February 2012
IMF Country Report No. 12/38

# Republic of Moldova: Fourth Reviews Under the Extended Arrangement and Under the Three-Year Arrangement Under the Extended Credit Facility, and Requests for Waiver for Nonobservance of a Performance Criterion and for Modification of a Performance Criterion—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Moldova.

In the context of the fourth reviews under the Extended Arrangement and under the three-year arrangement under the Extended Credit Facility, and requests for waiver for nonobservance of a performance criterion and for modification of a performance criterion, the following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on November 2, 2011, with the officials of the Republic of Moldova on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 13, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of February 1, 2012 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its February 1, 2012 discussion of the staff report that completed the request and/or review.

- A statement by the Executive Director for the Republic of Moldova.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Republic of Moldova*
Supplementary Memorandum of Economic and Financial Policies by the authorities of the Republic of Moldova*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

# Fourth Reviews Under the Extended Arrangement and Under the Three-Year Arrangement Under the Extended Credit Facility, and Requests for Waiver for Nonobservance of a Performance Criterion and for Modification of a Performance Criterion

Prepared by the European Department
(In consultation with other departments)

Approved by Juha Kähkönen and Christian Mumssen

January 13, 2012


## Executive Summary

**The economy expanded vigorously in 2011, but a slowdown is expected in 2012 with risks on the downside.** GDP growth is estimated at 6 percent in 2011, sustained by robust domestic demand and very strong exports, inflation has stabilized in the upper single digits, and the banking system is generally sound. The near-term outlook is for slowing growth and receding inflation, with the deteriorating external environment and the fragile political situation posing significant downside risks.

**The program is broadly on track.** All end-September quantitative performance criteria were met, except for the ceiling on the general government deficit, which was missed by 0.4 percent of GDP due to weak tax collection and expenditure overruns. In response, the authorities have intensified tax collection efforts and reduced expenditure to achieve the annual 2011deficit target. Owing mainly to macroeconomic updates, the authorities are requesting modification of the performance criterion on the deficit for end-March 2012.

**The key program objectives for 2012 are to complete the fiscal consolidation, maintain low inflation and financial stability, and continue with structural reforms.**

- **The fiscal adjustment is on track.** The authorities reaffirmed their commitment to tax and expenditure reforms needed to achieve the program objective of returning to fiscal sustainability by end-2012.
- **Monetary policy easing has begun in view of declining inflation pressures**. It can accelerate if the inflation outlook improves faster than expected. The National Bank of Moldova (NBM) will vigilantly supervise a few weak banks.
- **Critical structural reforms** in education, social assistance, and other areas are supporting the fiscal adjustment, aiding the most vulnerable, and promoting growth.

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## I. Recent Developments and Outlook

1. **The economy continued its strong expansion in 2011, and inflation stabilized late in the year.** GDP is projected to have expanded by 6 percent after a 7.1 percent growth in 2010, among the highest in the region (Figure 1). The main drivers of growth were private consumption, investment, and exports, fuelled by remittances and rising credit, and also reflecting the improving business climate. Exports increased by 52 percent in January–October 2011 relative to a year ago, aided by new production capacities, robust external demand, and expanding access to EU and CIS markets. Reflecting strong domestic demand and high import content of exports, imports also increased by 38 percent over the same period, and the trade balance deteriorated somewhat. Headline inflation stabilized at about 9 percent in the autumn, still sustained by the delayed pass-through of external food and energy price shocks; core inflation remained below 5 percent. Unemployment declined below its long-term average (Figures 1 and 2).

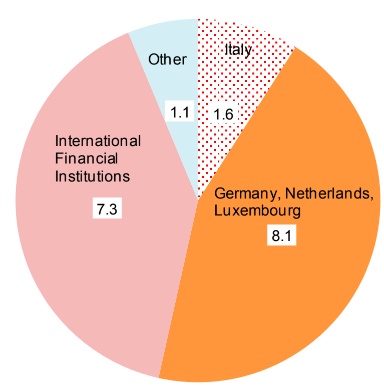
Medium-Term Outlook, 2008–17

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | | |
| | (Percent change, unless otherwise indicated) | | | | | | | | | |
| Real GDP | 7.8 | -6.0 | 7.1 | 6.0 | 3.5 | 4.5 | 5.0 | 5.3 | 5.3 | 5.3 |
| Inflation (end of period, y-o-y) | 7.3 | 0.4 | 8.1 | 9.0 | 6.5 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | | | |
| Current account balance | -17.2 | -9.8 | -10.2 | -11.7 | -10.5 | -9.9 | -8.9 | -8.4 | -8.0 | -8.0 |
| Gross investment | 34.0 | 22.6 | 22.6 | 23.5 | 23.7 | 24.4 | 24.9 | 25.1 | 25.3 | 25.6 |
| Fiscal balance | -1.0 | -6.3 | -2.5 | -1.9 | -0.9 | -0.7 | -0.7 | -0.6 | -0.5 | -0.4 |
| External debt stock | 55.6 | 66.0 | 67.4 | 66.4 | 68.6 | 69.1 | 67.6 | 66.0 | 64.2 | 63.3 |
| Gross reserves in percent of next year short-term debt and current account deficit | 76.4 | 63.5 | 60.9 | 63.4 | 66.4 | 61.0 | 58.1 | 56.6 | 55.6 | 54.9 |

Sources: Moldovan authorities; and IMF staff estimates and projections.

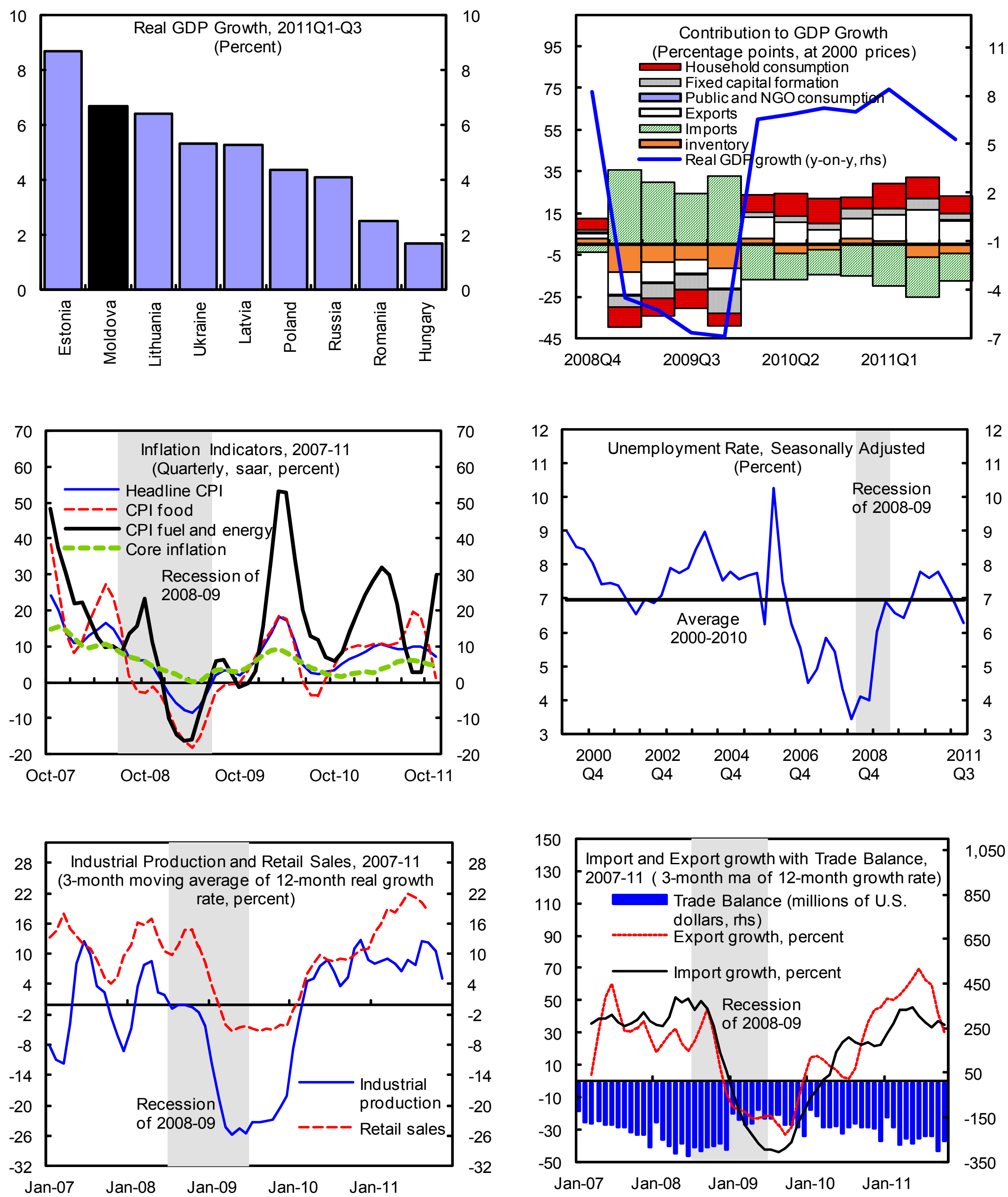
2. **However, the expected slowdown in the EU is likely to dampen growth next year (text table).** Already evident adverse spillovers through exports, remittances, and FDI would be partly counterbalanced by resilient economic conditions in Russia and Ukraine. Banks' limited international exposure would contain financial spillovers, but credit growth would slow nonetheless (Table 4). Conversely, the planned sizable increase in public investment would offset deceleration in private investment. On balance, staff expects GDP growth to moderate to 3½ percent in 2012 and gradually return to its potential level afterwards; the authorities were more sanguine but eventually concurred. Meanwhile, the expected decline in energy prices

Moldova: Commercial Banks' Foreign Liabilities
(in percent of NBM's gross reserves and the banks' foreign assets)



will help steer inflation toward the NBM's targeted range of 5±1.5 percent by early 2013. Reflecting slowing domestic demand and expanded international market presence, the current account deficit is expected to narrow gradually toward 8 percent of GDP in the medium term, a level consistent with continuing investment expansion and declining external debt.

