7/ At constant program exchange rates.
8/ In addition, the Government and the NBM will not contract or guarantee external debt in maturities of one year or less, with the exception of normal import–related credits.
9/ These limits apply within the ceiling established under item VIII above. The limits in items VIII and IX on the issuance of guarantees shall not apply to any loan guarantees granted with respect to projects financed by multilateral organizations.

Table 3. Moldova: Performance Under the Program, December 1995 – March 1996 1/

		1995	1996		
		December Actual	March Prog. 2/	March Prel. Act.	Dev.
			(In millions of lei)		
I.	NBM net domestic assets	652.0	777.0	650.4	–126.6
II.	Banking system net claims on general government 3/ 4/	488.9	559.4	537.2	–22.2
III.	Reserve money	780.5	820.0	764.9	–55.1
IV.	Broad money 4/	1243.8	1348.0	1307.4	–40.6
V.	Budget deficit 4/	...	105.0	50	–55.0
			(In millions of U.S. dollars)		
VI.	NIR denominated in convertible currencies	26.1	–31.0	22.5	53.5
VII.	Gross reserves denominated in convertible currencies	256.5	220.0	253.0	33.0
VIII.	Ceiling on the contracting and guaranteeing by the Government or NBM of nonconcessional external debt from January 1, 1996: 5/ 6/				
	Maturity over 1 year	...	300.0	5.2	–294.8
	of which: maturity of 1–5 years	...	100.0	5.2	–94.8
IX.	Ceiling on the guaranteeing by the Government or NBM of nonconcessional external debt from January 1, 1996: 7/				
	Maturity over 1 year	...	150.0	5.2	–144.8
	of which: maturity of 1–5 years	...	50.0	5.2	–44.8
Memorandum:					
Government guaranteed domestic enterprise debt (in millions of lei)		...	...	22.8	...

Sources: National Bank of Moldova; and staff estimates and projections.

1/ At constant exchange rates; unless otherwise indicated.
2/ Indicative targets.
3/ Ceiling on Government borrowing is adjusted downward by 20 percent of Government guaranteed domestic enterprise debt.
4/ Data for March 1996 are preliminary staff estimates.
5/ In addition, the Government or the NBM will not contract or guarantee external debt in maturities of one year or less, with the exception of normal import–related credits.
6/ Only loans with a grant element of at least 35 percent are classified as nonconcessional.
7/ These ceilings apply within the limits specified in item VIII above.

Table 4. Moldova: Medium–Term Macroeconomic Framework, 1994–98

	1994 year	1995 year Prel. Act.	1996 year Prog.	1997 year Prog.	1998 year Prog.
I. Real sector indicators					
1. Gross domestic product 1/					
Real annual growth rate (percent)	–31.2	–3.0	4.0	5.0	5.0
Nominal GDP (millions of lei)	5,780	8,018	10,340	12,183	13,789
2. Inflation (CPI, in percent)					
Average period	329.6	30.2	23.0	12.2	7.8
End period	116.0	23.8	15.0	10.0	6.0
3. Average wage					
Nominal (Mdl per month)	107	141	175	210	241
Real (1992=100)	89	90	91	98	105
II. Savings and investment balances		(in percent of GDP)			
1. Government budget balance	–9.0	–5.5	–3.4	–3.0	–2.8
Government saving	–6.4	–3.1	–0.7	0.3	1.3
Government investment	2.6	2.3	2.7	3.3	4.0
2. Current account balance	–6.9	–6.7	–6.8	–3.4	–2.2
3. Non–government savings–investment balance	2.1	–1.3	–3.4	–0.3	0.6
Savings 2/	34.4	34.3	17.9	21.7	23.6
Investment 2/	32.3	35.6	21.3	22.0	23.0
III. Financial indicators		(percentage changes, end–year)			
1. Broad money	115.7	65.1	36.5	29.8	23.6
2. Velocity	–10.3	–22.2	–10.0	–10.0	–10.0
3. Reserve money	127.9	41.3	26.0	22.9	12.3
4. Net domestic assets					
Banking system 3/	70.9	55.9	39.2	41.1	25.8
NBM 4/	88.0	34.4	30.3	42.4	16.4
5. NBM net claims on government 4/	71.6	20.3	12.8	5.1	--
IV. External sector indicators					
1. Current account balance (in millions of US$)	–98	–120	–160	–99	–75
2. Gross official reserves (in millions of US$)	179	257	292	293	278
(in months of imports of goods and nonfactor services)	2.9	3.2	3.4	3.3	3.0
3. Exchange rate (simple ave. period, lei/US$)	4.09	4.49	4.38	4.16	4.00
Exchange rate (end–period, lei/US$)	4.27	4.50	4.26	4.06	4.00
4. Debt/GDP (percent)	30	36	32	29	26
5. Debt service/exports of goods (percent)	4	14	11	14	17

Sources: Moldovan authorities and staff estimates.

1/ GDP data are inclusive of Transnistria. Insufficient coverage of the newly emerging private sector is likely to be reflected in an underestimation of aggregate output growth.
2/ Investment includes changes in inventories. There are problems with national accounts data for 1992 to 1995. Investment and savings estimates for 1994 and 1995 are almost certainly inflated by substantial involuntary inventory accumulation and, consequently, forced saving.
3/ Change in percent of initial stock of broad money.
4/ Change in percent of initial stock of reserve money.

Table 5. Moldova: Monetary Survey and Projections, 1994–98 1/
(In millions of lei)

	1994	1995		1996				1997	1998
	Q4 Actual	Q4 SBA	Q4 Actual	Q1 Prel. Act.	Q2 Prog.	Q3 Prog.	Q4 Prog.	Q4 Prog.	Q4 Prog.
				National Bank of Moldova					
Net foreign assets	90	−354	128	114	61	82	95	−96	−145
NFA (convertible)	76	−368	117	101	48	69	82	−109	−158
Gross reserves	894	850	1154	1138	1147	1232	1309	1322	1258
Foreign liabilities	−818	−1218	−1037	−1037	−1099	−1163	−1227	−1431	−1416
NFA (non−convertible)	14	14	11	13	13	13	13	13	13
Net domestic assets	462	970	652	650	801	835	889	1305	1504
Net claims on general government	319	450	431	465	501	521	531	581	581
Credit to banks	275	570	367	304	426	448	493	872	1100
Other items (net)	−132	−50	−146	−118	−126	−135	−136	−148	−178
Reserve money	552	616	780	765	861	917	984	1209	1359
Currency in circulation	346	388	639	652	749	798	854	1042	1150
Required reserves	50	57	46	54	57	62	68	93	126
Cash in vaults and net correspondent dep.	151	166	94	56	53	54	59	72	80
Special deposits	5	5	2	3	3	3	3	3	3
				Banking system					
Net foreign assets	216	−266	286	271	216	238	253	62	13
NFA (convertible)	170	−280	265	248	194	216	230	39	−10
Gross reserves	989	948	1302	1285	1294	1382	1462	1475	1411
Foreign liabilities	−818	−1228	−1037	−1037	−1100	−1166	−1232	−1435	−1421
NFA (non−convertible)	45	14	21	22	22	22	22	22	22
Net domestic assets	537	1102	958	1037	1241	1333	1445	2143	2712
Net claims on general government	308	439	489	537	599	624	639	739	789
Credit to economy	669	983	1034	1045	1209	1294	1413	2100	2717
Other items (net)	−440	−320	−564	−546	−567	−586	−606	−696	−794
Broad money	753	836	1244	1307	1457	1571	1698	2204	2725
Currency in circulation	346	388	639	652	749	798	854	1042	1150
Total deposits	408	448	605	655	708	773	844	1162	1575
Demand and time deposits	330	369	468	512	548	601	657	920	1276
Foreign currency deposits 2/	77	79	137	144	160	173	187	242	299
Memorandum items:									
Accounting exchange rates									
Mdl per one dollar	5.00	5.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Actual exchange rates									
Mdl per one dollar	4.27	...	4.50	4.52	4.38	4.32	4.26	4.06	4.00

Sources: National Bank of Moldova and staff estimates.

1/ Data are at program accounting exchange rates and exclude Transnistria banks.
2/ At current exchange rate.

Table 6. Moldova: General Government Budget 1994–98 1/

	1994	1995		1996					1997	1998
	year	year SBA	year Prel. Act.	Q1 Prog.	Q2 Prog.	Q3 Prog.	Q4 Prog.	year Prog.	year Prog.	year Prog.
				(In millions of lei)						
Revenues	1353	1667	1916	557	577	603	628	2365	2913	3358
Tax revenues	980	1330	1530	476	492	514	536	2018	2504	2999
Profit tax	351	385	392	94	98	102	106	400	518	646
Personal income tax	130	150	201	52	54	56	58	220	285	355
VAT	282	355	568	156	161	168	175	660	817	970
Excises	151	120	186	101	104	109	114	428	504	571
Foreign trade taxes	30	50	51	12	12	13	13	50	59	67
Land tax	15	218	92	47	49	51	53	200	247	308
Real estate tax	6	22	12	5	5	5	5	20	24	27
Other taxes	15	30	27	9	10	10	11	40	49	56
Non–tax revenues 2/	373	337	372	82	85	88	92	347	409	359
Grants	--	--	14	--	--	--	--	--	--	--
Expenditures and net lending	1857	1968	2354	607	657	712	738	2715	3283	3738
Expenditures	1746	1968	2282	646	638	708	748	2740	3348	3819
National Economy	135	104	167	35	36	38	39	148	140	95
Environment	8	8	8	4	4	4	4	16	19	21
Social sphere	953	974	1113	307	317	332	346	1301	1638	1887
Education	414	437	567	155	161	168	175	658	853	985
Culture	31	30	44	16	16	17	18	67	79	89
Health care	292	315	366	111	115	120	125	471	582	672
Physical culture	2	2	3	2	2	2	2	7	9	10
Social assistance	29	32	42	13	14	14	15	57	67	75
Subsidies and cash compensation	184	157	90	10	10	11	11	41	49	55
Interest	164	204	265	59	61	64	66	250	295	333
Domestic	120	112	173	35	37	38	40	150	177	200
Foreign	44	92	93	24	24	25	27	100	118	133
Capital expenditures	110	147	135	47	49	51	53	200	306	451
Road maintenance	51	53	65	24	24	25	27	100	118	133
Other expenditures 3/	343	383	461	137	111	158	174	580	736	822
Indexation of deposits	--	70	61	24	24	25	27	100	100	90
Extrabudg. funds deficit(+)/surplus(−) 4/	−6	--	3	--	--	--	--	--	--	--
Social Fund deficit(+)/surplus(−) 5/	−14	26	3	11	11	12	12	45	−4	−14
Net lending 6/	111	--	71	−39	19	4	−10	−25	−65	−81
Residual 7/	17	--	−1	--	--	--	--	--	--	--
Surplus(+)/deficit(−) (cash)	−521	−301	−437	−50	−80	−110	−110	−350	−370	−380
Financing	521	301	437	50	80	110	110	350	370	380
Net domestic	117	201	189	64	81	34	31	209	200	200
Net Central Bank	107	131	112	33	37	20	10	100	50	--
Net commercial banks 8/	9	70	69	15	25	5	5	50	50	50
Net nonbank 8/	--	--	9	15	19	9	16	59	100	150
Net foreign	404	100	248	−14	−1	76	79	141	170	180
Drawings	404	377	422	7	54	121	124	305	270	280
Amortization	--	277	174	20	55	45	45	164	100	100
				(In percent of GDP)						
Revenue	23.4	19.3	23.9	22.9	22.9	22.9	22.9	22.9	23.9	24.4
Tax revenue	17.0	15.4	19.1	19.5	19.5	19.5	19.5	19.5	20.6	21.8
Non–tax revenue	6.5	3.9	4.6	3.4	3.4	3.4	3.4	3.4	3.4	2.6
Expenditure and net lending	32.1	22.7	29.4	24.9	26.1	27.0	26.9	26.3	26.9	27.1
Expenditure	30.2	22.7	28.5	26.5	25.3	26.9	27.2	26.5	27.5	27.7
Net lending	1.9	--	0.9	−1.6	0.7	0.2	−0.3	−0.2	−0.5	−0.6
Residual	0.3	--	--	--	--	--	--	--	--	--
Surplus/deficit (cash)	−9.0	−3.5	−5.5	−2.0	−3.2	−4.2	−4.0	−3.4	−3.0	−2.8
Memorandum items:				(In millions of lei)						
GDP	5780	8655	8018	2437	2522	2635	2746	10340	12183	13789
Foreign commodity loans 9/	264	--	45	13	13	13	13	45	45	45

Source: Moldovan authorities; and staff estimates and projections.

