

EBS/00/249
Supplement 3

CONFIDENTIAL

December 27, 2000

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Republic of Moldova—Poverty Reduction and Growth Facility—Three-Year Arrangement**

Attached for the records of Executive Directors is the text of the three-year arrangement for the Republic of Moldova under the Poverty Reduction and Growth Facility, as agreed at Executive Board Meeting 00/125 (12/15/00).

Att: (1)

Other Distribution:
Department Heads

Republic of Moldova--Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Attached hereto * is a letter ("the letter") dated November 30, 2000, with an annexed Memorandum of Economic and Financial Policies for 2000-03 (the "Memorandum"), from the President of the Republic of Moldova, the Prime Minister of the Republic of Moldova, and the Governor of the National Bank of Moldova requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility Trust ("the Trustee") a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

(a) the objectives and policies of the program that the authorities of the Republic of Moldova intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of the Republic of Moldova intend to pursue during the first year of the arrangement; and

(c) understandings of the Republic of Moldova with the Trustee 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 the Republic of Moldova will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust.

1. (a) For a period of three years from December 21, 2000, the Republic of Moldova will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 110.88 million, subject to the availability of resources in the Poverty Reduction and Growth Facility Trust.

(b) Disbursements under this arrangement shall not exceed the equivalent of SDR 46.2 million until February 15, 2002 and the equivalent of SDR 83.16 million until February 15, 2003.

(c) During the first year of the arrangement:

(i) the first disbursement, in an amount equivalent to SDR 9.24 million, will be available on December 29, 2000, at the request of the Republic of Moldova;

* See EBS/00/249, 12/1/00.

- (ii) the second disbursement, in an amount equivalent to SDR 9.24 million, will be available on or after February 15, 2001, at the request of the Republic of Moldova and subject to paragraph 2 below; and
- (iii) the third disbursement, in an amount equivalent to SDR 9.24 million, will be available on or after June 15, 2001, at the request of the Republic of Moldova and subject to paragraph 2 below; and
- (iv) the fourth disbursement, in an amount equivalent to SDR 9.24 million, will be available on or after August 15, 2001, at the request of the Republic of Moldova and subject to paragraph 2 below; and
- (v) the fifth disbursement, in an amount equivalent to SDR 9.24 million, will be available on or after December 15, 2001, at the request of the Republic of Moldova and subject to paragraph 2 below; and

(d) The right of the Republic of Moldova to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined. The phasing of, and conditions for, disbursements during the second year of this arrangement shall be determined in the context of the second review of the Republic of Moldova's program with the Trustee contemplated in paragraph 2 (e) of this arrangement.

2. The Republic of Moldova will not request the second, third, fourth, or fifth disbursements specified in paragraph 1(c)(ii), 1(c)(iii), 1 (c)(iv), and 1 (c)(v) above:

(a) If the Managing Director of the Trustee finds that, with respect to the second disbursement, the data as of December 31, 2000, with respect to the third disbursement, the data as of March 31, 2001, with respect to the fourth disbursement, the data as of June 30, 2001, and with respect to the fifth disbursement, the data as of September 30, 2001 indicate that:

- (i) the floor on the net international reserves of the National Bank of Moldova, or
- (ii) the ceiling on the reserve money of the National Bank of Moldova, or
- (iii) the ceiling on the net credit of the National Bank of Moldova to the general government, or
- (iv) the ceiling on the overall cash deficit of the general government, or
- (v) the ceiling on the contracting of guaranteeing of nonconcessional external debt in maturities of more than one year by the general

government, the National Bank of Moldova, or any other agency acting on behalf of the government, or

- (vi) the ceiling on the contracting of guaranteeing of nonconcessional external debt in maturities of one to five years by the general government, the National Bank of Moldova, or any other agency acting on behalf of the government, or
- (vi) the ceiling on net disbursements of nonconcessional external debt in maturities of less than one year to the general government, the National Bank of Moldova, or any other agency acting on behalf of the government, or
- (vii) the ceiling on the domestic expenditure arrears of the general government,

specified, with respect to the second and third disbursements, in the technical memorandum of understanding attached to the letter, and with respect to the fourth and fifth disbursements, to be determined at the time of the first review contemplated in paragraph 2 (e) of the arrangement, was not observed; or

(b) if, at any time during this arrangement, the Government of the Republic of Moldova accumulates any new external payment arrears as specified in Table 5 of the technical memorandum of understanding attached to the letter; or

(d) If the Republic of Moldova has:

- (i) imposed or intensified restrictions on payments and transfers for current international transactions, or
- (ii) introduced or modified multiple currency practices, or
- (iii) concluded bilateral payments agreements that are inconsistent with Article VIII, or
- (iv) imposed or intensified import restrictions for balance of payments reasons; or

(e) Until the Trustee has determined, with regard to the third disbursement, that the first review of the Republic of Moldova's program scheduled for completion by June 14, 2001 has been completed and, with regard to the fifth disbursement, that the second review of the Republic of Moldova's program, scheduled for completion by December 14, 2001 as contemplated in paragraph 37 of the memorandum has been completed.

When the Republic of Moldova is prevented from requesting disbursements under this arrangement because of this paragraph 2, such disbursements may be made available only after consultation has taken place between the Trustee and the Republic of Moldova and understandings have been reached regarding the circumstances in which the Republic of Moldova may request the disbursements.

3. In accordance with paragraph 2 of the Letter, the Republic of Moldova will provide the Trustee with such information as the Trustee requests in connection with the progress of the Republic of Moldova in implementing the policies and reaching the objectives of the program supported by this arrangement.

4. In accordance with paragraph 2 of the Letter, during the period of this arrangement the Republic of Moldova, shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while the Republic of Moldova has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, the Republic of Moldova will consult with the Trustee from time to time, at the initiative of the Government or whenever the Managing Director of the Trustee requests consultation on the Republic of Moldova's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to the Republic of Moldova or of representatives of the Republic of Moldova to the Trustee.