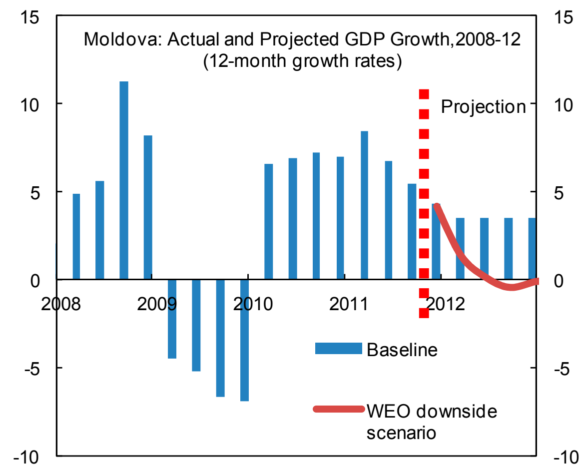
Figure 1. Moldova: Economic Developments, 2000–11




Source: National Bureau of Statistics; Haver Analytics; IMF, WEO; and IMF staff estimates.

3. **The political situation remains unsettled in the absence of an elected President.** The ruling center-right coalition has not yet managed to garner enough votes in Parliament to elect a President and secure a four-year mandate. While efforts to find a widely acceptable candidate continue, early parliamentary elections in the course of 2012 are possible.

4. **The buffers rebuilt since 2009 mitigate the considerable downside risks to the outlook.** The baseline projections are consistent with the latest global and regional outlook. However, a deep recession in the EU spilling over to Russia and Ukraine could lead to stagnation (chart) or an outright recession in Moldova through plummeting remittances, exports, and private capital inflows. This would pressure the budget and possibly the banking sector as loan quality deteriorates. In 2010–11, the authorities have rebuilt comfortable buffers—a sizable level of foreign exchange reserves, low budget deficit, and high bank capital adequacy and liquidity ratios. Together with regained access to official external financing, these buffers can cushion adverse shocks. However, should political uncertainty disrupt the hitherto sound economic policies, the economy can be destabilized and pushed into a 2009-style crisis.




## II. Performance Under the Program

5. **The program is broadly on track, although some end-September program conditions were missed (SMEFP Tables 2 and 3).** Weak tax collection and expenditure overruns resulted in missing the performance criterion on the general government budget deficit by 0.4 percent of GDP. The indicative target on reducing general government expenditure arrears was missed marginally due to underpayment of heating bills by the Chişinău municipality. In addition, the structural benchmark on reforming the debt restructuring framework was missed owing to protracted internal discussions. All other quantitative performance criteria, indicative targets, and structural benchmarks for end-September were met. Policy discussions with the authorities focused on identifying and implementing corrective measures to rectify these slippages and safeguard the program objectives (¶¶ 7, 11, and 13).

## III. Policy Discussions

6. **The key policy objectives for 2012 are to complete the programmed fiscal adjustment while maintaining macroeconomic and financial stability, and supporting growth.** The discussions focused on measures to reestablish fiscal sustainability by end-2012 while raising the volume and quality of public investment and targeted social assistance (SMEFP ¶6). The authorities and staff also discussed the appropriate monetary policy to

manage disinflation amid downside risks to the outlook, steps to reinforce financial stability, and structural reforms to support growth and fiscal consolidation.

## A. Fiscal Policy

7. **The authorities and staff agreed on measures to rectify fiscal slippages in 2011 and put the targeted structural fiscal adjustment back on track.** By end-September, tax revenue—notably value-added tax (VAT) and payroll taxes—fell short of what could be expected from the booming economy (Box 1). Meanwhile, overruns in transfers to the households and the economy and spending on goods and services were only partially offset by capacity-constrained lower capital outlays. In particular, applications for agricultural subsidies—including for unpaid amounts in 2009–10—exceeded the budget allocation. To correct these slippages, the authorities intensified tax collection efforts and amended the 2011 budget (prior action) to cut current expenditure and lock in the savings from capital under-spending while clearing the backlog of unpaid agricultural subsidies (text table and SMEFP ¶¶7–8). This should keep the fiscal deficit in 2011 within the budgeted 1.9 percent of GDP, which remains broadly consistent with the targeted structural adjustment path.

Explaining Fiscal Developments in 2011 1/
(Percent of GDP)

| | |
|---|---|
| Revenue and grants | -0.7 |
| Social and health fund contributions | -0.4 |
| PIT | -0.1 |
| Foreign trade tax | -0.1 |
| VAT | -0.1 |
| Expenditures | -0.7 |
| Current expenditures | -0.4 |
| Wages | -0.2 |
| Goods and services | -0.2 |
| Transfers to the economy and to households | 0.0 |
| Agricultural subsidies | 0.2 |
| Other current expenditures | 0.0 |
| Capital expenditures | -0.3 |

Sources: Moldovan authorities; and IMF staff estimates.
1/ Change relative to third review program targets.

**Box 1. Tax Collection Slippages in 2011 and Corrective Measures**

**Staff and authorities concurred that revenue collection in 2011 did not keep up with the tax base dynamics.** In Q1–Q3, VAT collections lagged growth in retail sales and imports by 23 and 6 percentage points, respectively, developments "credited" mainly to evasion and legislative loopholes. Similarly, payroll taxes underperformed as reported wage bill growth fell short of nominal GDP growth by 6 percentage points, with the discrepancy mostly attributed to underreporting of wages and employment. Staff estimated the combined revenue shortfall at 0.7 percent of GDP.

**In response, the authorities stepped up efforts to strengthen tax compliance.** They tightened control over VAT collections and intensified inspections of high-risk taxpayers to combat evasion (prior action). Moreover, they will expand the coverage of the Large Taxpayer Office and strengthen its audit capacity (SMEFP ¶8). These measures are expected to raise revenue by ¼–½ percent of GDP in 2012–13.

8. **In 2012, fiscal policy will aim to restore fiscal sustainability by curtailing current spending while boosting investment.** For the fiscal deficit to be safely financed without recourse to exceptional foreign assistance, the structural fiscal balance should return to pre-2008 levels (text table). Continuing rationalization of current spending will make room for boosting capital outlays by over 30 percent, providing growth-enhancing infrastructure upgrades (Table 3). Amid declining tax collections from VAT and payroll taxes, the authorities argued that new sources of revenue such as the planned re-introduction of the corporate income tax at a low rate and gradual increases in excise rates are needed to support the fiscal adjustment (SMEFP ¶10). Approval of the 2012 budget supported by tax policy and expenditure reforms consistent with the program objectives is a prior action (SMEFP ¶9).

Headline and Structural Fiscal Balances of the General Government, 2007-13
(Percent of GDP, unless otherwise indicated)

| | 2007 | 2008 | 2009 | 2010 | 2011 | | 2012 | | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Third Review | Rev. Prog. | Third Review | Rev. Prog. | Proj. |
| Headline revenue and grants | 41.7 | 40.6 | 38.9 | 38.3 | 37.6 | 36.9 | 38.2 | 37.2 | 37.0 |
| Domestic revenue | 39.9 | 38.9 | 36.8 | 35.5 | 35.2 | 34.5 | 36.0 | 34.7 | 35.2 |
| Tax revenue | 34.0 | 33.4 | 32.0 | 31.0 | 31.4 | 30.7 | 32.4 | 31.3 | 31.8 |
| Non tax revenue | 5.9 | 5.4 | 4.8 | 4.6 | 3.8 | 3.8 | 3.6 | 3.4 | 3.4 |
| Grants | 1.8 | 1.7 | 2.1 | 2.8 | 2.5 | 2.4 | 2.2 | 2.6 | 1.8 |
| Structural revenue | 37.8 | 36.8 | 37.4 | 35.3 | 35.2 | 34.2 | 35.9 | 34.7 | 35.3 |
| Automatic stabilizers 1/ | 2.1 | 2.1 | -0.7 | 0.2 | -0.1 | 0.2 | 0.1 | -0.1 | -0.1 |
| Expenditure and net lending | 42.0 | 41.6 | 45.2 | 40.8 | 39.6 | 38.9 | 39.0 | 38.1 | 37.7 |
| Current | 34.6 | 34.5 | 40.3 | 36.1 | 34.6 | 34.0 | 33.6 | 32.7 | 32.1 |
| Capital | 7.5 | 7.0 | 5.0 | 4.8 | 5.0 | 4.9 | 5.5 | 5.5 | 5.7 |
| Headline fiscal balance (incl. grants) | -0.2 | -1.0 | -6.3 | -2.5 | -1.9 | -1.9 | -0.8 | -0.9 | -0.7 |
| Structural fiscal balance (incl. grants) 2/ | -2.3 | -3.3 | -5.5 | -2.7 | -1.9 | -2.2 | -0.9 | -0.8 | -0.6 |
| Structural fiscal balance (excl. grants) 2/ | -4.2 | -5.1 | -7.5 | -5.4 | -4.4 | -4.6 | -3.1 | -3.4 | -2.4 |
| *Memorandum:* | | | | | | | | | |
| Output gap | 3.9 | 6.2 | -3.6 | -0.8 | -0.2 | 0.8 | 0.4 | -0.2 | -0.4 |

Source: IMF staff estimates.

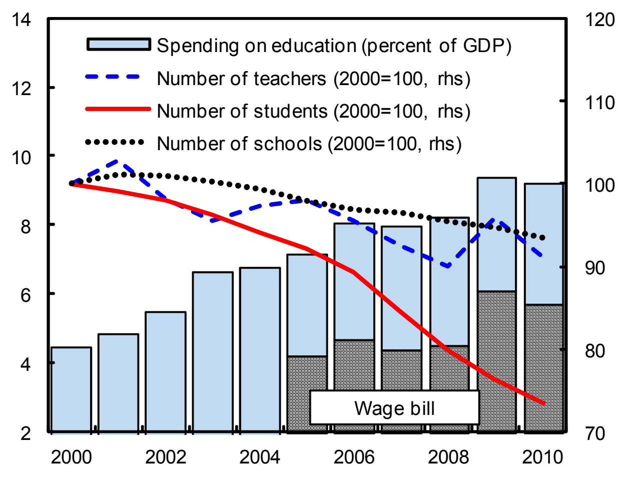
1/ Adjusted for one-off factors.

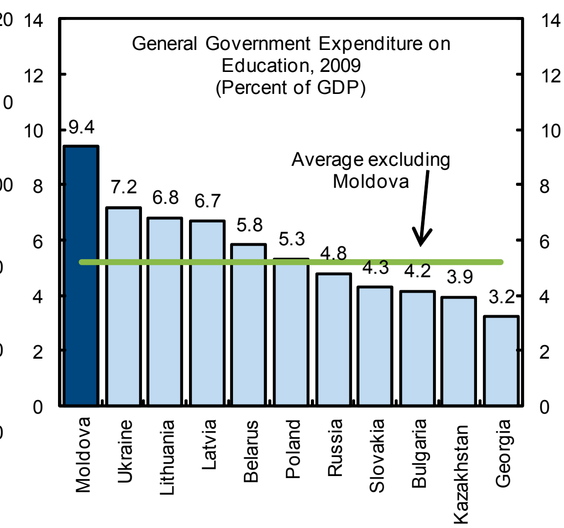
2/ Structural fiscal balances are expressed in percent of potential GDP.