1/ The accounts comprise the republican government, local governments, extrabudgetary funds and Social Fund net balances.
2/ Decline in 1996 reflects increased retained earnings by the NBM.
3/ Includes military and public administration expenditures.
4/ In 1995, this includes funds for military conversion, viticulture, and animal husbandry.
5/ This is the flow from banking system data, owing to absence of timely data on revenues and expenditures.
6/ Includes loan default expenditures.
7/ In actual columns, this measure is a residual measuring the difference between surplus/deficit in the fiscal accounts and financing measured by the monetary accounts (excluding arrears). A positive number represents an excess of revenue and financing over expenditures.
8/ Includes treasury securities (1995–1998).
9/ This represents foreign commodity loans and grants passed on to enterprises.

Table 7. Moldova: Balance of Payments, 1994–98
(In millions of U.S. dollars)

	1994	1995		1996					1997	1998
	year	year SBA	year Prel. Act.	Q1 Prog.	Q2 Prog.	Q3 Prog.	Q4 Prog.	year Prog.	year Prog.	year Prog.
Current Account Balance	−98	−181	−120	−67	−32	−24	−38	−160	−99	−75
Non−BRO 1/	−26	−132	−5	−17	−17	−13	−3	−50	−40	−37
BRO	−71	−49	−114	−50	−14	−11	−35	−110	−58	−37
Trade Balance	−54	−91	−32	−29	3	2	−5	−29	25	58
Non−BRO	−11	−93	3	−3	−6	−10	8	−11	−1	14
BRO	−43	2	−36	−26	9	12	−13	−18	26	45
Total Exports	618	731	741	162	181	208	260	811	871	940
Non−BRO	213	187	273	63	65	71	107	305	328	361
BRO	406	544	468	99	116	137	153	506	544	579
Total Imports	−672	−822	−773	−191	−178	−205	−265	−840	−846	−881
Non−BRO	−224	−280	−269	−65	−71	−80	−99	−316	−328	−347
BRO	−449	−541	−504	−126	−107	−125	−166	−524	−518	−534
o/w Energy	−287	−255	−283	−82	−55	−67	−90	−294	−271	−272
Balance of Services	−51	−100	−95	−33	−28	−23	−28	−112	−88	−90
Non−BRO	−24	−49	−24	−12	−8	−3	−9	−31	−13	−15
BRO	−27	−52	−71	−21	−20	−21	−19	−81	−76	−75
Factor Income (net)	−16	...	−27	−8	−9	−8	−10	−35	−42	−51
Non−BRO (net)	−10	...	−20	−5	−6	−6	−8	−25	−33	−44
Payments	−14	...	−31	−9	−10	−9	−11	−41	−49	−59
Receipts	4	...	11	4	3	3	4	14	15	15
BRO (net)	−6	...	−7	−3	−3	−3	−3	−10	−8	−7
Transfers (net) 2/	24	10	35	3	3	6	6	17	6	7
Capital Account	233	41	128	31	26	29	41	127	55	63
Non−BRO (net)	128	63	70	15	30	43	48	136	117	132
Of which:										
FDI (net)	18	32	26	7	12	8	8	35	51	64
Commercial Banks	−5	−−	−9	−1	−0	−0	−0	−2	−1	0
Medium− and long−term loans	163	86	84	9	19	35	40	103	67	69
Disbursements	163	123	119	12	22	38	43	114	84	71
of which: IBRD	67	...	50	−−	−−	7	32	38	44	51
EBRD	−−	...	5	10	10	10	10	40	40	20
EU	32	...	26	−−	−−	20	−−	20	−−	−−
USA	20	...	10	−−	10	−−	−−	10	−−	−−
Amortization	−−	−37	−35	−3	−3	−3	−3	−11	−16	−2
Short−term loans (net)	−49	...	−31	−−	−−	−−	−−	−−	−−	−−
BRO (net)	105	−22	58	16	−5	−14	−7	−9	−62	−70
Of which:										
FDI (net) 3/	−−	...	42	−−	−−	−−	−−	−−	−−	−−
Medium− and long−term loans	9	−22	−23	−5	−5	−7	−7	−24	−24	−23
Disbursements	12	1	1	−−	−−	−−	−−	−−	−−	−−
Amortization	−3	−23	−24	−5	−5	−7	−7	−24	−24	−23
Other (net) 4/	−−	−−	−8	21	−−	−−	−−	21	−−	−−
Interenterprise arrears	121	−−	47	−−	−−	−7	−−	−7	−39	−47
Errors and Omissions	−107	−−	−17	29	−−	−−	−−	29	−−	−−
Overall Balance	28	−141	−9	−7	−6	5	3	−5	−44	−12
Financing	−28	91	9	7	6	−5	−3	5	44	12
Net Use of IMF Credit	72	81	65	−−	14	14	14	42	45	−3
Purchases	72	...	65	−−	17	17	17	50	66	66
Repurchases	−−	...	−−	−−	2	2	2	7	21	69
Gross official reserves	−102	9	−78	4	−2	−20	−17	−35	−1	15
Other assets	−1	1	1	−−	−−	−−	−−	−−	−−	−−
NBM correspondent accounts (net) 5/	4	−−	1	−−	−−	−−	−−	−−	−−	−−
Change in liabilities & arrears 6/	−−	−−	21	3	−6	−−	−−	−3	−−	−−
Financing gap (including transfers)	−−	50	−−	−−	−−	−−	−−	−−	−−	−−
Memorandum items:										
Gross Official Reserves 7/	179	170	257	254	255	275	292	292	293	278
in month of imports of goods and NFS	2.9	...	3.2	−−	−−	−−	−−	3.4	3.3	3.0

Sources: Moldovan authorities and staff estimates and projections.

1/ BRO: Baltics, Russia, and other countries of the former Soviet Union.
2/ Private and official transfers.
3/ In 1995, includes U.S.$ 41 million of equity swapped for debt to RAO Gazprom.
4/ In 1996, includes repayment of debt from Ukraine.
5/ Non−interest−accruing cross−claims between BRO central banks.
6/ Includes amortization payments on loans from Russia whose rescheduling is under negotiation.
7/ Official reserves in convertible currencies.

Table 8. Moldova: Illustrative Medium–Term Scenario, 1995–2003
(In millions of U.S. dollars)

	1995 Prel.	1996 Prog.	1997 Prog.	1998 Prog.	1999 Proj.	2000 Proj.	2001 Proj.	2002 Proj.	2003 Proj.
Current Account Balance	−120	−160	−99	−75	−61	−71	−71	−61	−69
Trade Balance	−32	−29	25	58	73	65	74	89	89
Exports	741	811	871	940	1016	1099	1192	1297	1415
Imports	−773	−840	−846	−881	−943	−1034	−1118	−1208	−1300
o/w Energy	−293	−294	−271	−272	−277	−283	−289	−297	−306
Balance of Services	−95	−112	−88	−90	−88	−84	−88	−90	−119
Factor Income (net)	−27	−35	−42	−51	−52	−58	−61	−64	−68
Transfers	35	17	6	7	6	6	5	4	4
Capital Account	128	127	55	63	98	168	153	145	151
FDI (net) 1/	68	35	51	64	90	98	106	114	124
Commercial Banks	−9	−2	−1	--	--	--	--	--	--
Medium– and long–term loans									
Disbursements	120	114	84	71	88	92	85	85	85
Amortization	−58	−35	−40	−25	−25	−21	−38	−54	−58
Other Capital (net)	8	14	−39	−47	−55	--	--	--	--
Errors and Omissions	−17	29	--	--	--	--	--	--	--
Overall Balance	−9	−5	−44	−12	37	97	82	84	82
Financing	9	5	44	12	−37	−97	−82	−84	−82
Net Use of IMF Credit	65	42	45	−3	−54	−27	−22	−33	−43
Gross Official Reserves	−78	−35	−1	15	17	−70	−60	−51	−39
NBM Correspondent accounts									
Utilization (net)	1	--	--	--	--	--	--	--	--
Other	21	−3	--	--	--	--	--	--	--
Financing Gap	--	--	--	--	--	--	--	--	--
Memorandum items:									
Gross Official Reserves	257	292	293	278	261	331	391	442	481
in months of imports of goods and NFS	3.2	3.4	3.3	3.0	2.7	3.1	3.4	3.5	3.5
Stock of Debt (excl. IMF)	416	494	538	583	646	716	758	784	806
Use of Fund Resources	235	272	316	312	258	231	209	175	133
Repurchases and Charges	11	18	34	83	83	38	32	42	50
Current Account (in percent of GDP)	−6.7	−6.8	−3.4	−2.2	−1.6	−1.7	−1.5	−1.2	−1.2
External Debt (incl. IMF)									
(in percent of GDP)	36	32	29	26	24	22	20	18	16
Debt Service (in percent of exports)	14	11	14	17	16	10	10	12	11

Sources: Moldovan authorities and staff estimates and projections.

1/ In 1995, includes U.S.$ 41 million corresponding to the debt/equity swap with RAO Gazprom.

Table 9. Moldova: Projected Payments to the Fund as at March 31, 1996
(In millions of SDR)

	Overdue	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Beyond	Total
Obligations from existing drawings													
1. Principal													
a. Repurchases	--	5.1	14.6	47.2	47.9	17.7	7.5	7.5	7.5	--	--	--	154.8
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	4.9	6.2	5.2	3.2	1.5	0.9	0.6	0.2	--	--	--	22.7
Total obligations	--	10.0	20.8	52.4	51.0	19.2	8.4	8.1	7.7	--	--	--	177.5
(percent of quota)	--	11.1	23.1	58.2	56.7	21.3	9.3	9.0	8.6	--	--	--	197.3
Obligations from prospective drawings													
1. Principal													
a. Repurchases	--	--	--	--	--	0.9	7.5	15.0	21.6	22.5	22.5	45.0	135.1
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust and Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	0.3	2.1	4.0	5.5	5.7	5.6	5.1	4.5	3.5	2.5	2.6	41.4
Total obligations	--	0.3	2.1	4.0	5.6	6.6	13.1	20.1	26.0	26	25	47.6	176.4
(percent of quota)	--	0.4	2.3	4.4	6.2	7.4	14.5	22.4	28.9	28.9	27.8	52.9	196.0
Cumulative (existing and prospective)													
1. Principal													
a. Repurchases	--	5.1	14.6	47.2	47.9	18.6	15.0	22.5	29.1	22.5	22.5	45.0	289.9
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust and Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	5.2	8.3	9.2	8.7	7.2	6.5	5.7	4.7	3.5	2.5	2.6	64.1
Total obligations	--	10.3	22.9	56.4	56.6	25.8	21.5	28.2	33.7	26	25	47.6	353.9
(percent of quota)	--	11.4	25.4	62.6	62.9	28.7	23.9	31.4	37.5	28.9	27.8	52.9	393.3

Source: Moldovan authorities; and staff estimates and projections.

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 SAF, ESAF and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.

