

SUR/00/123

December 20, 2000

**The Acting Chairman's Summing Up at the Conclusion
of the 2000 Article IV Consultation with Moldova
Executive Board Meeting 00/125—December 15, 2000**

Executive Directors agreed with the thrust of the staff appraisal. They noted that Moldova has been hit hard by the Russian crisis of 1998 and economic problems in other neighboring countries, and, more recently, by rising energy prices and a drought. Directors recognized that in difficult circumstances, the authorities have made a determined effort to preserve reasonable financial stability. Since 1999, they have achieved a large and welcome fiscal adjustment, and have tightened monetary policy. At the same time, Directors noted the obstacles and opposition that Moldova's reform efforts have faced over the past decade, as well as the challenges posed by the high level of its foreign debt. Against such a background, Directors considered that the authorities faced an extremely demanding task. They were encouraged by the renewed commitment to structural reforms, but emphasized that steadfast implementation will be critical to lay the foundations for sustained growth and poverty reduction.

Directors welcomed the authorities' intention to press ahead with fiscal adjustment and reform. They recognized the limited scope for further reduction in government expenditures, as well as the need to find resources to strengthen social programs and to pay down wage and pension arrears. Accordingly, Directors emphasized the importance of improving tax and customs administration, including collection enforcement, as well as of upgrading tax legislation and reducing tax exemptions. They welcomed the recent, and politically difficult, improvements to the social safety net through better-targeted compensation for energy expenditures paid directly from the budget. More generally, they noted the large contribution which energy sector reform can, in various ways, make to strengthening the budget.

Directors regarded the recent increase in the demand for money and credit as a positive sign of greater financial deepening. They cautioned the National Bank, should this process slow down, to stand ready to tighten monetary policy in order to further reduce inflation. Directors considered that Moldova's flexible exchange rate regime was appropriate given its vulnerability to external shocks. They welcomed the central bank's continuing efforts to consolidate the banking sector and noted the importance of addressing effectively any problems posed by weak banks if the need arose.

Directors noted that, in addition to external shocks, faltering structural reform efforts had seriously undermined economic performance over much of the past decade. Against this disappointing background, Directors were encouraged by the recent progress in privatizing the energy sector, liquidating state farms and distributing land, and by parliament's adoption

of legislation that allows for the privatization of a number of wineries and the tobacco sector. They also welcomed the authorities' recent steps to strengthen the legal framework and improve economic governance. Directors emphasized the vital importance of maintaining the current momentum of reform.

Directors expressed serious concern about the deterioration of Moldova's external debt indicators, and emphasized the need for close monitoring in the years to come. Achieving sustainability in the medium term will require continued fiscal adjustment and structural policies to stimulate strong export growth. Directors commended the authorities for having continued to meet debt obligations, while maintaining a liberal trade and exchange regime. They were pleased to note Moldova's imminent accession to the WTO.

Directors recommended that the authorities endeavor to further improve the quality and coverage of economic statistics.

It is expected that the next Article IV consultation with the Republic of Moldova will be held on the standard 12-month cycle.

**Summing Up by the Acting Chairman
Republic of Moldova—Request for a Three-Year Arrangement
Under the Poverty Reduction and Growth Facility and
Interim Poverty Reduction Strategy Paper
Executive Board Meeting 00/125
December 15, 2000**

Executive Directors agreed that achieving sustainable economic growth and reducing poverty, as well as reducing the country's large external debt burden, will require sustained and determined policy efforts. While Directors were disappointed in the slowdown of structural reforms in recent years, they were encouraged by the authorities' current actions as evidence of a renewed commitment to reform, and believed that these efforts created a basis on which continuing progress could be built during the three-year program.

Directors agreed with the focus of the authorities' program on a relatively small number of critical structural reforms, including the privatization of the wineries and Moldtelecom, strengthening financial discipline, and improving the legal framework. They noted that other areas of reform will be covered by World Bank adjustment lending operations. Directors attached special importance to issues concerning the energy sector being effectively addressed, in view of their substantial potential contribution to easing internal and external imbalances.

Directors emphasized that Moldova's ability to meet its large debt service obligations in the coming years depends on: successful privatization of key state-owned enterprises; continuing support from international financial institutions and other donors; and continuing favorable developments in other areas, notably regarding export growth. They emphasized the importance of building up from these various sources as large a cushion as possible to meet the high debt service obligations in 2002 and 2003, as well as of maintaining a constructive dialogue with all creditor groups in addressing these difficult circumstances. Several Directors considered the assumptions underlying the staff's projections on Moldova's external debt outlook to be optimistic. They looked forward to future staff work that would allow the problems of CIS-countries, suffering from high debt burdens and depressed income levels, to be addressed from a broad perspective.

Directors welcomed the authorities' interim Poverty Reduction Strategy Paper and agreed that it provides a sound basis for the development of a full PRSP, and for concessional support from the Fund under the Poverty Reduction and Growth Facility. They stressed that achieving sustainable economic growth, through the implementation of sound financial policies and structural reforms, greater social protection, and policies aimed at human development, as well as an effective strategy to ensure an inclusive participatory process, will be important elements of Moldova's poverty reduction strategy.