9. **An ambitious agenda of structural reforms underpins budget expenditure in 2012 and protects the most vulnerable.** The new mechanism for allocating agricultural subsidies should ensure that the committed funds remain strictly in line with the budget limits (SMEFP ¶8). Reform of the oversized education sector, prepared with the leading role of the World Bank, should generate notable savings after accounting for reform-related costs (Box 2, SMEFP ¶10). The social assistance reform, designed with the help of the World Bank, will dismantle the inefficient and poorly targeted system of category-based payments in favor of the means-tested social assistance scheme. The funding for the latter will go up by 23 percent in 2012. In addition, heating assistance—provided to a large group of vulnerable households—will increase by 54 percent in the 2011/12 heating season, allowing timely payment of heating bills.

**Box 2. Education Sector Reform**

**The reform aims to rationalize the education sector with a view to improving quality and reducing unaffordable fiscal cost (SMEFP ¶10).** Moldova spends over 9 percent of GDP on education, almost twice as much as the regional average. A large fraction of this spending is wasted in maintaining empty schools and small classes. The World Bank estimates that the student-teacher ratio in Moldova is only 2/3 of the EU average; in some regions, schools have only 5–6 students per class. While the student population has declined by 27 percent since 2000, the reduction in the number of teachers and schools has lagged (chart). Accounting for over 60 percent of public sector employment and almost a quarter of expenditure, a rationalized education sector is crucial for the fiscal adjustment effort. The medium-term reform that began in 2011 aims to improve quality and raise efficiency, reducing net costs by 0.5 percent of GDP a year upon completion. Continuing reform implementation requires parliamentary passage of legal amendments eliminating existing centralized class size norms and giving local school districts more autonomy in employment decisions.

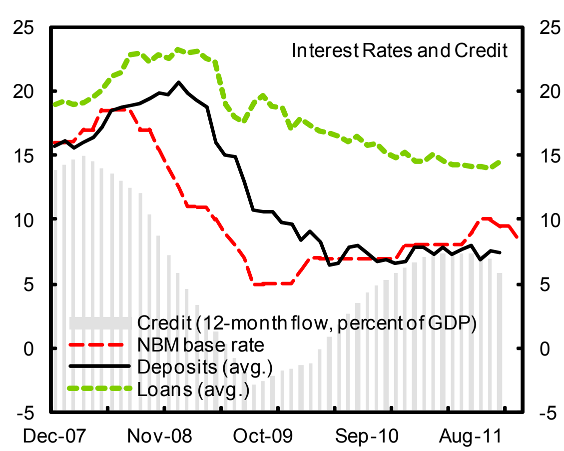



Source: GFS, National authorities; and IMF staff calculations.

## B. Monetary Policy

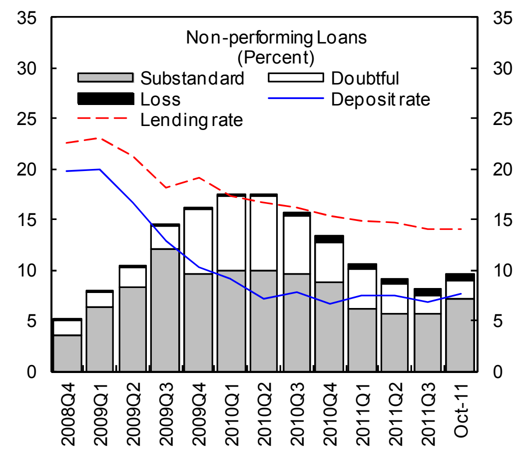
10. **The NBM considered that policy easing can commence in late 2011 given the improving inflation outlook amid difficult external environment.** Domestic demand expansion and pass-through from international energy and food price shocks pushed inflation up in mid-year. In response, the NBM hiked the policy interest rate by 200 bps (chart) and raised the required reserve ratio from 11 percent to 14 percent. These actions anchored expectations



and reaffirmed the credibility of the NBM's inflation targeting framework. As a result of subsequent demand moderation and the fading impact of external price shocks, the inflation outlook improved considerably in late 2011, prompting the NBM to cut its policy rates by 150 basis points in December-January. Staff supported the NBM's intention to continue with the policy easing and accelerate it in case the deteriorating external environment implies faster than expected disinflation (SMEFP ¶11). Staff also encouraged the NBM and the Ministry of Finance to improve their coordination in liquidity-draining operations (SMEFP ¶12).

## C. Financial Sector Policies

11. **With a robust capital base and ample liquidity, the banking system is generally sound and resilient to shocks (Table 5).** As banks cleaned their balance sheets and resumed lending, the nonperforming loans (NPLs) fell to 9.7 percent in October 2011 from a peak of 18 percent in July 2010 (chart). The potentially destabilizing effects of schemes to defraud shareholders at four banks have been avoided (Box 3). Parliament has approved the legal amendments on sharing costs related to the resolution of Investprivatbank (IPB) that failed in 2009. Staff urged the authorities to adopt quickly the package of amendments strengthening the debt restructuring framework that aim to remove structural impediments to the supply of credit (SMEFP ¶15).




12. **However, two banks have developed weaknesses that require close oversight.** One small bank (with less than 1 percent of total bank assets) has been placed under NBM's special administration after it developed liquidity and capital deficiencies and earlier prudential measures were not successful (SMEFP ¶13). The administrator is now proceeding with the liquidation of the bank's assets and repayment of individual deposits as provided by law. In a separate case, a comprehensive audit of a large majority state-owned bank's loan portfolio revealed weak lending practices and considerable under-provisioning. Staff supported the NBM's remedial measures involving setting aside additional loan provisions and close oversight over the bank's lending and collateral practices. Given its comfortable capital and income buffers, the bank has readily complied with the additional provisioning. Staff also urged the authorities to reactivate the contract with the bank's privatization advisor as a first step to its eventual sale.

**Box 3. Takeover Attempts of Moldovan Banks**

**In the summer of 2011, shareholders in four banks reported attempts to defraud them of their shares.** Using dubious bad debt claims, the anonymous plotters were able to obtain and enforce court decisions transferring to them significant share packages. In response, the authorities closed some regulatory loopholes that enabled such attacks, although further clarifications are needed to avoid uncertainty. For the largest bank involved, the Supreme Court has nullified the transfer of the shares and returned them to original shareholders; the other cases are still in court.

**These events highlighted serious weaknesses in the judicial process and financial regulation and supervision.** Staff and authorities agreed on a course of actions to eliminate the risk of similar incidents. The authorities committed to institute changes in supervisory responsibilities and adopt legal amendments to strengthen disclosure of bank owners and controllers, to review suitable criteria for shareholders, and to impose more effective sanctions in line with the best international practices (SMEFP ¶14).

## D. Structural Reforms and Poverty Reduction

13. **Preventing the accumulation of arrears in the energy sector remains a priority.** Despite previous agreements, the municipality of the capital Chişinău did not pay in full its energy bills, prompting the nearly-bankrupt heating supplier to take bank loans to service its liabilities. To reduce its arrears, the municipality committed to prioritize energy payments over discretionary expenditure in late 2011 (SMEFP ¶16). Pending adoption of the energy sector reform framework developed in close cooperation with the World Bank, the loss-making companies of the sector will refrain from borrowing from banks to cover their losses. The authorities are preparing a coordinated framework for intercompany settlements that accounts for lags in population's bill payment.

14. **The authorities are successfully implementing reforms to improve the business climate, promote exports, and reduce state presence in the economy.** The government is expanding the list of companies subject to privatization (SMEFP ¶17) and is considering concrete plans for privatizing the large companies Moldtelecom, Air Moldova, and Banca de Economii (SMEFP ¶13). Reforms to cut red tape, improve competitiveness, and stimulate trade are broadly on track and bringing results already (SMEFP ¶18). In the World Bank's 2012 "Doing Business" survey, Moldova advanced by 18 positions to rank 81 and came second in the last year's top reformers list. The survey highlighted that Moldova facilitated starting a business, improved its credit information system, made enforcement of court judgments more efficient, and amended insolvency law to grant priority to secured creditors.

15. **To set reform priorities and mobilize donor support, the government is elaborating a new National Development Strategy.** The previous strategy expired at the end of 2011. Even though its implementation was interrupted by the economic crisis and political

instability in 2009, it has contributed to reducing poverty and promoting all-inclusive growth. The national poverty indicators did not deteriorate in 2009 and improved considerably in 2010, and about half of the localized Millennium Development Goals for 2010 have been reached (Table 8). The new strategy will cover the period until 2020 and is expected to add up to 12 percentage points to GDP growth over its horizon and reduce the national poverty rate to less than 15 percent (SMEFP ¶21).

## IV. PROGRAM ISSUES AND OUTREACH

16. **The authorities propose to update and extend program conditionality.** The review schedule and phasing of disbursements remains unchanged (SMEFP Table 1). Following updates in the macroframework, the authorities are requesting modification of the performance criterion for the general government deficit for end-March 2012 (SMEFP Table 2). New performance criteria for September 30, 2012 and indicative targets for December 31, 2012 are proposed. The existing and proposed structural conditionality is summarized in SMEFP Table 3. Three prior actions are proposed for the completion of the reviews (¶¶7–8, Box 1). The new structural benchmarks will support the fiscal consolidation (by bringing commitments on agricultural subsidies in line with available funds and moving forward the education reform), enhance financial stability (through reforming the debt restructuring framework and strengthening disclosure of bank owners), and support growth while mitigating fiscal risks (by accelerating privatization of Banca de Economii). To allow domestically-financed capital outlays to offset shortfalls in the foreign-financed investment, the authorities propose to modify accordingly the adjustor on the fiscal deficit target (TMU ¶25).

17. **Seeking to forge broad consensus over the contemplated reforms, staff engaged in extensive outreach.** Following established tradition, staff solicited views on recent developments and prospective policies from parliamentarians, economic analysts, and representatives of the civil society, labor, and business organizations, and conveyed their constructive suggestions to the authorities.

## V. STAFF APPRAISAL

18. **The economy has enjoyed a second year of strong economic growth supported by good program performance.** The expected robust growth of 6 percent in 2011, the second year of the program, followed a 7.1 percent expansion in 2010. After some delays earlier in the year, program implementation regained momentum in H2 2011.