Table 10. Moldova: Indicators of Capacity to Repay the Fund, 1993–2003

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
					(In millions of SDR)						
Outstanding use of Fund credit	63.0	112.5	154.9	183.5	213.9	211.7	163.8	145.2	130.2	107.7	78.6
IMF Obligations	0.7	3.5	7.1	10.3	22.9	56.4	56.6	25.8	21.5	28.2	33.7
Repurchases	--	--	--	5.1	14.6	47.2	47.9	18.6	15.0	22.5	29.1
Charges	0.7	3.5	7.1	5.2	8.3	9.2	8.7	7.2	6.5	5.7	4.7
					(In percent)						
Outstanding use of Fund credit											
Exports of goods	19	26	32	34	36	33	24	19	16	12	8
External debt 1/	34	38	36	35	37	35	27	23	20	17	12
Gross official reserves	115	90	91	93	108	112	92	65	49	36	24
Debt service obligations to the Fund											
Exports of goods	--	1	1	2	4	9	8	3	3	3	4
External debt 1/	--	1	2	2	4	9	9	4	3	4	5
Gross official reserves	1	3	4	5	12	30	32	11	8	9	10

Source: Moldovan authorities; and staff estimates and projections.

1/ Includes use of Fund resources in external debt.

Table 11. Moldova: Schedule of Purchases Under the Extended Fund Facility

Amount of purchase (In millions of SDR)	Scheduled Availability Date	Conditions Necessary for Purchase 1/
11.25	On Board approval	Board approval of the extended arrangement
11.25	On or after August 15, 1996	Compliance with quantitative performance criteria as of June 30, 1996 and completion of first program review
11.25	On or after November 15, 1996	Compliance with quantitative performance criteria as of September 30, 1996 and completion of second program review
11.25	On or after February 15, 1997	Compliance with quantitative performance criteria as of December 31, 1996.

Source: Memorandum of Economic Policies, Appendix V.

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

Table 12. Moldova: Performance Criteria 1/

	1996			
	March 31 2/	June 30	Sept. 30	Dec. 31
	(In millions of lei)			
I. Ceilings on the cumulative change in net domestic assets of the National Bank of Moldova from January 1, 1996	125	149	183	237
II. Ceilings on the cumulative change in net banking system credit to the general government from January 1, 1996	75	110	135	150
III. Indicative targets for the cumulative change in reserve money from January 1, 1996	40	81	136	203
IV. Indicative targets for the cumulative change in broad money from January 1, 1996	104	213	327	454
V. Ceilings on the cumulative deficit of the general government from January 1, 1996	105	200	275	350
	(In millions of U.S. dollars)			
VI. Floors on net international reserves in convertible currency of the National Bank of Moldova	−31	−9	−5	−2
VII. Indicative targets for gross international reserves in convertible currency of the National Bank of Moldova	220	235	254	271
VIII. Ceilings on the contracting and guaranteeing by the Government or NBM of nonconcessional external debt from January 1, 1996 3/ 4/				
Maturity over 1 year	300	300	300	300
of which: Maturity of 1 – 5 years	100	100	100	100
IX. Ceilings on guaranteeing by the Government or NBM of nonconcessional external debt from January 1, 1996 4/ 5/				
Maturity over 1 year	150	150	150	150
of which: Maturity of 1 – 5 years	50	50	50	50
X. The Government will not accumulate external payment arrears				
XI. The Government will not assume arrears or other payment obligations of nonbudgetary enterprises 6/				

Source: Memorandum of Economic Policies, Appendix V.

1/ Definitions are included in the annexes to the Memorandum of Economic Policies.
2/ Indicative targets.
3/ In addition, the Government or the NBM will not contract or guarantee external debt in maturities of one year or less, with the exception of normal import–related credits.
4/ Only loans with a grant element of at least 35 percent are classified as nonconcessional.
5/ These ceilings apply within the limit established under item VIII above.
6/ This performance criterion will not apply to arrears of nonbudgetary enterprises to RAO Gazprom of up to US$50 million that may be assumed by the Government during the period of the arrangement.

Moldova: Fund Relations
(As of March 31, 1996)

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

II. General Resources Account:	SDR Million	% Quota
Quota	90.00	100.0
Fund holdings of currency	244.85	272.1
Reserve position in Fund	0.01	--

III. SDR Department:	SDR Million	% Allocation
Holdings	7.18	--

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Stand-by arrangements	84.15	93.5
CCFF	25.70	28.6
Systemic transformation facility	45.00	50.0

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	3/22/95	3/21/96	58.50	32.40
Stand-by	12/17/93	3/16/95	51.75	51.75

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

	Overdue	Forthcoming				
	03/31/96	1996	1997	1998	1999	2000
Principal	--	5.1	14.6	47.2	47.9	17.7
Charges/interest	--	4.9	6.2	5.2	3.2	1.5
Total	--	10.0	20.8	52.4	51.0	19.2

VII. Exchange Rate Arrangement:

Prior to the introduction of the Moldovan leu on November 29, 1993, the Russian ruble (supplemented by NBM-issued ruble denominated coupons) was the legal tender in Moldova. The Government introduced the leu at a conversion rate of one leu equal to 1,000 Moldovan rubles and an exchange rate of one dollar equal to 3.85 lei. The leu has since depreciated somewhat against the dollar and traded at 4.57 lei=US$1 on April 26, 1996.

Foreign exchange is traded on the Chisinau Interbank Foreign Currency Exchange (CIFCE). Operations of the CIFCE started at the beginning of 1993, and daily auctions commenced in early February 1995. An active foreign exchange cash market also exists within authorized banks and foreign

exchange bureaux. Effective November 16, 1993, the U.S. dollar exchange rate established in the CIFCE is the official exchange rate quoted by the NBM. The NBM quotes exchange rates of the leu for other currencies on the basis of the leu-U.S. dollar rate and the cross-rate relationships between the U.S. dollar and the currencies concerned in the international market.

VIII. Article IV Consultation:

The last Article IV consultation was concluded on June 21, 1995, (EBS/95/94, June 2, 1995 and SM/95/138, June 9, 1995).

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). On December 17, 1993, the Board approved a purchase of Fund resources under a stand-by arrangement in the amount of SDR 51.75 million and the drawing of the second tranche of the STF totalling SDR 22.5 million. On December 19, 1994, Moldova made a second purchase under the CCFF totaling SDR 12.2 million, equivalent to 13.5 percent of quota, in conjunction with the second review of the stand-by arrangement which expired at end-March 1995. The Board approved a successor stand-by arrangement for Moldova in an amount totalling SDR 58.05 million (equivalent to 65 percent of quota) on March 22, 1995. Three purchases, totalling SDR 32.4 million (equivalent to 36 percent of quota), have been made under the arrangement.

X. Technical Assistance:

The following table summarizes the technical assistance provided by the Fund to Moldova since January 1994.

Fund Technical Assistance in Moldova

Dept.	Subject/ Identified Need	Action	Timing	Counterpart 1/
1994				
FAD	Treasury	Mission	January	MOF
STA	Balance of Payments	Mission	February	NBM
MAE	Central Bank Accounting	Expert Visit	March	NBM
STA	Consumer and Producer Prices	Mission	April	SDS
FAD	Tax Administration	Mission	April	MOF
MAE	Banking Supervision	Expert Visit	April/May	NBM
MAE	Central Bank Modernization Monetary Operations, Research, Foreign Exchange, Banking Supervision, Payments System	Mission	May	NBM
MAE	Accounting	Expert Visit	June	NBM
STA	Money and Banking Statistics	Mission	July	NBM
MAE	Monetary Operations	Expert Visit	September	NBM
FAD	Treasury and Tax Administration	Expert Visit	October	MOF
MAE	Banking Supervision	Expert Visit	October	NBM
MAE	Foreign Exchange	Expert Visit	October/ November	NBM
STA	Multi-sector	Mission	November	SDS
MAE	Central Bank Modernization Central Bank and Banking Laws, Monetary Operations, Government Securities, Banks' Reporting	Mission	November	NBM
MAE	Accounting	Expert Visits (2)	November	NBM
MAE	Payments and Settlements	Expert Visit	December	NBM
MAE	Information Technology	Expert Visit	December	NBM

Fund Technical Assistance in Moldova (concluded)

Dept.	Subject/ Identified Need	Action	Timing	Counterpart 1/
1995				
MAE	Monetary Operations	Expert Visit	February	NBM
MAE/LEG	Legislation	Mission	February	NBM
MAE	Accounting	Expert Visit	March	NBM
MAE	Foreign Exchange	Expert Visit	March	NBM
MAE	Central Bank Modernization Monetary Operations, Banking Supervision, Research and Forecasting, Banks' Reporting, Information Technology	Mission	May	NBM
MAE	Accounting	Expert Visit	June	NBM
MAE	Information Technology	Expert Visit	July	NBM
MAE	Banking Supervision	Expert Visit	July	NBM
FAD	Fiscal Management	Mission	July	MOF
MAE	Banking Supervision	Expert Visit	August	NBM
FAD	Tax Administration	Mission	November	MOF
MAE	Central Bank Modernization Monetary and Foreign Exchange Operations, Research, Information Technology, Government Securities, Strengthening the Banking System	Mission	November	NBM
MAE	Internal Audit	Expert Visit	December	NBM
1996				
FAD	Expenditure Management	Mission	January	MOF
MAE	Banking Supervision	Expert Visit	February	NBM
FAD	Fiscal Management	Expert Visit	March	MOF
FAD	Expenditure Management	Expert Visit	April	MOF

1/ MOF: Ministry of Finance; NBM: National Bank of Moldova; SDS: State Department of Statistics.

XI. Resident Representative:

Mr. Lynge Nielsen has been the Fund's Resident Representative in Moldova since August 13, 1994.

XII. Resident Advisor:

Mr. Herskovitz was the resident advisor on central banking issues from July 1993 to July 1994. From September 1994 to August 1996, he will make 24 visits of approximately two weeks each. Mr. Walter Faulk and Ms. Betsy Faulk have taken up posts in March 1995 as resident banking supervision advisors for 18 months.

XIII. Short-term Assistance:

Mr. Bruneau of the Banque de France will make multiple visits to Moldova to advise the NBM on foreign exchange issues. Ms. Rhee will make multiple visits to advise on information technology. Ms. Kremer from the Federal Reserve Bank of San Francisco will make multiple visits to advise on on-site examinations. Mr. Parks of the Reserve Bank of New Zealand will make multiple visits to advise on the implementation of the new chart of accounts for the NBM. An FAD mission is forthcoming to advise on a revised budget classification system and to review implementation of the treasury system in coordination with missions from the U.S. Treasury and USAID.

XIV. Long-term Assistance:

A long-term advisor in balance of payments statistics has been assigned to Moldova in conjunction with Armenia and Georgia. The advisor assumed duties in early 1996.

Moldova: Relations with IBRD

The Republic of Moldova joined the IBRD on August 12, 1992. The first loan made by the Bank was an Emergency Drought Recovery Loan for US$26 million, which was approved by the Board on March 11, 1993. The loan was used to finance the purchase of 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 financed essential imports in support of the structural reform program, and provided non-inflationary financing of the budget deficit.

A Structural Adjustment Loan (SAL) totalling US$60 million was approved on December 8, 1994. The SAL supports a broadening of structural reforms with particular attention to the acceleration of privatization; hardening the budget constraints on enterprises; creating a competitive environment (including through demonopolization of agricultural input supply and output monitoring); and better targeting of benefits to need in the social safety net, within fiscal constraints. The SAL is fully disbursed. A Pre-export Guarantee Facility (US$30 million) was approved in March 1995. The objective of this operation, which became effective in late 1995, is to stimulate viable production for export and build bridges with foreign financiers, traders, and ultimately investors, by mitigating the risks of changes in the policy environment. A Private Sector Development project (US$35 million) was approved in February 1996. This project supports an enterprise restructuring program and provides a line of credit for private enterprises through the commercial banking system. In addition, loans in the energy sector and agricultural sectors are nearing completion. A Country Assistance Strategy for Moldova will be discussed by the Board of the IBRD on May 7, 1996.