19. **While growth would slow going forward, and downside risks prevail, the buffers rebuilt since 2009 can cushion adverse shocks.** A deep recession in major partners could plunge Moldova in a replay of the 2009 developments. Political uncertainties could disrupt the implementation of reforms and hinder growth and stability prospects. However, the comfortable level of reserves, low fiscal deficit, and sound banking indicators mitigate to a large extent these risks.

20. **The 2011 fiscal slippages have been addressed and fiscal adjustment is broadly on track.** Forcefully implemented corrective actions have reversed the mid-year underperformance. In 2012, the authorities will appropriately focus their efforts on rationalizing current spending while boosting public capital outlays and expanding targeted social assistance. Comprehensive reforms in tax policy, education, and subsidies will support the fiscal adjustment.

21. **Monetary policy easing should continue.** After tightening in mid-2011 in response to higher energy prices and booming domestic demand, the NBM appropriately reversed course when these factors turned around. Going forward, the NBM should be prepared to ease policy further if the inflation outlook keeps improving.

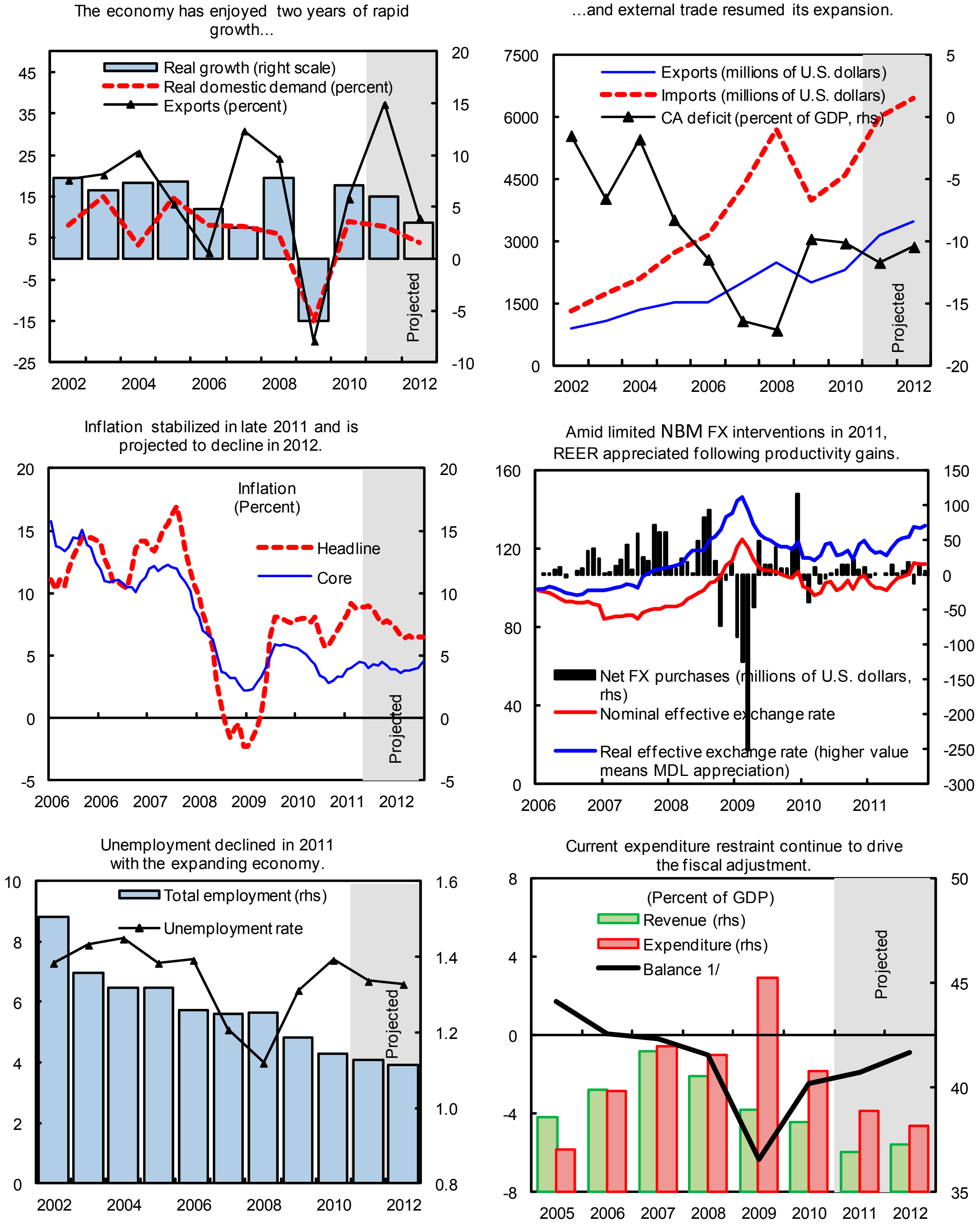
22. **Moldova's financial system is stable overall, but weak banks should be closely monitored.** Takeover attempts against four banks in the summer did not affect the banking system soundness. The NBM has appropriately exercised close oversight over two banks that developed weaknesses and applied remedial measures to mitigate the risks. Efforts should now focus on successfully resolving the small bank under special administration and closely monitoring the developments in the majority state-owned bank.

23. **Reform in the energy sector has been uneven, and eliminating arrears remains a challenge.** The new agreements should set the stage for clearing the current arrears and laying out the payment arrangements for the 2011/12 heating season. In the medium-term, there is no alternative to a swift implementation of the comprehensive restructuring plan for the sector developed with World Bank assistance.

24. **The authorities' efforts to improve the business climate and promote exports have been productive**. Comprehensive structural reforms enhanced competitiveness and helped attract foreign investment and boost exports. The authorities should continue their efforts to widen trade access to international markets.

25. **Staff recommends completion of the fourth reviews.** Despite some slippages, the authorities maintain the commitment and the capacity to implement their Fund-supported program, and the policies planned for 2012 support the program's objectives. As the authorities have applied adequate corrective measures, staff supports approval of the request for waiver for nonobservance of the performance criterion on the general government deficit for end-September 2011. Staff also supports the request for modification of the same performance criterion for end-March 2012, as the requested target is consistent with the program's annual deficit target.

Figure 2. Moldova: Economic Developments and Outlook, 2002–12




Sources: Moldova authorities; and IMF projections.
1/ General government overall balance.

Table 1. Moldova: Selected Indicators, 2008–17 1/

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Projection | | | | | | |
| I. Real sector indicators | (Percent change, unless otherwise indicated) | | | | | | | | | |
| Gross domestic product | | | | | | | | | | |
| Real growth rate | 7.8 | -6.0 | 7.1 | 6.0 | 3.5 | 4.5 | 5.0 | 5.3 | 5.3 | 5.3 |
| Demand | 6.0 | -15.1 | 9.2 | 7.9 | 3.9 | 5.1 | 6.4 | 6.9 | 7.0 | 7.0 |
| Consumption | 5.7 | -6.9 | 7.3 | 6.9 | 2.7 | 4.2 | 5.7 | 6.6 | 6.8 | 6.8 |
| Private | 5.8 | -8.0 | 9.6 | 8.5 | 2.7 | 4.5 | 5.9 | 7.0 | 7.3 | 7.2 |
| Public | 5.0 | -2.0 | -1.1 | 0.2 | 2.7 | 2.7 | 4.5 | 4.8 | 4.6 | 5.1 |
| Gross capital formation | 2.2 | -30.9 | 17.2 | 13.3 | 8.1 | 8.5 | 9.8 | 8.3 | 8.1 | 7.8 |
| Private | 4.1 | -32.1 | 18.5 | 14.5 | 4.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| Public | -4.5 | -26.4 | 12.4 | 8.7 | 24.1 | 9.9 | 15.7 | 9.2 | 8.4 | 7.1 |
| Nominal GDP (billions of Moldovan lei) | 62.9 | 60.4 | 71.9 | 82.9 | 93.1 | 102.1 | 112.6 | 124.5 | 137.6 | 152.2 |
| Nominal GDP (billions of U.S. dollars) | 6.1 | 5.4 | 5.8 | 7.1 | 7.9 | 8.6 | 9.5 | 10.4 | 11.5 | 12.6 |
| Consumer price index (average) | 12.7 | 0.0 | 7.4 | 7.8 | 7.7 | 5.5 | 5.0 | 5.0 | 5.0 | 5.0 |
| Consumer price index (end of period) | 7.3 | 0.4 | 8.1 | 9.0 | 6.5 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| GDP deflator | 9.2 | 2.2 | 11.1 | 8.8 | 8.5 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Average monthly wage (Moldovan lei) | 2,530 | 2,748 | 2,972 | 3,200 | 3,550 | 3,950 | 4,350 | 4,850 | 5,400 | 5,950 |
| Average monthly wage (U.S. dollars) | 243 | 247 | 240 | 273 | 302 | 333 | 366 | 406 | 450 | 493 |
| Unemployment rate (annual average, percent) | 4.0 | 6.4 | 7.4 | 6.7 | 6.6 | 6.4 | 6.0 | 5.5 | 5.0 | 5.0 |
| Saving-investment balance | (Percent of GDP) | | | | | | | | | |
| Foreign saving | 17.2 | 9.8 | 10.2 | 11.7 | 10.5 | 9.9 | 8.9 | 8.4 | 8.0 | 8.0 |
| National saving | 16.8 | 12.8 | 12.4 | 11.8 | 13.2 | 14.4 | 16.0 | 16.8 | 17.3 | 17.6 |
| Private | 10.8 | 14.5 | 9.9 | 9.5 | 8.1 | 9.4 | 10.5 | 11.2 | 11.5 | 11.3 |
| Public | 6.0 | -1.7 | 2.5 | 2.3 | 5.2 | 5.0 | 5.5 | 5.6 | 5.8 | 6.2 |
| Gross investment | 34.0 | 22.6 | 22.6 | 23.5 | 23.7 | 24.4 | 24.9 | 25.1 | 25.3 | 25.6 |
| Private | 27.0 | 17.6 | 17.9 | 18.7 | 18.2 | 18.6 | 18.7 | 18.8 | 19.0 | 19.2 |
| Public | 7.0 | 5.0 | 4.8 | 4.8 | 5.5 | 5.7 | 6.2 | 6.3 | 6.4 | 6.4 |
| II. Fiscal indicators (general government) | | | | | | | | | | |
| Primary balance (cash) | 0.2 | -5.0 | -1.7 | -1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| Overall balance | -1.0 | -6.3 | -2.5 | -1.9 | -0.9 | -0.7 | -0.7 | -0.6 | -0.5 | -0.4 |
| Stock of public and publicly guaranteed debt | 22.0 | 32.4 | 30.2 | 28.3 | 28.7 | 26.1 | 23.5 | 21.7 | 19.7 | 17.8 |
| III. Financial indicators | (Percent change, unless otherwise indicated) | | | | | | | | | |
| Broad money (M3) | 15.9 | 3.2 | 13.4 | 14.7 | 12.3 | 9.7 | 10.3 | 10.6 | 10.6 | 10.6 |
| Velocity (GDP/end-period M3; ratio) | 2.0 | 1.8 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Reserve money 2/ | 18.4 | -0.2 | 15.9 | 15.6 | 11.0 | … | … | … | … | … |
| Credit to the economy 3/ | 20.7 | -4.2 | 17.4 | 20.4 | 14.8 | … | … | … | … | … |
| IV. External sector indicators | (Millions of U.S. dollars, unless otherwise indicated) | | | | | | | | | |
| Current account balance | -1041 | -534 | -592 | -829 | -829 | -857 | -843 | -870 | -922 | -1009 |
| Current account balance (percent of GDP) | -17.2 | -9.8 | -10.2 | -11.7 | -10.5 | -9.9 | -8.9 | -8.4 | -8.0 | -8.0 |
| Remittances and compensation of employees (net) | 1,796 | 1,124 | 1,304 | 1,551 | 1,665 | 1,860 | 2,053 | 2,287 | 2,557 | 2,867 |
| Gross official reserves | 1,672 | 1,480 | 1,718 | 2,037 | 2,313 | 2,351 | 2,453 | 2,598 | 2,769 | 2,936 |
| Gross official reserves (months of imports) | 5.0 | 3.9 | 3.4 | 3.8 | 3.9 | 3.6 | 3.4 | 3.2 | 3.1 | 3.1 |
| Exchange rate (Moldovan lei per USD, period avge) | 10.4 | 11.1 | 12.4 | 11.7 | … | … | … | … | … | … |
| Exchange rate (Moldovan lei per USD, end of period) | 10.4 | 12.3 | 12.2 | 11.7 | … | … | … | … | … | … |
| Real effective exch.rate (average, percent change) | 17.7 | 5.6 | -8.2 | 5.1 | 3.7 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 |
| Real effective exch.rate (end-year, percent change) | 25.1 | -10.5 | 0.3 | 5.9 | 1.3 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| External debt (percent of GDP) 4/ | 55.6 | 66.0 | 67.4 | 66.4 | 68.6 | 69.1 | 67.6 | 66.0 | 64.2 | 63.3 |
| Debt service (percent of exports of goods and services) | 14.2 | 19.9 | 18.3 | 17.4 | 16.3 | 13.2 | 15.1 | 16.1 | 15.8 | 16.5 |

Sources: Moldovan authorities; and IMF staff estimates.

1/ Data exclude Transnistria.

2/ Adjusted for changes in reserve requirement ratios.

3/ Adjusted for exchange rate changes and write-offs.

4/ Includes private and public and publicly guaranteed debt.

Table 2. Moldova: Balance of Payments, 2008–17

(Millions of U.S. dollars, unless otherwise indicated)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Projection | | | | | | |
| **Current account balance** | -1,041 | -534 | -592 | -829 | -829 | -857 | -843 | -870 | -922 | -1,009 |
| Merchandise trade balance | -3,223 | -1,949 | -2,220 | -2,821 | -2,951 | -3,138 | -3,295 | -3,519 | -3,809 | -4,218 |
| Exports | 1,646 | 1,327 | 1,590 | 2,306 | 2,549 | 2,894 | 3,338 | 3,809 | 4,307 | 4,867 |
| *Of which:* wine and alcohol | 196 | 159 | 178 | 222 | 221 | 236 | 247 | 267 | 277 | 291 |
| Imports | -4,869 | -3,276 | -3,810 | -5,128 | -5,500 | -6,032 | -6,633 | -7,328 | -8,115 | -9,085 |
| Services balance | 7 | -40 | -70 | -16 | -43 | -70 | -62 | -70 | -51 | -27 |
| Exports of services | 844 | 673 | 701 | 842 | 916 | 1,020 | 1,146 | 1,280 | 1,427 | 1,603 |
| Imports of services | -837 | -713 | -771 | -859 | -958 | -1,090 | -1,207 | -1,349 | -1,478 | -1,630 |
| Income balance | 599 | 303 | 487 | 594 | 611 | 697 | 750 | 843 | 941 | 1,074 |
| Compensation of employees | 763 | 497 | 671 | 804 | 863 | 972 | 1,082 | 1,216 | 1,371 | 1,550 |
| Income on direct and portfolio investment | -140 | -138 | -135 | -165 | -184 | -210 | -247 | -271 | -310 | -354 |
| Income on other investment | -24 | -56 | -50 | -45 | -67 | -65 | -85 | -101 | -119 | -122 |
| Current transfer balance | 1,577 | 1,151 | 1,211 | 1,414 | 1,554 | 1,653 | 1,763 | 1,874 | 1,997 | 2,162 |
| Remittances | 1,033 | 627 | 633 | 747 | 802 | 888 | 971 | 1,071 | 1,186 | 1,317 |
| Budget transfers | 136 | 103 | 137 | 138 | 207 | 206 | 219 | 214 | 205 | 216 |
| Other transfers | 408 | 421 | 441 | 529 | 545 | 559 | 573 | 589 | 606 | 629 |
| **Capital and financial account balance** | 1,272 | 91 | 386 | 845 | 804 | 856 | 900 | 985 | 1,105 | 1,204 |
| Capital account balance | -15 | -18 | -28 | -20 | -22 | -24 | -27 | -29 | -32 | -36 |
| Financial account balance | 1,286 | 108 | 415 | 865 | 827 | 880 | 926 | 1,015 | 1,137 | 1,240 |
| Foreign direct investment balance | 695 | 139 | 189 | 261 | 269 | 344 | 484 | 549 | 624 | 709 |
| Portfolio investment and derivatives | 7 | -5 | 5 | 5 | 6 | 7 | 7 | 8 | 9 | 10 |
| Other investment balance | 584 | -25 | 220 | 599 | 552 | 529 | 435 | 457 | 504 | 520 |
| Loans | 358 | -43 | 74 | 224 | 240 | 267 | 246 | 260 | 293 | 264 |
| General government, net | -21 | -3 | 4 | 18 | 27 | 47 | 36 | 30 | 53 | -30 |
| Private sector, net | 379 | -39 | 70 | 206 | 212 | 220 | 210 | 230 | 239 | 294 |
| Other capital flows | 226 | 18 | 147 | 374 | 312 | 263 | 189 | 197 | 211 | 256 |
| Errors and omissions | 67 | 50 | 63 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Overall balance** | 298 | -394 | -143 | 16 | -24 | -1 | 56 | 115 | 183 | 195 |
| **Financing** | -298 | 394 | 143 | -16 | 24 | 1 | -56 | -115 | -183 | -195 |
| Gross international reserves (increase: "-") | -452 | 201 | -294 | -294 | -276 | -39 | -102 | -145 | -172 | -166 |
| Use of Fund credit, net | 12 | -15 | 175 | 153 | 217 | -22 | -30 | -45 | -86 | -110 |
| Monetary authorities | 12 | -15 | 53 | 129 | 217 | -22 | -30 | -12 | -25 | -43 |
| Purchases | 38 | 0 | 61 | 136 | 233 | 0 | 0 | 0 | 0 | 0 |
| Repurchases | -25 | -15 | -8 | -6 | -16 | -22 | -30 | -12 | -25 | -43 |
| General government | 0 | 0 | 122 | 24 | 0 | 0 | 0 | -33 | -61 | -66 |
| Purchases | 0 | 0 | 122 | 24 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repurchases | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -33 | -61 | -66 |
| Exceptional financing | 142 | 208 | 262 | 125 | 83 | 62 | 75 | 75 | 74 | 80 |
| **Memorandum items:** | (Percent of GDP, unless otherwise indicated) | | | | | | | | | |
| Gross official reserves (millions of U.S. dollars) 1/ | 1,672 | 1,480 | 1,718 | 2,037 | 2,313 | 2,351 | 2,453 | 2,598 | 2,769 | 2,936 |
| Months of imports of good and services | 5.0 | 3.9 | 3.4 | 3.8 | 3.9 | 3.6 | 3.4 | 3.2 | 3.1 | 3.1 |
| Percent of short term debt and CA deficit | 76.4 | 63.5 | 60.9 | 63.4 | 66.4 | 61.0 | 58.1 | 56.6 | 55.6 | 54.9 |
| Pct of short-term debt at remaining maturity | 100.9 | 85.3 | 87.1 | 86.5 | 89.7 | 79.0 | 73.8 | 71.9 | 69.2 | 67.6 |
| Pct of the IMF composite measure (float) 2/ | 176.0 | 156.1 | 159.0 | 168.5 | 175.0 | 160.0 | 153.1 | 148.9 | 146.1 | 142.9 |
| Current account balance | -17.2 | -9.8 | -10.2 | -11.7 | -10.5 | -9.9 | -8.9 | -8.4 | -8.0 | -8.0 |
| Goods and services trade balance | -53.1 | -36.6 | -39.4 | -40.2 | -37.8 | -37.2 | -35.5 | -34.4 | -33.6 | -33.6 |
| Export of goods and services | 41.1 | 36.8 | 39.4 | 44.6 | 43.8 | 45.4 | 47.4 | 48.8 | 50.0 | 51.2 |
| Import of goods and services | -94.2 | -73.4 | -78.8 | -84.8 | -81.6 | -82.6 | -82.8 | -83.3 | -83.6 | -84.8 |
| Foreign direct investment balance | 11.5 | 2.5 | 3.3 | 3.7 | 3.4 | 4.0 | 5.1 | 5.3 | 5.4 | 5.6 |
| | (Percent change of amounts in U.S.dollars, unless otherwise indicated) | | | | | | | | | |
| Exports of goods | 19.8 | -19.4 | 19.9 | 45.0 | 10.5 | 13.5 | 15.3 | 14.1 | 13.1 | 13.0 |
| Exports of services | 34.3 | -20.2 | 4.2 | 20.1 | 8.7 | 11.4 | 12.3 | 11.7 | 11.5 | 12.3 |
| Imports of goods | 32.6 | -32.7 | 16.3 | 34.6 | 7.3 | 9.7 | 10.0 | 10.5 | 10.7 | 11.9 |
| Imports of services | 28.8 | -14.8 | 8.1 | 11.4 | 11.6 | 13.7 | 10.8 | 11.8 | 9.6 | 10.2 |
| Remittances and compensation | 26.5 | -37.4 | 16.0 | 19.0 | 7.3 | 11.7 | 10.4 | 11.4 | 11.8 | 12.1 |
| Remittances | 25.0 | -39.3 | 0.8 | 18.1 | 7.3 | 10.8 | 9.3 | 10.3 | 10.8 | 11.1 |
| Compensation of employees | 28.7 | -34.8 | 35.1 | 19.8 | 7.3 | 12.6 | 11.3 | 12.3 | 12.8 | 13.1 |
| Debt service (pct of exports of goods and services | 14.2 | 19.9 | 18.3 | 17.4 | 16.3 | 13.2 | 15.1 | 16.1 | 15.8 | 16.5 |

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

1/ Includes revaluation changes, which were not captured by changes of gross official reserves in the BOP.