Moldova: Relations with EBRD

The EBRD's strategy in Moldova is aimed at supporting export industry, critical infrastructure projects, and the financial sector through project financing and technical assistance.

As of December 31, 1995, eight projects have been approved totalling US$232 million, of which US$135 million were committed by the EBRD. These include, (i) a wine export promotion project which is targeting the upgrading of the main Moldovan wineries and the restructuring of the wine sector (US$30 million), (ii) an energy efficiency project for upgrading the heating distribution networks in major Moldovan cities (US$23.8 million), (iii) a credit line for Moldagroindbank for onlending to small enterprises (US$20 million), (iv) a credit line and equity investment for Victoria Bank (US$4.2 million), (v) a project for linking Moldovan satellite earth stations to the Eurovision Network (US$1 million), (vi) a loan to Ascom-Kelme shoe factory for financing machinery and equipment (US$7.3 million), (vii) a road rehabilitation loan (US$28.6 million), and (viii) partial financing for construction of a new oil terminal at Giurgulesti (US$20 million). Projects which are currently being prepared and reviewed include projects for rehabilitating Chisinau's water services (US$35 million), improving wholesale and distribution facilities for the agricultural sector (US$20 million), and establishing a credit facility for micro enterprises.

Table 1. Moldova: Core Statistical Indicators

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Monetary Survey	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP
Date of Latest Observation	04/26	04/19	04/19	03/31	March	March	February	Q4/95	Q4/95	1995
Date Received	04/29	04/23	04/23	04/24	04/29	04/10	04/23	03/28	03/28	01/18
Frequency of Data	Daily	Weekly	Weekly	Monthly	Monthly	Monthly	Monthly	Quarterly	Monthly	Quarterly
Frequency of Reporting	Daily	Weekly	Weekly	Monthly	Monthly	Monthly	Monthly	Quarterly	Monthly	Quarterly
Source of Update	News service	NBM	NBM	NBM	NBM	SDS	NBM	NBM	MOF	SDS
Mode of Reporting	e-mail	Res. Rep.	Res. Rep	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.	Res. Rep.
Confidentiality	Public	Public	Public	Public	Public	Public	Public	Public	Public	Public
Frequency of Publication 2/	Daily	Monthly	Monthly	NA	NA	Monthly	NA	NA	Quarterly	Quarterly

1/ NBM=National Bank of Moldova; SDS=State Department of Statistics; MOF=Ministry of Finance
2/ All information is published, however, not always with the same frequency as provided to the Fund. NA indicates that the publication of data does not follow a fixed schedule.

Republic of Moldova - Extended Arrangement

Attached hereto is a letter, with annexed Memorandum of Economic Policies (the "Memorandum"), dated May 3, 1996 from the Prime Minister of Moldova and the Governor of the National Bank of Moldova requesting an extended arrangement and setting forth:

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

(b) the policies and measures that the authorities of Moldova intend to pursue during the first year of this extended arrangement; and

(c) 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 second and third years of this extended arrangement.

To support these objectives and policies, the International Monetary Fund grants this extended arrangement in accordance with the following provisions:

1. For a period of three years from May [...], 1996, Moldova will have the right to make purchases from the Fund in an amount equivalent to SDR 135 million, subject to paragraphs 2, 3, 4, and 5 below, without further review from the Fund.

2. (a) Purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 11.25 million until August 15, 1996, the equivalent of SDR 22.5 million until November 15, 1996, and the equivalent of SDR 33.75 million until February 15, 1997.

(b) Until May [...], 1998, purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 90 million.

(c) The right of Moldova to make purchases during the second and third years shall be subject to such phasing as shall be determined.

3. Moldova will not make purchases under this extended arrangement:

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

(i) the floor on Net International Reserves of the National Bank of Moldova described in paragraph 72 and in Annex II of the Memorandum, or

(ii) the limit on the cumulative change in Net Domestic Assets of the National Bank of Moldova described in paragraph 8 and Annex III of the Memorandum, or

(iii) the limit on the cumulative change in the Net Credit from the Banking System to the General Government described in paragraph 22 and Annex IV of the Memorandum, or

(iv) the limit on the Cumulative Deficit of the General Government described in paragraph 22 and Annex V of the Memorandum, or

(v) the limit on the Contracting or Guaranteeing of External Debt of maturities of more than one year by the Government or the National Bank of Moldova described in paragraph 22 and Annex VI of the Memorandum, or

(vi) the limit on the Contracting or Guaranteeing of External Debt of maturities of between more than one year and up to and including five years by the Government or the National Bank of Moldova described in paragraph 22 and Annex VI of the Memorandum, or

(vii) the limit on the Guaranteeing of External Debt of maturities of more than one year by the Government or the National Bank of Moldova described in paragraph 22 and Annex VI of the Memorandum, or

(viii) the limit on the Guaranteeing of External Debt of maturities of between more than one year and up to and including five years by the Government or the National Bank of Moldova described in paragraph 22 and Annex VI of the Memorandum,

is not observed; or

(b) if at any time during the period of the extended arrangement

(i) the Government or the National Bank of Moldova contracts or guarantees loans of maturities of one year or less, with the exception of normal import trade credits, as specified in paragraph 22 and Annex VI, or

(ii) the Government assumes arrears or other payment obligations of nonbudgetary enterprises other than arrears described in paragraph 64 and Annex VII of the Memorandum; or

(iii) the Government accumulates external payments arrears, as specified in paragraph 76 and Annex VI of the Memorandum, or

(c) after September 29, 1996 and December 30, 1996, until the reviews contemplated in the last paragraph of the attached letter and paragraph 78 of the Memorandum are completed, or

(d) if at any time during the period of the extended 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 extended 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 extended 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 extended 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 extended arrangement shall be made in the currencies of other members elected 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 extended 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 extended 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 extended 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 the fifth paragraph of the attached letter, Moldova will consult with 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 in desirable. In addition, after the period of the arrangement and while Moldova has outstanding purchases under this arrangement, 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.

May 3, 1996

Dear Mr. Camdessus:

Financial stabilization has now largely been achieved and progress has been made in the process of transforming Moldova into a market economy. The stand-by arrangements approved by the Fund on December 17, 1993 and March 22, 1995 played an important role in this process by helping create a coherent framework for the implementation of both macroeconomic and structural policies, as well as by providing financial support.

We believe, however, that substantial work still needs to be done, especially in accelerating the pace of structural reform. The Government and the National Bank of Moldova have therefore formulated a medium-term program for the period 1996-98 which emphasizes structural reform while maintaining financial stability. We believe that the policies set out in the attached Memorandum of Economic Policies will lay the groundwork for sustainable growth in output and incomes, by transforming Moldova into an efficient market economy in which prices freely adjust to demand and supply conditions, factors of production respond to price signals, enterprises adhere to hard budget constraints, and economic relations are supported by a sound legal system.

In support of these policies, we hereby request a three-year extended arrangement in an amount equivalent to SDR 135 million (150 percent of quota) from the Fund. Continued Fund support for the stabilization and reform program would again help to ensure a consistent package of policies and in addition make an important contribution to sustaining domestic and international confidence in Moldova's prospects. As part of our economic reform program, before our request is considered by the Executive Board, we will implement the measures set out in paragraph 80 of the Memorandum.

We are currently discussing with RAO Gazprom the financial relations of our energy companies with the Russian gas supplier. In these discussions, we will be guided by paragraph 64 of the Memorandum. In any case, before a final agreement is reached, we will fully consult with Fund staff.

We believe that the policies in the attached Memorandum are adequate to achieve the objectives of the economic reform program, but are prepared to take additional measures that may be appropriate for this purpose. During the period of the arrangement, we will consult with the Fund on the adoption of such measures that may be appropriate in accordance with the Fund's policies on such consultations. The Government and the National Bank of Moldova will provide the Fund with such information as it may request for

the purposes of monitoring the progress under the program supported by the extended arrangement. During the first year of the program two reviews will be carried out, the first by September 30, 1996 and the second by December 31, 1996, covering the implementation of the program described in the attached Memorandum.

Sincerely yours,

/s/
Andrei Sangheli
Prime Minister
of Moldova

/s/
Leonid Talmaci
Governor
National Bank of Moldova

Attachment

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C.
U.S.A.

Memorandum of Economic Policies of the Government of Moldova for the Period January 1, 1996 to December 31, 1998

I. Background

1. The Government of Moldova embarked upon an ambitious program of economic reform in the second half of 1993, designed to achieve rapid financial stabilization and transition to a market economy, so as to lay the foundations for sustained economic growth. Its efforts have been supported by the international financial institutions, especially the IMF and the IBRD, as well as by bilateral donors. The stabilization efforts intensified with the introduction of a new national currency, the leu, in late 1993, and a first stand-by arrangement (SBA) was approved by the IMF Executive Board on December 17, 1993. Moldova's economic program for 1995 has been supported by a World Bank Structural Adjustment Loan (SAL) and by a follow-up SBA approved by the Executive Board on March 22, 1995.

2. The program for 1995 achieved very substantial progress towards the goal of financial stabilization. The Moldovan Government has therefore drawn up a medium-term program for the period 1996-98, designed to maintain financial stability and increase the pace of structural reform. The objectives are to achieve a viable balance of payments position, high quality, durable growth and, by the end of the program, to have in place all the basic institutions and mechanisms of a market economy. The Moldovan Government is seeking Fund support for the program under the Extended Fund Facility (EFF).

3. The economic program for 1995 aimed at achieving price stability, while accelerating structural reforms to bring about a resumption of growth as quickly as possible. All quarterly performance criteria under the program were met, and the currency remained stable. However, the budget deficit was somewhat higher than the program target for 1995, and the Government recognizes that much remains to be done in the structural field.

4. Despite progress in achieving financial stability, real economic conditions in Moldova remain very depressed. Output declined by over 40 percent between 1990 and 1993, and plunged a further 30 percent in 1994, largely as a result of the impact of drought and other natural disasters on the agricultural sector. Although there was some rebound in agricultural production and exports in 1995, signs of a broad-based, sustainable recovery have yet to emerge. The Government recognizes that, while financial stabilization is an important prerequisite for economic recovery, it must be continuously maintained and matched by fundamental structural reforms, to improve the performance of existing enterprises, allow new enterprises to emerge and attract the foreign investment needed to generate export-led growth and lasting increases in living standards.

II. Medium-Term Program and Macroeconomic Framework

5. Financial stability will be maintained through continued control of credit growth, a further reduction in the budget deficit and the development of nonbank sources of budgetary finance. The objective of structural reforms will be to bring about the behavioral changes needed to produce a dynamic private sector, which seeks to develop new markets and new products. Measures to enforce financial discipline--hard budget constraints--especially in the energy sector, to fully expose the agricultural sector to market signals, and to establish transparency in economic policy making and the economy at large, will be particularly crucial. The thrust of these policies will be maintained, should the reintegration of Transnistria into the Moldovan economy proceed. In this case, the authorities will consult with Fund staff on necessary adjustments to the program.

6. Based on the program outlined below, the authorities expect output to begin a sustained recovery from 1996, with growth averaging 4-5 percent a year over the three program years, led by a rapid expansion of exports. Investment is also expected to grow strongly, financed by continued capital inflows and a rise in private sector savings. The external current account deficit, which is estimated to be around 6 1/2 percent of GDP in 1995, is projected to narrow to around 2 percent of GDP by 1998. The deficit is expected to be financed mainly by increased foreign direct investment and disbursements from international organizations, without the need for any exceptional financing. Inflation in the year to December 1995 was 24 percent. It is targeted to fall steadily to 6 percent by the end of 1998--only a little above the average in OECD countries. The path takes account of the need for relative price adjustments in the future, including increases in the prices of energy and housing, which will boost the recorded inflation rate.