2/ The IMF composite measure is calculated as a weighted sum of short-term debt, other portfolio liabilities, broad money, and exports in percent of GDP. Official reserves are recommended to be in the range of 100-150 percent of this measure.

Table 3. Moldova: General Government Budget, 2008–17

(Millions of Moldovan lei, unless otherwise indicated)

| | 2008 | 2009 | 2010 | 2011 | | 2012 | | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Third review | Rev. Prog. | Third review | Rev. Prog. | Proj. | Proj. | Proj. | Proj. | Proj. |
| Revenues and grants | 25,517 | 23,506 | 27,540 | 30,903 | 30,603 | 34,998 | 34,662 | 37,788 | 41,994 | 46,443 | 51,336 | 56,984 |
| Revenues | 24,449 | 22,218 | 25,540 | 28,859 | 28,589 | 33,010 | 32,264 | 35,917 | 39,859 | 44,428 | 49,487 | 54,985 |
| Tax revenues | 21,030 | 19,325 | 22,261 | 25,765 | 25,443 | 29,710 | 29,089 | 32,439 | 36,082 | 40,252 | 44,848 | 49,845 |
| Profit tax | 718 | 443 | 484 | 576 | 552 | 1,657 | 1,775 | 1,948 | 2,148 | 2,375 | 2,626 | 2,895 |
| Personal income tax | 1,480 | 1,465 | 1,545 | 1,812 | 1,783 | 2,149 | 2,003 | 2,208 | 2,434 | 2,691 | 2,975 | 3,313 |
| VAT | 9,097 | 7,596 | 9,146 | 10,668 | 10,727 | 11,448 | 11,417 | 12,550 | 13,849 | 15,312 | 16,927 | 18,716 |
| Excises | 1,574 | 1,540 | 2,074 | 2,472 | 2,473 | 2,951 | 3,025 | 3,552 | 4,190 | 4,902 | 5,690 | 6,587 |
| Foreign trade taxes | 1,150 | 905 | 1,080 | 1,238 | 1,185 | 1,399 | 1,292 | 1,535 | 1,647 | 1,806 | 2,031 | 2,283 |
| Other taxes | 424 | 414 | 459 | 482 | 485 | 538 | 530 | 582 | 641 | 709 | 784 | 864 |
| Social fund contributions | 5,430 | 5,587 | 5,985 | 6,833 | 6,577 | 7,688 | 7,234 | 8,049 | 8,953 | 9,982 | 11,059 | 12,157 |
| Health fund contributions | 1,157 | 1,377 | 1,487 | 1,685 | 1,661 | 1,879 | 1,811 | 2,015 | 2,220 | 2,475 | 2,755 | 3,029 |
| Non-tax revenues | 1,575 | 1,035 | 1,697 | 1,490 | 1,473 | 1,666 | 1,494 | 1,630 | 1,797 | 1,986 | 2,196 | 2,421 |
| Revenues of special funds | 1,844 | 1,858 | 1,583 | 1,604 | 1,673 | 1,635 | 1,681 | 1,848 | 1,981 | 2,190 | 2,443 | 2,718 |
| Grants | 1,068 | 1,288 | 2,000 | 2,045 | 2,014 | 1,988 | 2,398 | 1,871 | 2,135 | 2,014 | 1,849 | 1,999 |
| Budget support grants 1/ | 674 | 804 | 1,327 | 1,488 | 1,470 | 937 | 981 | 730 | 894 | 892 | 889 | 964 |
| Foreign financed projects grants | 352 | 334 | 584 | 543 | 448 | 1,051 | 1,381 | 1,141 | 1,241 | 1,123 | 959 | 1,036 |
| Other grants 2/ | 43 | 150 | 89 | 14 | 97 | 0 | 35 | 0 | 0 | 0 | 0 | 0 |
| Expenditure and net lending | 26,147 | 27,343 | 29,326 | 32,499 | 32,199 | 35,726 | 35,499 | 38,533 | 42,825 | 47,233 | 52,062 | 57,553 |
| Current expenditure | 21,693 | 24,367 | 25,986 | 28,416 | 28,181 | 30,739 | 30,467 | 32,818 | 36,020 | 39,651 | 43,594 | 48,024 |
| Wages | 5,730 | 7,000 | 7,317 | 7,844 | 7,764 | 8,740 | 8,745 | 9,590 | 10,573 | 11,691 | 12,926 | 14,251 |
| Goods and services | 5,838 | 6,067 | 6,735 | 7,432 | 7,369 | 8,113 | 8,032 | 8,639 | 9,420 | 10,311 | 11,229 | 12,417 |
| Health fund | 2,548 | 3,071 | 3,368 | 3,639 | 3,551 | 3,924 | 3,920 | 4,297 | 4,737 | 5,238 | 5,791 | 6,385 |
| Other goods and services | 3,290 | 2,996 | 3,367 | 3,793 | 3,818 | 4,189 | 4,112 | 4,342 | 4,682 | 5,073 | 5,438 | 6,032 |
| Interest payments | 733 | 843 | 558 | 712 | 679 | 727 | 817 | 786 | 810 | 825 | 849 | 789 |
| Domestic | 569 | 639 | 374 | 515 | 483 | 532 | 618 | 592 | 585 | 568 | 591 | 607 |
| Foreign | 163 | 204 | 184 | 197 | 196 | 195 | 200 | 194 | 225 | 257 | 258 | 182 |
| Transfers | 8,875 | 10,156 | 11,082 | 12,052 | 12,011 | 12,758 | 12,514 | 13,462 | 14,842 | 16,410 | 18,132 | 20,061 |
| Transfers to economy | 1,681 | 1,197 | 1,094 | 1,129 | 1,051 | 1,077 | 1,084 | 1,083 | 1,194 | 1,320 | 1,448 | 1,612 |
| Transfers to households | 7,193 | 8,959 | 9,988 | 10,923 | 10,960 | 11,682 | 11,430 | 12,379 | 13,648 | 15,090 | 16,684 | 18,449 |
| Social fund | 6,015 | 7,603 | 8,603 | 9,327 | 9,286 | 9,989 | 9,817 | 10,610 | 11,697 | 12,933 | 14,300 | 15,765 |
| Other transfers | 1,178 | 1,356 | 1,385 | 1,596 | 1,675 | 1,692 | 1,614 | 1,769 | 1,950 | 2,156 | 2,384 | 2,684 |
| Other current expenditure | 517 | 302 | 295 | 376 | 357 | 401 | 358 | 340 | 375 | 415 | 459 | 506 |
| Net lending | 36 | -28 | -90 | -53 | -73 | -53 | -97 | -149 | -164 | -181 | -200 | -221 |
| Capital expenditure | 4,419 | 3,004 | 3,431 | 4,135 | 4,091 | 5,040 | 5,129 | 5,864 | 6,969 | 7,764 | 8,668 | 9,750 |
| Overall balance (cash) | -630 | -3,837 | -1,786 | -1,596 | -1,596 | -729 | -837 | -745 | -831 | -791 | -726 | -569 |
| Primary balance (cash) | 103 | -2,994 | -1,229 | -884 | -916 | -1 | -29 | 34 | -21 | 34 | 123 | 220 |
| Change in arrears (+, increase) | 0 | 212 | -187 | -50 | -50 | -48 | -24 | 0 | 0 | 0 | 0 | 0 |
| Overall balance (commitments) | -630 | -4,049 | -1,599 | -1,546 | -1,546 | -681 | -813 | -745 | -831 | -791 | -726 | -569 |
| Primary balance (commitments) | 103 | -3,206 | -1,041 | -834 | -866 | 47 | -5 | 34 | -21 | 34 | 123 | 220 |
| Financing | 630 | 3,837 | 1,786 | 1,596 | 1,596 | 729 | 837 | 745 | 831 | 791 | 726 | 569 |
| Budget financing | 283 | 3,382 | 1,167 | 264 | 596 | -363 | 89 | -764 | -1,157 | -583 | -773 | -1,358 |
| Central government | 104 | 2,919 | 1,011 | -81 | 452 | -453 | 165 | -929 | -1,277 | -583 | -773 | -1,358 |
| Net domestic | -519 | 1,073 | -528 | 134 | 693 | -452 | 164 | -862 | -920 | 143 | 265 | -205 |
| Net foreign (excl. project loans) 3/ | -313 | 1,774 | 1,441 | -495 | -351 | -364 | -259 | -302 | -358 | -726 | -1,038 | -1,152 |
| Privatization | 936 | 72 | 98 | 280 | 110 | 363 | 260 | 235 | 0 | 0 | 0 | 0 |
| Local governments, *of which:* | 343 | 245 | -1 | 164 | 1 | 90 | -76 | 165 | 120 | 0 | 0 | 0 |
| Privatization | 343 | 170 | 237 | 176 | 220 | 90 | 120 | 165 | 120 | 0 | 0 | 0 |
| Social fund | -48 | 26 | 213 | 181 | 181 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Health fund | -117 | 193 | -57 | 0 | -37 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Project loans | 347 | 456 | 619 | 1,331 | 999 | 1,091 | 748 | 1,509 | 1,988 | 1,374 | 1,499 | 1,927 |
| Memorandum items: | | | | | (Billions of Moldovan lei) | | | | | | | |
| Public and publicly guaranteed debt | 13.8 | 19.6 | 21.7 | 24.3 | 23.9 | 27.5 | 26.7 | 26.7 | 26.5 | 27.0 | 27.2 | 27.0 |
| General Government debt, *of which:* | 12.1 | 17.6 | 19.1 | 20.2 | 19.8 | 20.8 | 20.1 | 20.3 | 20.5 | 21.1 | 21.6 | 21.9 |
| Domestic debt | 3.5 | 5.1 | 5.3 | 5.6 | 5.6 | 5.4 | 5.9 | 5.7 | 5.4 | 5.6 | 5.7 | 6.5 |
| Domestic expenditure arrears | 0.2 | 0.5 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| External debt | 8.4 | 12.0 | 13.5 | 14.4 | 13.9 | 15.2 | 14.0 | 14.6 | 15.1 | 15.5 | 15.9 | 15.4 |
| Other public and publicly guaranteed debt 4/ | 1.7 | 2.0 | 2.6 | 4.1 | 4.1 | 6.7 | 6.6 | 6.3 | 6.0 | 5.9 | 5.6 | 5.1 |

Sources: Moldovan authorities; and IMF staff estimates and projections.