III. Monetary Policy and Financial Sector Reform

7. The National Bank of Moldova (NBM) has successfully implemented its monetary program over the past two years. In the process, it has made considerable progress in developing techniques and market-based instruments of monetary policy--notably credit auctions, which accounted for over 90 percent of new NBM credit to banks in 1995. The key aims of financial policy over the next three years are:

- to maintain financial stability;
- to complete the NBM's transformation into a modern central bank, operating primarily with open market operations in well established and liquid markets;
- to strengthen the capital, profitability, and efficiency of the banking sector.

8. The monetary program for 1996 limits the rate of growth of the NBM's liabilities, consistent with the inflation and external objectives. Indicative targets have been established for reserve and broad money, based on the assumption that velocity will fall as confidence in the leu strengthens. If reserve money should exceed its indicative target, the authorities will consult with the staff regarding the appropriate policy response. Performance criteria have been established for the net domestic assets of the NBM, and for net credit to general government from the banking system. The performance criteria and targets are set out in Annexes III-IV.

9. During 1995, the NBM and Ministry of Finance (MOF) successfully introduced auctions of government securities and the NBM opened a Lombard facility. While continuing to rely mainly on credit auctions, the NBM began to conduct open market operations in treasury bills from January 1996. Open market operations will replace credit auctions as the primary instrument of monetary policy as soon as the volume and liquidity of the government securities market permits. All NBM credit to banks, consistent with the financial program, will be fully collateralized. In 1996 the proportion of NBM credit to banks allocated through market mechanisms will be no less than in 1995, and directed credit will be phased out altogether during 1997 and 1998.

10. The increasing use of open market operations, together with the acceptance of treasury bills as collateral for NBM credit, will deepen the secondary market for these securities. The government will encourage non-bank investors to buy treasury bills, by advertising and making them available through commercial banks and postal offices.

11. The NBM also intends to foster the development of a market in commercial bills of exchange. These will provide enterprises with a marketable instrument of credit, and financial institutions with a more liquid asset than they currently hold. In time, they will also provide the NBM with an additional instrument of monetary control. The Government will actively encourage enterprises to securitize their inter-enterprise debt through the issue of bills of exchange, and will back this with vigorous action, including bankruptcy proceedings, against enterprises that do not take action to deal with arrears. The NBM will accept bills of exchange of acceptable quality as collateral for its credit with effect from January 1, 1997.

12. On October 1, 1995 the required reserves ratio was cut from 12 percent to 8 percent and, as required by the new central bank law, required reserves in excess of 5 percent of reservable deposits have been remunerated since November 1, 1995. Excess reserves, which are extremely high, are declining, partly as a result of increased use of electronic payments systems. These developments have gone some way to reduce the cost of financial intermediation. To further reduce the need for banks to carry excess reserves, from February 1, 1996, the NBM has allowed the reserve requirement to be satisfied by the maintenance of reserve assets on an average basis over a fortnightly period (rather than insisting that the requirement be

satisfied on every day of the month). The NBM will also, over time, permit the use of vault cash to satisfy the reserve requirement.

13. The NBM will encourage the development of the interbank money market, to help improve the liquidity management of banks. The parallel development of securities markets will provide banks with a growing source of collateral for such loans.

14. The NBM will continue to foster the development of a healthy, competitive, market-based financial system, with the aim of achieving international financial sector standards. Its capacity to enforce prudential banking standards has been greatly strengthened by the passage through Parliament, in July 1995, and subsequent publication, of new laws on the central bank and financial institutions. Important progress has also been made with the introduction of new and improved prudential banking standards. The NBM will use its enforcement powers to penalize violations of these standards, including, if warranted, the removal of managers and the suspension of banking licenses.

15. Application of the new prudential regulations has confirmed that action is needed to strengthen the safety, soundness and efficiency of the Moldovan banking system. The NBM, in cooperation with the IMF and World Bank, has therefore developed a strategy for dealing with the problem. The key elements are: to develop rapidly the NBM's capacity to supervise banks; to take actions, in line with the new Financial Institutions Law, on problem banks before their reported capital is completely depleted; and to provide sufficient time for stronger, viable banks to recapitalize themselves. It is not expected that the Government will contribute financial resources to recapitalize banks, beyond loans it has guaranteed. Should Government resources be required, they will be found without raising the programmed budget deficits. The NBM, with the support of technical assistance from the IMF's Monetary and Exchange Affairs Department, the World Bank and USAID, will strictly adhere to the strategy that has been established.

16. Enforcement of prudential regulations will focus in particular on three key areas: regulations on ownership of banks; concentrated lending; and lending to insiders or related parties. The NBM will require external audits of banks, and will conduct consolidated examinations in cases where a single owner has ownership of two or more banks. The Government will progressively reduce the number and size of commercial bank loans to enterprises that it guarantees.

17. The Government will not guarantee deposits in any commercial bank.

18. An important part of this strategy, and essential for the accurate assessment of the scale of the banking sector's problems, is the introduction by commercial banks of International Accounting Standards (IAS). This will allow better decision making, including better loan portfolio and risk management. The conversion to IAS, which is being supported by a USAID project, will be accomplished in two steps, with double reporting starting from July 1996, and full conversion from the beginning of

1997. As an interim step, before the implementation of new charts of accounts for commercial banks, larger banks are being required to prepare audited financial statements in a Broadly Adapted Financial Statements (BAFS) format.

19. The Government recognizes the importance of having a sound legal framework for nonbank financial institutions and for the effective supervision of capital markets. Legislation governing the creation of share registries will be revised to specify penalties for noncompliance and to require the Ministry of Justice to enforce it. Greater efforts will also be made to enforce compliance with the prudential standards and reporting requirements of investment funds. Financial enterprises offering excessive returns to investors will be subject to intensified supervision. Public warnings will be issued in appropriate cases.

IV. Fiscal Policy

20. Despite a difficult economic environment, Moldova has brought its budget deficit under control and limited government borrowing from the banking system, based on a strengthening of revenue collection and expenditure control. The program is designed to build on this progress. The main macroeconomic objective is to ensure that the budget contributes to financial stability through further reductions in the deficit and the progressive elimination of central bank financing of the government. The key structural objectives are:

- to strengthen budget preparation, implementation and forecasting;
- to develop an expenditure policy that ensures adequate funds for investment in human resources, capital infrastructure and social spending. To make room for these priorities, the Government will have to increase its efficiency, restructure the social safety net, and strictly limit transfers and Government guarantees to enterprises.
- to provide a tax structure and administration that is conducive to economic growth and foreign investment.

21. For 1995, the budget deficit (including net lending) was 5 1/2 percent of GDP. The deficit will be brought down to 3 1/2 percent of GDP in 1996 and 3 percent of GDP a year in 1997 to 1998. The Government will at all times remain current on its servicing of foreign and domestic debt. Discussions are underway with RAO Gazprom concerning the settlement of arrears of Moldovan energy enterprises for gas supplied in 1994-95. In the event that such an agreement would involve Government assumption of part of these arrears, the Government would only conclude the agreement after full consultation with Fund staff, when adjustments to the macroeconomic program, as described in Annex VII, would be made. In particular, increased external debt interest payments would be accommodated within the program's fiscal deficit targets, and deficit targets would be reduced in line with increases

in scheduled amortization payments. The Government intends to submit amendments to the 1996 Budget to Parliament in May 1996, including contingency measures in case revenue collections or net foreign financing fall short of budgeted levels.

22. The introduction of the treasury bills market in 1995 has afforded the Government the opportunity to significantly reduce its reliance on borrowing from the central bank to finance its budget deficit. The Government will continue to increase the share of domestic borrowing raised in the treasury bill market and cease borrowing from the central bank as of 1998. Performance criteria will be applied to net credit to the Government from the banking system; the overall Government deficit including on-lent funds; and Government guarantees of foreign and domestic loans, as set out in Annexes IV-VI.

23. In cooperation with the IMF, the Government has begun to develop a budget analysis unit within the Ministry of Finance to provide a framework for the budget and to assist it in the development of budget policy. Over time the unit will be strengthened with a view to improving its analytical capability.

Expenditure policy

24. The Government recognizes that sound public finances require open, effective discussion of expenditure priorities, within an overall ceiling for public expenditure established by the Ministry of Finance, consistent with the financial program. An improved expenditure planning system will be introduced, in the context of the new budget process law, which is under discussion in Parliament.

25. The Government, with the support of the World Bank, will complete a thorough review of all public expenditures by end-June 1996, with a view to eliminating parts of government which are unnecessary in a market economy, increasing the efficiency of government and providing funds for industrial, agricultural, financial, and labor market restructuring. Functions of branch ministries will be reviewed with a view to reducing the role of administrative instruments in economic policy making. Within the overall ceilings for public expenditure, in the medium term, a larger share will be allocated to capital spending, social spending and government restructuring.

26. The Government will conduct a review of public employment. The aim will be to reduce the overall size of the civil service. It will complete the review by end-September 1996 and will implement the necessary cuts in staffing levels during 1997. In addition, by end-1996 the Government will revise public sector wage policy to ensure that wages reflect merit and market conditions, so that it can retain and attract the most qualified staff for key positions. The Government will strive to eliminate the wage arrears of budgetary organizations by September 30, 1996, and will adopt measures to prevent any further accumulation of arrears.

27. The Government will ensure adequate maintenance and improvement of the capital infrastructure of the country by formulating and adhering to a three-year rolling public investment program, with the support of the World Bank. Program reviews will be utilized to ensure that capital spending will not be the residual in the budget. Education, health care, and human resources will continue to be priorities in current spending. Nevertheless, considerable restructuring of education and health care spending may be needed to ensure a high level of service. These areas will be a primary focus of the Government's expenditure review.

28. The Government will restructure the social safety net, with the support of the IMF and the World Bank. The main program in the current social safety net is pension provision, followed by smaller programs for unemployment benefits, child allowances, and worker health, together with a range of cash transfers and discounts for special purposes. By end-1997 the social safety net will be restructured through consolidation of programs into a well targeted system of old age pensions, unemployment benefits, and income transfers for the poor. To assist in this, by end-December 1996, the Government will develop modern household income and expenditure surveys to identify the most needy households using income and wealth indicators. It will ensure that eligibility for income transfers is reviewed periodically to prevent fraud. As soon as administrative capacity permits, the structure of income-related transfers will allow for a phase-out, rather than an abrupt cut-off, of benefits as beneficiary's income rises, to ensure that payments do not create an excessive disincentive to employment or inequities between households of roughly comparable income.

29. The Social Fund, an umbrella fund comprising the Social Insurance Fund, the Pension Fund and the Employment Fund, is outside the general government budget and is primarily supported by dedicated revenues from the payroll tax. The Social Insurance Fund, currently administered by the Trade Unions, is responsible for maternity benefits, sanatoria and some health benefits. The Social Fund will assume the management of the Social Insurance Fund with effect from January 1, 1997.

30. The Government will monitor closely the financial position of the Social Fund and will ensure full financing of its obligations to pay pensions, family allowances and price and tariff compensation.

31. The ratio of pensioners to working population is already high, and, on the basis of the current system, will increase as the population ages in the coming decades. Restructuring of the Pension Fund will therefore continue, to ensure its long-term financial solvency. Pension benefits will be delinked from the minimum wage with effect from June 1, 1996. Future increases in pensions will be flat-rate and linked to changes in the overall price index in the economy, within a fiscal envelope. Proposals to raise the pension age have been submitted to Parliament. The pension age will be increased in steps, beginning in January 1997, until it reaches 65 years of age for men and 60 for women by 2015. Payments to working pensioners will be held constant in nominal terms. Measures will be taken to ensure

sufficient resources are available in the Social Fund including, if necessary, a cap on maximum pensions.

32. The reform process, and enterprise restructuring in particular, will entail substantial dislocation of the labor force. It is essential that this is accomplished without undermining the skills and motivation of the labor force, while maintaining adequate protection for the most vulnerable members of society.