1/ In 2009, an EU project grant of €15 million was reclassified as budget support given that no actual expenditure took place.

2/ Includes internal grants and grants to other public institutions (such as public universities).

3/ Projections include direct budget support from the IMF of about US$122 mln. (SDR 80 mln.) in 2010 and US$23 mln. (SDR 15 mln.) in 2011.

4/ Includes mainly central bank liabilities to the IMF.

Table 3. Moldova: General Government Budget, 2008–17 (Concluded)

(Percent of GDP, unless otherwise indicated)

| | 2008 | 2009 | 2010 | 2011 | | 2012 | | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Third review | Rev. Prog. | Third review | Rev. Prog. | Proj. | Proj. | Proj. | Proj. | Proj. |
| Revenues and grants | 40.6 | 38.9 | 38.3 | 37.6 | 36.9 | 38.2 | 37.2 | 37.0 | 37.3 | 37.3 | 37.3 | 37.4 |
| Revenues | 38.9 | 36.8 | 35.5 | 35.2 | 34.5 | 36.0 | 34.7 | 35.2 | 35.4 | 35.7 | 36.0 | 36.1 |
| Tax revenues | 33.4 | 32.0 | 31.0 | 31.4 | 30.7 | 32.4 | 31.3 | 31.8 | 32.0 | 32.3 | 32.6 | 32.8 |
| Profit tax | 1.1 | 0.7 | 0.7 | 0.7 | 0.7 | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Personal income tax | 2.4 | 2.4 | 2.1 | 2.2 | 2.2 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| VAT | 14.5 | 12.6 | 12.7 | 13.0 | 12.9 | 12.5 | 12.3 | 12.3 | 12.3 | 12.3 | 12.3 | 12.3 |
| Excises | 2.5 | 2.5 | 2.9 | 3.0 | 3.0 | 3.2 | 3.3 | 3.5 | 3.7 | 3.9 | 4.1 | 4.3 |
| Foreign trade taxes | 1.8 | 1.5 | 1.5 | 1.5 | 1.4 | 1.5 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Other taxes | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Social fund contributions | 8.6 | 9.2 | 8.3 | 8.3 | 7.9 | 8.4 | 7.8 | 7.9 | 8.0 | 8.0 | 8.0 | 8.0 |
| Health fund contributions | 1.8 | 2.3 | 2.1 | 2.1 | 2.0 | 2.1 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Non-tax revenues | 2.5 | 1.7 | 2.4 | 1.8 | 1.8 | 1.8 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Revenues of special funds | 2.9 | 3.1 | 2.2 | 2.0 | 2.0 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Grants | 1.7 | 2.1 | 2.8 | 2.5 | 2.4 | 2.2 | 2.6 | 1.8 | 1.9 | 1.6 | 1.3 | 1.3 |
| Budget support grants 1/ | 1.1 | 1.3 | 1.8 | 1.8 | 1.8 | 1.0 | 1.1 | 0.7 | 0.8 | 0.7 | 0.6 | 0.6 |
| Foreign financed projects grants | 0.6 | 0.6 | 0.8 | 0.7 | 0.5 | 1.1 | 1.5 | 1.1 | 1.1 | 0.9 | 0.7 | 0.7 |
| Other grants 2/ | 0.1 | 0.2 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure and net lending | 41.6 | 45.2 | 40.8 | 39.6 | 38.9 | 39.0 | 38.1 | 37.7 | 38.0 | 37.9 | 37.8 | 37.8 |
| Current expenditure | 34.5 | 40.3 | 36.1 | 34.6 | 34.0 | 33.6 | 32.7 | 32.1 | 32.0 | 31.8 | 31.7 | 31.6 |
| Wages | 9.1 | 11.6 | 10.2 | 9.6 | 9.4 | 9.5 | 9.4 | 9.4 | 9.4 | 9.4 | 9.4 | 9.4 |
| Goods and services | 9.3 | 10.0 | 9.4 | 9.1 | 8.9 | 8.9 | 8.6 | 8.5 | 8.4 | 8.3 | 8.2 | 8.2 |
| Health fund | 4.0 | 5.1 | 4.7 | 4.4 | 4.3 | 4.3 | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |
| Other goods and services | 5.2 | 5.0 | 4.7 | 4.6 | 4.6 | 4.6 | 4.4 | 4.3 | 4.2 | 4.1 | 4.0 | 4.0 |
| Interest payments | 1.2 | 1.4 | 0.8 | 0.9 | 0.8 | 0.8 | 0.9 | 0.8 | 0.7 | 0.7 | 0.6 | 0.5 |
| Domestic | 0.9 | 1.1 | 0.5 | 0.6 | 0.6 | 0.6 | 0.7 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 |
| Foreign | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 |
| Transfers | 14.1 | 16.8 | 15.4 | 14.7 | 14.5 | 13.9 | 13.4 | 13.2 | 13.2 | 13.2 | 13.2 | 13.2 |
| Transfers to economy | 2.7 | 2.0 | 1.5 | 1.4 | 1.3 | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Transfers to households | 11.4 | 14.8 | 13.9 | 13.3 | 13.2 | 12.8 | 12.3 | 12.1 | 12.1 | 12.1 | 12.1 | 12.1 |
| Social fund | 9.6 | 12.6 | 12.0 | 11.4 | 11.2 | 10.9 | 10.5 | 10.4 | 10.4 | 10.4 | 10.4 | 10.4 |
| Other transfers | 1.9 | 2.2 | 1.9 | 1.9 | 2.0 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.8 |
| Other current expenditure | 0.8 | 0.5 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Net lending | 0.1 | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Capital expenditure | 7.0 | 5.0 | 4.8 | 5.0 | 4.9 | 5.5 | 5.5 | 5.7 | 6.2 | 6.2 | 6.3 | 6.4 |
| Overall balance (cash) | -1.0 | -6.3 | -2.5 | -1.9 | -1.9 | -0.8 | -0.9 | -0.7 | -0.7 | -0.6 | -0.5 | -0.4 |
| Primary balance (cash) | 0.2 | -5.0 | -1.7 | -1.1 | -1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| Change in arrears (+, increase) | 0.0 | 0.4 | -0.3 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (commitments) | -1.0 | -6.7 | -2.2 | -1.9 | -1.9 | -0.7 | -0.9 | -0.7 | -0.7 | -0.6 | -0.5 | -0.4 |
| Primary balance (commitments) | 0.2 | -5.3 | -1.4 | -1.0 | -1.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| Financing | 1.0 | 6.3 | 2.5 | 1.9 | 1.9 | 0.8 | 0.9 | 0.7 | 0.7 | 0.6 | 0.5 | 0.4 |
| Budget financing | 0.4 | 5.6 | 1.6 | 0.3 | 0.7 | -0.4 | 0.1 | -0.7 | -1.0 | -0.5 | -0.6 | -0.9 |
| Central government | 0.2 | 4.8 | 1.4 | -0.1 | 0.5 | -0.5 | 0.2 | -0.9 | -1.1 | -0.5 | -0.6 | -0.9 |
| Net domestic | -0.8 | 1.8 | -0.7 | 0.2 | 0.8 | -0.5 | 0.2 | -0.8 | -0.8 | 0.1 | 0.2 | -0.1 |
| Net foreign (excl. project loans) 3/ | -0.5 | 2.9 | 2.0 | -0.6 | -0.4 | -0.4 | -0.3 | -0.3 | -0.3 | -0.6 | -0.8 | -0.8 |
| Privatization | 1.5 | 0.1 | 0.1 | 0.3 | 0.1 | 0.4 | 0.3 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Local governments, *of which:* | 0.5 | 0.4 | 0.0 | 0.2 | 0.0 | 0.1 | -0.1 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Privatization | 0.5 | 0.4 | 0.3 | 0.2 | 0.3 | 0.1 | 0.1 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Social fund | -0.1 | 0.0 | 0.3 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Health fund | -0.2 | 0.3 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Project loans | 0.6 | 0.8 | 0.9 | 1.6 | 1.2 | 1.2 | 0.8 | 1.5 | 1.8 | 1.1 | 1.1 | 1.3 |
| Memorandum items: | | | | | | | | | | | | |
| Public and publicly guaranteed debt | 22.0 | 32.4 | 30.2 | 29.6 | 28.8 | 30.0 | 28.7 | 26.1 | 23.5 | 21.7 | 19.7 | 17.8 |
| General Government debt, *of which:* | 19.3 | 29.1 | 26.5 | 24.6 | 23.8 | 22.7 | 21.6 | 19.9 | 18.2 | 16.9 | 15.7 | 14.4 |
| Domestic debt | 5.6 | 8.4 | 7.4 | 6.8 | 6.8 | 5.9 | 6.3 | 5.6 | 4.8 | 4.5 | 4.1 | 4.3 |
| Domestic expenditure arrears | 0.4 | 0.8 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| External debt | 13.3 | 19.9 | 18.8 | 17.5 | 16.8 | 16.6 | 15.1 | 14.3 | 13.4 | 12.5 | 11.5 | 10.1 |
| Other public and publicly guaranteed debt 4/ | 2.7 | 3.3 | 3.6 | 5.0 | 4.9 | 7.3 | 7.1 | 6.2 | 5.3 | 4.7 | 4.1 | 3.4 |

Sources: Moldovan authorities; and IMF staff estimates and projections.

1/ In 2009, an EU project grant of €15 million was reclassified as budget support given that no actual expenditure took place.

2/ Includes internal grants and grants to other public institutions (such as public universities).