33. The Government will, therefore, ensure the implementation of its Decision 761 (On approving the Terms of Rehabilitation, Restructuring and Liquidation of Insolvent Enterprises) and Decision 896 (On Provision of Social Safety Net for Workers Redundant as a Result of the Sale of Bankrupt and Insolvent Enterprises). By July 1, 1996 the Government will conduct a review of the system of severance pay and unemployment benefits with the aim of providing adequate social support and encouraging required redistribution of labor.

34. The Government will ensure that appropriate funding is available to ensure the financial solvency of the Employment Fund through payroll tax revenues.

35. The payroll tax has been reduced to a standard rate of 35 percent and it will be reduced to 32 percent, if expansion of the tax base and expenditure cuts allow this reduction in a deficit neutral fashion. The aim is that all enterprises and individuals will contribute to the Social Fund at the unified rate, in cash. Responsibility for the collection of payroll tax has been transferred to the tax inspectorate in order to raise collection rates.

36. The Government will strictly limit subsidies and loan guarantees to enterprises. The Government will not write-off the debts of enterprises to Government associated with external commodity loans, and will require to the maximum extent possible the repayment of such loans due at end-December 1995 by end-December 1996. From 1997, enterprises that receive foreign commodities purchased by externally provided funds will be required to pay in cash or secure bank financing. If enterprises cannot raise the money, the commodities will be auctioned off by the Government. The Government will not make subsidized loans to enterprises, and it will adopt a timetable to phase out the granting of new guarantees to enterprises for either foreign or domestic loans. In the future, guarantees will only be granted when clearly warranted, to financially sound enterprises. In 1996, the issuance of domestic guarantees will be limited to Mdl 50 million. The ceilings for net credit to government from the banking system and on the cumulative deficit of the General Government will be reduced by a proportion of any guarantees extended, as set out in Annexes IV and V.

Expenditure management

37. To provide a proper legal basis for the budget and debt management, it is expected that Parliament will pass the draft budget process law, and the

domestic and foreign debt law that are now under consideration. The Government will implement all aspects of these laws as soon as feasible. The Government will not use promissory notes or any other form of informal debt arrangement to pay its bills. It will aim to eliminate all expenditure arrears in the course of its normal budgetary operations, by the end of the third quarter of 1996.

38. The Government will complete the development of a full-fledged Treasury by end-1997, with the assistance of the IMF, the US Treasury, and USAID. The Government will improve Treasury functioning by consolidating the accounts of the Government (particularly those of the main spending ministries) in the National Bank of Moldova and by opening a single Treasury account for distributing funds to spending ministries; it will develop a general ledger system so as to unify the bank accounts of the spending ministries. The Ministry of Finance will also develop a system of financial planning in conjunction with the budget analysis unit to guide budget execution and determine monthly financial limits on the basis of projected receipts.

39. The NBM, as fiscal agent for the Government, will construct, by the end of 1996, and keep up-dated a consolidated debt register of Government debt, including domestic borrowing and foreign borrowing for the budget, and foreign and domestic borrowing on-lent to enterprises. The Government will modify its system of classification to conform to GFS standards by early 1997.

Tax policy

40. The tax system will be reformed to strengthen its revenue raising capacity and adapt it to the needs of a market economy, with the assistance of the IMF, World Bank, and USAID.

41. The Government will reform the value added tax so as to raise large amounts of revenues in a nondistortionary manner. It will expand the coverage of the VAT; will not introduce new exemptions; will adopt the invoice method at all stages along the chain of production and distribution; and will move to a destination basis for VAT (and excise taxes) on CIS trade when its major trading partners in the CIS also adopt this basis. In the meantime, it will ensure that all goods that originate in non-CIS countries but transit through CIS countries on their way to Moldova are taxed on a destination basis. It will also allow a full credit for tax on capital and other inputs. It will administer the VAT on an accrual basis and establish an appropriate threshold, in consultation with IMF staff, so that tax administration resources can be concentrated on collecting tax from larger taxpayers. Reforms to put VAT on an accruals basis and extend the invoice method to all levels will be implemented as soon as feasible.

42. The Government will set excise taxes on alcohol, tobacco, and petroleum products with the aim of making them comparable to those in neighboring countries. It will ensure that excise taxes on imports and domestic

products are equivalent in ad valorem terms and will not impose excise taxes on exports to non-CIS countries.

43. During 1996, the Government will submit to Parliament a new comprehensive personal and corporate income tax law, with the aim of implementing the changes from January 1, 1997. A unified corporate profit tax rate of 32 percent on all types of enterprises has been established. During 1996 it will: introduce provisions to allow a loss carry forward of up to five years; cease granting special tax allowances and holidays; eliminate other inappropriate deductions; and reform depreciation rules. Asset revaluations will be implemented gradually, consistent with the need to maintain revenue. The Government recognizes the need to tax agricultural land adequately, to ensure broad consistency of tax burden between farmers and non-agricultural industries, so as not to encourage the creation of excessively small and inefficient farms.

44. The Government will broaden the base of personal income tax to include all forms of capital income, including interest on government securities and dividends from stocks, and in-kind income from employment. It will also establish a timetable for the introduction of taxation of fringe benefits. The Government will continue to collect most income tax through monthly withholding on wages, but will require entrepreneurs and others earning significant amounts of income outside the withholding system to file a self-assessed tax return.

45. Before the end of 1996, the Government will complete a review of the system of land and real estate taxation to determine the appropriate level of revenue from these sources. Assisted by the World Bank and other institutions, it will devise accurate methods for assessing the true market value of property, and will update these assessments at regular intervals (within the limits imposed by the absence of an active market in land and property).

46. The Government will not grant any special tax exemptions or abatements under any tax, except to enterprises entering the isolation program established with the support of the World Bank. The Government has established a system of penalties for tax evasion and interest for late payment of taxes, and will strengthen and enforce them with effect from 1996.

Tax administration

47. A well functioning tax administration is a critical component of a tax system. The Government will continue initiatives already begun, with the assistance of the IMF, the World Bank and USAID. The Government will give priority to the collection of tax arrears, through the introduction, in 1996, of such measures as: establishing special units in district offices to collect tax arrears (without any net addition to staff numbers); issuance of payment notices to delinquent taxpayers; maintenance of weekly lists of stopfilers and delinquent taxpayers; and a strengthening of the legal basis for tax administration sanctions, including a judicial review process. In

addition, it will implement a comprehensive system of taxpayer identification numbers before the end of 1996; and will introduce improvements in tax declaration and payment forms. It will reduce the time inspectors spend checking declarations, and reallocate them to tax inspection and auditing. During 1996, it will revoke the requirement that all enterprises be audited every two years and, instead, will develop a national inspection program, which will use analytic selection of enterprises for quick inspections, with in-depth follow-up for cases where violations are suspected. Inspectors will be rotated on a regular basis. The Government will complete the computerization of the tax administration by January 1, 1998 and will develop a large taxpayer unit during the course of 1996 (without any net addition to staff numbers).

V. Structural Support for Financial Stabilization and Economic Growth

48. The key structural objective is to ensure that, by the end of the three year program, all the basic institutions and mechanisms of a market economy are functioning in Moldova. This will allow resources to be allocated on the basis of market determined prices, and lay the foundation for sustainable growth and the alleviation of poverty.

49. The Government recognizes that there are four key prerequisites for the successful attainment of this objective.

- First, prices must reflect the underlying demand and cost conditions in the economy, and adjust freely to changing conditions in either domestic or external markets. Measures to complete the process of price liberalization are described in paragraphs 50-52.

- Second, factors of production must be free to respond to price changes. The main measures designed to remove obstacles to the reallocation of resources are privatization (paragraphs 53-54), liberalization of the market for agricultural land (paragraphs 59-63) and the reform of labor laws (paragraphs 32-34).

- Third, all sectors must be subject to financial discipline. Without this, enterprises can postpone or avoid the necessary restructuring. The program focuses on the need for hard budget constraints in all enterprises, especially the energy sector (paragraphs 64-67).

- Finally, to stimulate long term investment, a sound legal system must be promulgated and a rule of law established (including with respect to the public sector), to ensure that the returns to all factors of production accrue to their legal owners (paragraphs 68-70).

Price liberalization

50. Prices have already been largely liberalized. All margin controls (as identified in the 1995 budget) on the sale of goods and services, except for certain specified drugs, lapsed with the passage of the 1996 Budget Law. The system of Government procurement prices for key agricultural commodities has been eliminated.

51. The Government continues to provide subsidies for some goods and services, and to some producers. These will largely be phased out. The schedule, designed to minimize disruption and allow individuals and enterprises time to adjust, will be established following promulgation of the law on social benefits. Exceptional cases, in which subsidies will continue, will be identified with the support of the World Bank staff under the comprehensive public expenditure review, to be completed in 1996. In these cases, the subsidies will be funded explicitly from the budget.

52. Many services are provided at the local government level. The Government will conduct a thorough review of pricing policies of local governments by end-1996, to ensure that they are consistent with the approach described above.

Privatization

53. Privatization is a key element in the process of reallocating resources to more productive uses. Important progress has already been made: the voucher privatization program was completed with a large auction in November 1995--in total, over 2,200 enterprises were successfully sold using privatization vouchers. The 1995/96 Privatization Program widens the process to include foreign investors and cash auctions. All the unsold state enterprises scheduled for privatization by voucher will be privatized for cash, reorganized or liquidated. The Government will aim to realize at least Mdl 85 million in 1996.

54. The 1997/98 Privatization Program will be submitted to Parliament by end-1996. It will include the sale of all remaining shares held in enterprises sold under the 1995/96 program, and will establish clear criteria under which enterprises may remain in state ownership. All state enterprises which do not meet these criteria will be sold under the 1997/98 program, or liquidated.

State-owned enterprises

55. The Government is confident that the enforcement of bankruptcy legislation, in particular by the tax authorities, and the strengthening of market forces will impose effective financial discipline on enterprises that have been privatized. To ensure that remaining state enterprises face hard-budget constraints and adjust accordingly, the Government will strictly limit loan guarantees and budgetary transfers to these enterprises, as described in paragraph 36.

56. Indicative targets for the initiation of bankruptcy/liquidation proceedings have been established, beginning with 5 enterprises subject to initiation of liquidation proceedings during the first half of 1996, followed by a further 5 enterprises in the second half of 1996.

57. The Government will encourage enterprises in the state sector to set wages to reflect market conditions and performance. Enterprises will be free to sell assets, in order to clear debts and rationalize their operations.

58. The Government will formulate transparent regulations governing the entry of new companies, and will revise company law accordingly. Natural monopolies will be regulated, to ensure that their pricing policies promote economically efficient use of their services; and competition law will be revised to ensure that enterprises operate on a competitive basis.

Agricultural sector

59. Moldova is endowed with fertile land which, if properly managed, will be an important and lasting source of wealth. Realizing the productive capacity of the agricultural sector requires that individuals own and have clear, unfettered title to land. The process of distribution of land certificates, which establish the right to own land but confer only limited economic control on the owner, has been completed. In addition, the requirement that private farmers be certified has been eliminated.

60. The establishment of full individual property rights over land, including the right to buy, sell and pledge land, is a particularly important element of the program. Parliament discussed a Presidential proposal to permit trading in agricultural land in March 1996, and called upon the Government to prepare the necessary draft laws establishing the regulatory framework for land trading. The Government will submit these draft laws to Parliament by September 1, 1996. The Government will strive for Parliamentary adoption of the law and necessary regulations making agricultural land tradeable with effect from January 1, 1997.

61. Banks will not lend to the agricultural sector in the absence of security. This requires clear title to land pledged as collateral. To facilitate this process, the Government will begin to register land transactions in 1996 and will establish a Republic-wide land registry by end-1997. This will reduce the riskiness of lending to the agricultural sector by permitting banks to verify the title to land pledged as collateral.

62. The Government's controlling stake in each of the constituent enterprises of the former Cereale and Fertilitatea concerns will be reduced to a minority holding by end-December 1996.

63. The Government will not use state trading orders or any other form of intervention which has the effect of distorting agricultural prices. State

reserves of grain will, in future, be purchased entirely in the free market at competitive prices.

Energy sector

64. Given Moldova's reliance on external energy sources, effective financial discipline must be exercised with respect to all transactions relating to import, production and distribution of energy. The Government has taken important steps to rationalize the gas distribution system and to secure future gas supplies by undertaking a partial debt-equity swap arrangement with the Russian gas supplier Gazprom. Under the terms of the agreement, Gazprom assumed an equity stake in a new joint-stock firm to manage and operate the main gas transmission pipelines in Moldova in exchange for some US$41 million in outstanding arrears. Discussions are underway with Gazprom concerning the settlement of remaining arrears of Moldovan enterprises for gas supplied in 1994-95, which may involve the assumption by the Moldovan Government of part of these arrears. The Government will not assume more than US$50 million of these arrears, and any arrears assumed will be offset by the writing-off of Government arrears to the energy enterprises, or an equivalent Government claim on these enterprises. Following agreement with Gazprom, the Government will under no circumstances assume any further arrears or other payments obligations of nonbudgetary enterprises. The non-assumption of such arrears or other payments obligations will be a performance criterion under the program. All gas shipments from Gazprom to Moldovagas will be the responsibility of the enterprises concerned, and restructuring of any remaining arrears will be settled at the enterprise level.

65. External energy arrears have been caused both by inadequate tariff levels and by weak domestic payments discipline. As prior actions under the program, residential electricity and heating tariffs will be raised by 50 percent with effect from May 1, 1996. Gas tariffs will be maintained at their current levels in U.S. dollar terms. At these levels, electricity and gas tariffs will on average cover operating costs but the average heating tariff will remain below the operating cost level. The Ministry of Economy, the Department of Energy, Moldovagas, Moldenergo and Termocom/energo will conduct a comprehensive review of the tariffs by end-June 1996, and will establish a schedule of energy price adjustments that will achieve full cost recovery (including costs of production, operations and maintenance, reasonable levels of depreciation, interest charges, a bad debt reserve and a contribution to profit) by end-December 1997. This schedule will include an increase in the residential heating tariff to no less than US$10 per gcal by June 30, 1997 and a substantial reduction during 1997 of the cross-subsidization currently provided by industrial and government energy consumers to residential users.

66. The Government will take measures by end-September 1996 to ensure that, through adjustments to the cash compensation mechanism, the poorest sections of society receive compensation to assist them in paying higher electricity and heating tariffs envisaged under the program. Increased transfers will

be financed through improved targeting of the existing social safety net and adoption of the Law on Social Benefits.

67. Efforts to enhance collections from enterprises and households will be strengthened. Direct government intervention on behalf of distressed energy customers has had the effect of weakening the enforcement of payments discipline. The Government will eschew direct intervention in the allocation of energy supplies. As a prior action, the Government has removed restrictions on the ability of energy utilities to disconnect non-paying customers with the following exceptions: hospitals, public transportation, water utilities and national security agencies. The Government will require the installation and continued use of meters for gas and heating, and will examine the feasibility of establishing condominium corporations in the context of the privatization of housing, with the size of individual corporations determined by the metering technology of the gas, electric, and heating utilities. The objective would be to make the condominium corporation financially responsible for the consumption of these services. The Government will support state energy companies in their efforts to enhance collections, including by remaining current on its own payments, so that monthly revenues of state energy companies are sufficient to cover operating costs with effect from September 1, 1996. Progress in establishing financial viability in the energy sector will be examined in both program reviews in 1996.

Legal system

68. A legal framework that is both transparent and stable is required to encourage and sustain investor confidence. The Government recognizes the particular importance of well-defined property rights to the efficient functioning of a market economy. It will therefore ensure that all laws submitted to Parliament, as well as administrative decisions, do not unduly infringe individual property rights.

69. Effective laws on bankruptcy and collateral are essential. A new Law on Bankruptcy was passed by the Parliament in March 1996. The Government will submit amendments to this law to eliminate inconsistencies between it and the Financial Institutions Law by May 30, 1996. The Government will monitor the application and judicial interpretation of its legislation and, if necessary, will take appropriate steps to ensure that it conforms to the needs of a market economy. In September 1995, it passed a law to establish a single system of commercial courts and will take measures to ensure effective implementation of this law.

70. Sound corporate governance is the cornerstone of effective and efficient enterprises. For enterprises that are to remain under government ownership, the Government will appoint boards of directors with fiduciary responsibilities and legal obligations (to be specified in the context of the legislative framework) to monitor and remove management if necessary. Effective oversight of enterprise performance requires that enterprise accounts are transparent and accurately reflect the financial position of the firm. The Government will therefore amend company law to require all

enterprises to begin using internationally-accepted accounting standards with effect from end-1997. Measures will be taken to protect the rights of shareholders in privately owned corporations.

Data collection and analysis

71. The authorities, with IMF technical assistance, have implemented significant improvements in the quality of economic statistics, especially in the monetary area. They recognize, however, that significant gaps remain in the national income, fiscal and external accounts, and in sectoral and labor market statistics. They will continue to work closely with the Fund and others to strengthen the production and analysis of economic statistics.

VI. External Policies

72. Moldova maintains a unified foreign exchange system, with free access to foreign exchange for current international transactions. On June 30, 1995 it accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. The external value of the leu is determined in the foreign exchange market, with NBM intervention mainly focused on smoothing. The NBM recognizes that the equilibrium real exchange rate is likely to appreciate, and that it would clearly be preferable that the necessary adjustment occurs through a nominal appreciation of the leu, rather than through more rapid inflation than in competitor countries. Indicative targets for gross international reserves and performance criteria for net international reserves are set out in Annex II.

73. During the period of the program, the authorities will not impose or intensify restrictions on payments and transfers for current international transactions, or introduce or modify any multiple currency practices, or conclude bilateral agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, or impose or intensify any import restriction for balance of payments purposes.

74. The Government is firmly committed to maintaining a liberal trade regime. Parliamentary approval for immediate reductions in import tariffs to 20 percent, with very few exceptions, as set out in Annex I, will be a prior action under the program. Also as a prior action, the Government will submit to Parliament a proposal to cut the tariff on fresh fruit to 30 percent immediately and 20 percent with effect from January 1, 1997. Parliamentary approval of this measure will be a requirement for completion of the first program review. The Government will also draw up a plan for further reductions in tariffs, and the reduction in the number of rates to three by end-1998. This plan will include the replacement, by 1997, of high tariffs on imported luxury goods by excise taxes, applied on an equal ad valorem basis to domestically produced and imported goods, so as not to discriminate against imported goods. All export quotas have been removed and none will be re-introduced with the exception of measures necessary to comply with quantitative trade restrictions imposed by trading partners. Parliamentary approval for an amendment to the provision in the 1996 Budget

Law which introduces reference prices for assessment of taxes and customs fees will also be a prior action under the program. This amendment will ensure that reference prices adopted for purposes of customs valuation accurately reflect world market prices, are regularly updated and would only be used if there was substantive evidence of under- or over-invoicing of a given consignment. By July 1, 1996, Parliament will repeal provisions in the 1996 Budget Law which impose excise taxes on exports to non-CIS countries. The Government will register importers of wine, liquor and tobacco products only to monitor participation for purposes of tax enforcement and not to restrict imports. Any importer found in violation of tax obligations and barred from the registry will be subsequently reinstated once it has eliminated all tax arrears including relevant penalties. The Government will continue its efforts towards accession to WTO. The Customs Department will report to the Ministry of Finance with effect from end-June 1996.

75. The Government recognizes the need to attract foreign direct investment, to ensure external viability over the medium-term. Moldova's acceptance of the obligations of Article VIII, Sections 2, 3 and 4 of the Fund's Articles of Agreement will have provided an important boost to investor confidence, as will the steps that are being taken to strengthen the legislative framework. The Government will ensure that an effective agency for the promotion of foreign investment is fully operational with effect from June 1, 1996.

76. Notwithstanding these efforts, it is likely that increasing investment in export-creating industries will be financed in part by increases in external debt. Careful monitoring and control of the evolution of external debt will be required. The Government will limit the use of tied credits with disadvantageous repayment terms, and will strictly limit the contracting and guaranteeing of nonconcessional external debt. The issuance of external debt guarantees will be limited to the Ministry of Finance, subject to approval by Parliament. The Government will remain current on all its external payments. Performance criteria on external debt are set out in Annex VI.

VII. Program Monitoring

77. The program establishes quarterly performance criteria for the net domestic assets of the NBM, net international reserves, general government borrowing from the banking system (including a proportion of bank loans to enterprises guaranteed by the Government), the overall fiscal deficit, and contracted or guaranteed external debt. Performance criteria also apply to the accumulation of external payments arrears by the Government and to the assumption by the Government of arrears or payment obligations of nonbudgetary enterprises. Indicative targets for the growth of the reserve and broad money aggregates, as well as the gross international reserves of the NBM, are also specified.

78. Two reviews of the program will be conducted by the Fund each year. In the first year of the program, the reviews will be conducted by September 30, 1996 and December 31, 1996. Quantitative performance criteria and structural benchmarks for the second and third years of the program will be established in the context of these reviews.

79. The structural benchmarks for the first year of the program are the adherence to indicative targets on the liquidation of state enterprises, and the submission to Parliament of legislation concerning land tradeability by September 1, 1996. In addition, at the time of the first review, progress in the following areas will be reviewed: (i) the maintenance of a liberal trade regime; (ii) progress made in enforcing financial discipline in the energy sector. The second review will concentrate on: (i) the progress in the establishment of a market of agricultural land; (ii) a draft budget consistent with the macroeconomic framework for 1997; (iii) progress towards a better targeted social safety net; and (iv) progress made in the introduction of international accounting standards by banks, and in the implementation of laws on bankruptcy and collateral. In the event of an agreement with RAO Gazprom, as discussed in paragraphs 21 and 64, reviews will be used to adjust the macroeconomic framework and performance criteria, as described in Annex VII.

80. The following constitute prior actions under the program:

- approval by Parliament of reductions in import tariffs, as described in paragraph 74;
- submission to Parliament of proposals to reduce the import tariff on fresh fruit, as described in paragraph 74;
- approval by Parliament of amendments to the proposed system of reference prices, as described in paragraph 74,
- publication of a Government Decision raising residential electricity and heating tariffs to the levels set out in paragraph 65;
- elimination of restrictions on the ability of energy utilities to disconnect nonpaying customers with limited exceptions (paragraph 67).

81. The Government and the NBM believe that the policies and measures in its program are adequate to achieve its objectives, and are prepared to take any further measures that may be required for this purpose. The authorities will remain in close consultation with the Fund, in accordance with the Fund's policies on such consultations, and will provide the Fund with such information as the Fund may request to monitor the progress being made in the implementation of the program and the achievement of the objectives set out in this memorandum.

Goods for which the Import Tariff will Exceed the Maximum of 20 Percent Beyond December 1, 1995

Category of Goods	Code	Tariff(percent)
Fresh fruit	0806-0813	30 1/
Consumer electronics	8520/1	30
Televisions	8528	30
Passenger cars	8703	2/
Tobacco products (processed)	2402	30
Natural wines (collection)	22041	1.32 ECU/1
Natural wines (table)	22042	0.50 ECU/1
Natural wines (other)	22043	0.20 ECU/1
Fortified wines	2205	0.24 ECU/1
Fermented beverages	2206	0.24 ECU/1
Guns and ammunition	93	70
Chocolate and other cocoa	1806	40
Beer	2203	0.5 ECU/1
Jewelry	7113-7118	30

1/ Proposals to reduce this tariff, which is currently at 50 percent, to 30 percent immediately and to 20 percent with effect from January 1, 1997 will be submitted to Parliament as a prior action.

2/ For cars over ten years old, 10 percent of the minimum wage for every cubic centimeter of engine size; for all other cars, the tariff is set below 20 percent.

Targets for Net International Reserves (NIR) and
Gross Reserves in Convertible Currencies of the NBM

(In millions of U.S. dollars)

	Minimum Levels 1/	
	NIR	Gross Reserves
Position on December 31, 1995 2/	26.1	256.5
March 31, 1996	-31 3/	220 3/
June 30, 1996	-9 4/	235 3/
September 30, 1996	-5 4/	254 3/
December 31, 1996	-2 4/	271 3/

1/ The targets will be changed if the base is revised, up to a maximum of US$20 million in either direction.
2/ Preliminary actual.
3/ Indicative target.
4/ Performance criterion.

Net international reserves of the NBM in convertible currencies are defined as gross reserves minus reserves liabilities in convertible currencies.

Gross reserves of the NBM are defined as monetary gold, holdings of SDRs, reserve position in the Fund, and holdings of foreign exchange in convertible currencies by the NBM. Excluded from reserve assets are capital subscriptions to foreign financial institutions, long-term nonfinancial assets of the NBM, and assets in nonconvertible currencies.

Reserve liabilities in convertible currencies are defined as use of Fund credit, and convertible currency liabilities of the NBM with original maturities of up to and including one year. Excluded from reserve liabilities are liabilities with original maturities longer than one year.

The minimum levels for net international reserves and the indicative targets for gross reserves will be adjusted upward to the extent that an agreement in principle on a Government assumption of arrears or other payment obligations of non-budgetary enterprises, including arrears to Gazprom (see Annex VII), leads to a reduction in external payments compared to the programmed level of such payments.

For purposes of monitoring the monetary program, the exchange rate of the SDR against the U.S. dollar has been fixed at SDR 1 per US$1.488. The exchange rates of nondollar currencies vis-à-vis the U.S. dollar will be fixed at their December 31, 1995 levels.

The targets will be monitored from accounts of the NBM. Data in the agreed format will be reported to the Fund within 7 days of the end of each month by the NBM.

Targets for the Change in Net Domestic Assets
of the National Bank of Moldova (NBM)

(In millions of Lei)

	Net Domestic Assets of NBM
Position on December 31, 1995 1/	652
Ceilings on the increase in the period: 2/	
January 1, 1996 to March 31, 1996 3/	+125
January 1, 1996 to June 30, 1996 4/	+149
January 1, 1996 to September 30, 1996 4/	+183
January 1, 1996 to December 31, 1996 4/	+237

1/ Preliminary actual.
2/ The ceilings will be adjusted for subsequent revisions to the estimated position in the base period, December 31, 1995, up to a maximum of Mdl 50 million in either direction.
3/ Indicative target.
4/ Performance criterion.

Targets for the Change in Reserve Money and Broad Money

(In millions of Lei)

	Reserve Money	Broad Money
Position on December 31, 1995 1/	780	1,244
Indicative targets for the increase in the period: 2/		
January 1, 1996 to March 31, 1996 3/	40	104
January 1, 1996 to June 30, 1996 3/	81	213
January 1, 1996 to September 30, 1996 3/	136	327
January 1, 1996 to December 31, 1996 3/	203	454

1/ Preliminary actual.
2/ The targets will be adjusted for subsequent revisions to the estimated position in the base period, December 31, 1995, up to a maximum of Mdl 50 million in either direction.
3/ Indicative targets.

Net domestic assets of the NBM are defined as the difference between reserve money (including currency issued, total reserve deposits of banks and enterprise deposits) and net international reserves of the NBM, (as defined in Annex II, but inclusive of the net position of the NBM correspondent accounts with the central banks of the Baltics, Russia, and other countries of the former Soviet Union (BRO), all expressed in Moldovan Lei). Net international reserves shall be valued at accounting exchange rates of US$1 = Mdl 4.5 and Russian rubles 1,000 = Mdl 0.946.

Broad money is defined as the sum of currency in circulation, demand deposits and time deposits of commercial banks and savings banks, excluding the financing from the BRO.

These ceilings and indicative targets in the two tables in this annex are based on the assumption that no further net financing from the BRO will transit through NBM's correspondent accounts.

The ceilings on net domestic assets of the NBM and the indicative targets for reserve money will be adjusted downward (upward) for any decrease (increase) in the legal reserve requirement ratio, from the current ratio of 8 percent, by an amount equal to the change in the reserve ratio times the programmed level of domestic currency deposit liabilities of the commercial banks, which are as follows:

At March 31, 1996	Mdl 507 million
At June 30, 1996	Mdl 548 million
At September 30, 1996	Mdl 601 million
At December 31, 1996	Mdl 657 million

The ceilings on net domestic assets of the NBM will be adjusted downward to the extent that an agreement in principle on a Government assumption of payment obligations of nonbudgetary enterprises, including arrears to Gazprom (see Annex VII), leads to a reduction in external payments compared to the programmed level of such payments.

The targets for the change in net domestic assets of the NBM and the change in reserve money will be monitored from the accounts of the NBM. Data in the agreed format will be reported to the Fund within 7 days of the end of each month by the NBM.

The target for broad money will be monitored from the accounts of the NBM and all other banks. Data in the agreed format will be reported to the Fund within 30 days of the end of each month by the NBM.

Limits on Increase in Net Credit from
the Banking System to the General Government

	Stock of Net Credit
	(In millions of lei)
Position at December 31, 1995	489
Ceiling on the increase in the period: 1/	
January 1, 1996 to March 31, 1996 2/	75
January 1, 1996 to June 30, 1996 3/	110
January 1, 1996 to September 30, 1996 3/	135
January 1, 1996 to December 31, 1996 3/	150

1/ The ceilings will be adjusted for subsequent revisions to the estimated position in the base period, December 31, 1995, up to a maximum of Mdl 50 million in either direction.
2/ Indicative target.
3/ Performance criterion.

The General Government is defined as comprising the republican and local government budgets and all extrabudgetary funds, including the extrabudgetary fund for external loans and the Social Fund. Any new funds created will be included in the General Government.

Net credit of the banking system to the General Government is defined as outstanding claims of the banking system on the General Government, including banking system holdings of Government securities, less General Government deposits with the banking system.

The ceilings shall be reduced by a proportion of the total stock of guarantees extended by the Government or the NBM in excess of the stock outstanding as at December 31, 1995 of Mdl 481 million, excluding loan guarantees granted with respect to projects financed by multilateral organizations. The proportion shall equal 20 percent for the first Mdl 50 million and 100 percent of the value of guarantees thereafter.

The limits will be cumulative and will be monitored from the accounts of the NBM and the other banks. Data in the agreed format will be reported to the Fund within 30 days of the end of each month by the NBM.

Limits on Cumulative Deficit of the
General Government

	Limits
	(In millions of lei)
Cumulative change from December 31, 1995	
March 31, 1996 1/	105
June 30, 1996 2/	200
September 30, 1996 2/	275
December 31, 1996 2/	350

1/ Indicative target.
2/ Performance criterion.

The General Government is defined as comprising the republican and local government budgets and all extrabudgetary funds, including the extrabudgetary fund for external loans and the Social Fund. Any new funds created will be included in the General Government.

The quarterly limits will be cumulative and will be monitored from the financing side as the sum of net credit of the banking system to the General Government, the Government's net placement of securities outside the domestic banking system, other net credit from the domestic nonbanking sector to the General Government, and the General Government's receipt of disbursements from external loans for direct budgetary support minus amortization paid.

The ceilings shall be reduced by a proportion of the total stock of guarantees extended by the Government or the NBM in excess of the stock outstanding as at December 31, 1995 of Mdl 481 million, excluding loan guarantees granted with respect to projects financed by multilateral organizations. The proportion shall equal 20 percent for the first Mdl 50 million and 100 percent of the value of guarantees thereafter.

Commodity loans or investment-related external loans obtained by the Government will be included in external borrowing. Beginning in the quarter in which any such loans are received, the cumulative limits may be adjusted upward, following a consultation with Fund staff.

Government securities in the form of zero-coupon obligations sold at a discount will be treated as financing items in the fiscal accounts, in the amount actually received from the buyers. At the time of redemption, the same amount will be recorded as amortization, and the difference between amortization so defined and the actual redemption value will be recorded as domestic interest payments.

External commodity loans will be treated as financing items in the fiscal accounts, at the value of the loan in U.S. dollars, converted into Mdl, using the exchange rate of the Mdl with the U.S. dollar on the date of the receipt of the loan. The amounts on-lent to domestic enterprises minus domestic counterparts received from these enterprises will be recorded in net lending. Interest payments by the Government on these loans to external creditors will be recorded as interest payments on foreign debt and interest paid by domestic enterprises to the Government on these loans will be recorded in non-tax revenues. Repayments of principal from domestic borrowers to the government will be treated as negative net lending and repayments of principal by the government to foreign creditors will be recorded as amortization.

The ceilings shall be reduced by the additional amount of amortization payments made by the Government following any agreement in principle on the assumption of arrears and other payment obligations of nonbudgetary enterprises, including arrears to Gazprom (see Annex VII).

For monitoring these limits, data in the agreed format will be reported to the Fund within 30 days of the end of each quarter by the Ministry of Finance.

Limits for the Contracting and Guaranteeing of External Debt

(In millions of U.S. dollars)

Contracted or guaranteed external debt (cumulative)	Maximum Limits	
	Maturity over 1 year	1-5 year Maturity
During the period from December 31, 1995 to:		
March 31, 1996 1/	300	100
June 30, 1996 2/	300	100
September 30, 1996 2/	300	100
December 31, 1996 2/	300	100

1/ Indicative target.
2/ Performance criteria.

External-debt limits apply to the contracting and guaranteeing of medium- and long-term debt of original maturities of more than one year by the General Government or the NBM, with subceiling on such debt of maturities of more than one year and up to and including five years. Excluded from the limits are use of Fund resources and concessional loans that include a grant element of at least 35 percent; but other balance of payments support of maturity longer than one year is covered by these limits, including loans from official creditors, and foreign banks.

Other than for normal import trade credits, there will be no contracting or guaranteeing of short-term debt by the General Government or the NBM throughout the period of the program. The Government will not accumulate external payments arrears. Within the ceilings set out above, the Government or the NBM will not issue guarantees for external loans of maturity of more than one year in an amount exceeding US$150 million, of which no more than US$50 million shall be for loans with a maturity of more than one year and up to and including five years.

Contracted debt shall be converted into U.S. dollars at the average market exchange rate during the month in which the debt is contracted. The ten-year average of Commercial Interest Reference Rates (CIRRs) as used by the OECD will be used to assess the concessionality of loans of a maturity of at least 15 years, and a six-month average of CIRRs will be used for maturities of less than 15 years. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD will be added.

Information on contracted and guaranteed external debt will be reported monthly to the Fund within 30 days of the end of each month by the NBM.

Adjustments to the Macroeconomic Framework in the Event of an Agreement in Principle with RAO Gazprom Involving Partial Government Assumption of Arrears of Moldovan Energy Enterprises

In the event of an agreement with RAO Gazprom, as discussed in paragraphs 21 and 64, the following adjustments to the macroeconomic program will be made:

- increased external debt interest payments will be accommodated within existing programmed expenditure levels;

- program fiscal deficit targets will be reduced in line with increased amortization payments due to RAO Gazprom;

- to the extent that, as a result of any grace period under the agreement, payments to RAO Gazprom are likely to be smaller in the short run than assumed under the program, official international reserves will be programmed to increase;

- within the monetary program, higher net international reserves will be offset by lower credit from the NBM to commercial banks; in turn, credit to enterprises will be reduced, reflecting the removal of a substantial liability from this sector.