3/ Projections include direct budget support from the IMF of about US$122 mln. (SDR 80 mln.) in 2010 and US$23 mln. (SDR 15 mln.) in 2011.

4/ Includes mainly central bank liabilities to the IMF.

Table 4. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2010–12

(Millions of Moldovan lei, unless otherwise indicated)

| | 2010 | 2011 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | | | | | | Projection | | | |
| National Bank of Moldova | | | | | | | | | |
| Net foreign assets | 18,372 | 18,838 | 18,926 | 19,359 | 19,980 | 19,958 | 19,834 | 20,089 | 20,877 |
| NFA (convertible) | 18,386 | 18,887 | 18,993 | 19,426 | 20,044 | 20,014 | 19,893 | 20,154 | 20,945 |
| Gross reserves | 20,877 | 21,359 | 22,070 | 23,457 | 23,872 | 24,765 | 25,413 | 25,635 | 27,307 |
| Reserve liabilities | -2,490 | -2,472 | -3,077 | -4,030 | -3,828 | -4,751 | -5,520 | -5,482 | -6,362 |
| Net domestic assets | -6,257 | -6,184 | -5,524 | -5,296 | -5,069 | -5,047 | -4,518 | -4,417 | -4,331 |
| at program exchange rates | -7,496 | -7,151 | -6,844 | -6,761 | -6,804 | -6,537 | -6,185 | -6,170 | -5,856 |
| Net claims on general government | -1,067 | -528 | -91 | -305 | -712 | -367 | -726 | -683 | -619 |
| Credit to banks | -4,646 | -5,026 | -4,978 | -4,449 | -4,027 | -4,097 | -3,450 | -3,406 | -3,183 |
| Other items (net) | -544 | -629 | -455 | -542 | -329 | -584 | -342 | -327 | -530 |
| Reserve money | 12,115 | 12,654 | 13,402 | 14,063 | 14,912 | 14,911 | 15,316 | 15,673 | 16,545 |
| Adjusted for change in reserve requirement 1/ | 12,115 | 12,196 | 12,924 | 13,219 | 14,009 | 13,995 | 14,401 | 14,720 | 15,548 |
| Currency in circulation | 10,108 | 9,731 | 10,486 | 10,510 | 11,543 | 11,128 | 11,760 | 11,911 | 12,915 |
| Banks' reserves | 2,007 | 2,919 | 2,914 | 3,552 | 3,368 | 3,783 | 3,556 | 3,762 | 3,630 |
| Required reserves 1/ | 1,295 | 1,835 | 1,907 | 2,351 | 2,490 | 2,523 | 2,520 | 2,610 | 2,714 |
| Excess reserves 2/ | 712 | 1,084 | 1,006 | 1,202 | 878 | 1,260 | 1,036 | 1,152 | 916 |
| Monetary survey | | | | | | | | | |
| Net foreign assets | 18,121 | 17,481 | 17,213 | 17,532 | 18,384 | 18,573 | 18,685 | 18,625 | 19,393 |
| NFA (convertible) | 18,376 | 17,821 | 17,600 | 17,902 | 18,774 | 18,969 | 19,093 | 19,041 | 19,832 |
| *Of which:* commercial banks | -11 | -1,066 | -1,393 | -1,524 | -1,269 | -1,045 | -800 | -1,112 | -1,113 |
| Foreign assets of commercial banks | 4,615 | 3,558 | 3,419 | 3,614 | 3,682 | 3,896 | 4,032 | 3,843 | 4,005 |
| Foreign liabilities of commercial banks | -4,626 | -4,624 | -4,812 | -5,138 | -4,951 | -4,940 | -4,832 | -4,956 | -5,118 |
| NFA (non-convertible) | -254 | -340 | -387 | -371 | -391 | -396 | -408 | -416 | -439 |
| Net domestic assets | 18,930 | 20,203 | 22,309 | 22,774 | 24,114 | 24,520 | 25,638 | 26,670 | 28,341 |
| Net claims on general government | -187 | 299 | 871 | 679 | 371 | 685 | 294 | 306 | 339 |
| Credit to economy | 26,915 | 27,482 | 28,826 | 30,077 | 31,238 | 31,571 | 32,855 | 33,977 | 35,748 |
| Moldovan lei | 15,529 | 15,452 | 15,888 | 16,937 | 17,933 | 17,734 | 18,609 | 19,354 | 20,219 |
| Foreign exchange | 11,387 | 12,030 | 12,938 | 13,140 | 13,305 | 13,837 | 14,246 | 14,623 | 15,529 |
| in U.S. dollars | 937 | 1,007 | 1,111 | 1,106 | 1,136 | 1,170 | 1,217 | 1,253 | 1,316 |
| Other items (net) | -7,799 | -7,578 | -7,388 | -7,982 | -7,495 | -7,737 | -7,511 | -7,613 | -7,747 |
| Broad money (M3) | 37,051 | 37,684 | 39,522 | 40,305 | 42,498 | 43,093 | 44,324 | 45,294 | 47,733 |
| Broad money (M2: excluding FCD) | 24,771 | 25,002 | 26,418 | 27,141 | 29,161 | 28,975 | 29,588 | 30,375 | 32,113 |
| Currency in circulation | 10,108 | 9,731 | 10,486 | 10,510 | 11,543 | 11,128 | 11,760 | 11,911 | 12,915 |
| Total deposits | 26,944 | 27,953 | 29,036 | 29,796 | 30,955 | 31,965 | 32,564 | 33,384 | 34,818 |
| Domestic currency deposits | 14,662 | 15,269 | 15,929 | 16,630 | 17,617 | 17,848 | 17,828 | 18,464 | 19,197 |
| Foreign currency deposits (FCD) | 12,280 | 12,682 | 13,104 | 13,165 | 13,337 | 14,117 | 14,736 | 14,919 | 15,620 |
| in U.S. dollars | 1,010 | 1,062 | 1,126 | 1,108 | 1,138 | 1,193 | 1,258 | 1,278 | 1,323 |
| Memorandum items: | | | | | | | | | |
| Reserve money growth (percent change; annual) | 15.9 | 22.6 | 28.0 | 27.8 | 23.1 | 17.8 | 14.3 | 11.5 | 11.0 |
| Adjusted for change in reserve requirement 1/ | 15.9 | 18.2 | 23.4 | 20.2 | 15.6 | 14.7 | 11.4 | 11.3 | 11.0 |
| Broad money growth (percent change; annual) | 13.4 | 15.4 | 19.9 | 15.9 | 14.7 | 14.4 | 12.1 | 12.4 | 12.3 |
| Credit to economy (percent change, annual) 3/ | 12.7 | 15.8 | 15.8 | 16.1 | 16.1 | 14.9 | 14.0 | 13.0 | 14.4 |
| in foreign exchange | 7.9 | 21.6 | 33.5 | 23.2 | 21.2 | 15.8 | 9.1 | 13.6 | 15.9 |
| Credit to economy (percent change, annual) 4/ | 17.4 | 21.6 | 22.9 | 22.4 | 20.4 | 18.7 | 16.4 | 14.1 | 14.8 |
| in local currency | 22.0 | 20.4 | 18.2 | 17.0 | 19.3 | 17.7 | 19.3 | 15.5 | 13.4 |
| in foreign exchange 4/ | 11.7 | 23.1 | 27.6 | 28.2 | 21.1 | 18.6 | 12.4 | 12.5 | 17.4 |
| Gross international reserves (millions of U.S. dollars) | 1,718 | 1,788 | 1,896 | 1,975 | 2,038 | 2,094 | 2,170 | 2,197 | 2,314 |
| Percent of domestic-currency broad money | 84 | 85 | 84 | 86 | 82 | 85 | 86 | 84 | 85 |
| Net international reserves (millions of U.S. dollars) | 1,513 | 1,589 | 1,642 | 1,659 | 1,698 | 1,707 | 1,699 | 1,712 | 1,775 |
| at program exchange rates | 1,594 | 1,614 | 1,652 | 1,699 | 1,766 | 1,744 | 1,748 | 1,776 | 1,821 |
| Broad money multiplier | 3.1 | 3.0 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| Share of foreign currency deposits in all deposits | 45.6 | 45.4 | 45.1 | 44.2 | 43.1 | 44.2 | 45.3 | 44.7 | 44.9 |
| Exchange rate (Moldovan lei per U.S. dollar, average) | 12.1 | 11.9 | 11.6 | 11.6 | 11.8 | … | … | … | … |
| Exchange rate (Moldovan lei per U.S. dollar, actual/projecte | 12.2 | 11.9 | 11.6 | 11.9 | 11.7 | … | … | … | … |
| Reserve requirement ratio on deposits (percent) 1/ | 8 | 11 | 11 | 14 | 14 | 14 | 14 | 14 | 14 |

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

1/ The reserve requirement ratio on lei and foreign currency deposits was increased from 8 percent to 11 percent in February 2011, and to 14 percent in July 2011 while liabilities with maturities over two years were exempt of reserve requirements.

2/ Includes cash in vaults of commercial banks and amounts in correspondent accounts.

3/ Historical data as reported by the NBM. Not adjusted for exchange rate changes and write-offs.

4/ Adjusted for exchange rate changes and write-offs.

Table 5. Moldova: Financial Sector Indicators, 2008–11

(End-of-period; percent, unless otherwise indicated)

| | 2008 | 2009 | 2010 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Oct |
| **Size** | | | | | | | | | | |
| Number of banks | 16 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Total assets of the banking system (billions of Moldovan lei) | 39.1 | 39.9 | 39.3 | 39.7 | 40.9 | 42.3 | 43.5 | 44.8 | 46.3 | 46.8 |
| Total loans of the banking system (percent of GDP) | 39.4 | 37.1 | 30.9 | 32.6 | 34.8 | 35.5 | 32.1 | 33.6 | 35.0 | 35.2 |
| Total assets of the banking system (percent of GDP) | 62.2 | 66.1 | 54.7 | 55.2 | 58.4 | 58.8 | 52.7 | 54.4 | 55.9 | 56.5 |
| **Capital adequacy** | | | | | | | | | | |
| Capital adequacy ratio 1/ | 32.2 | 32.3 | 32.6 | 31.2 | 31.2 | 30.1 | 29.7 | 28.2 | 28.5 | 29.4 |
| **Liquidity** | | | | | | | | | | |
| Liquid assets (billions of Moldovan lei) | 12.0 | 15.3 | 14.3 | 13.8 | 13.9 | 14.4 | 14.4 | 14.2 | 14.7 | 15.4 |
| Total deposits (billions of Moldovan lei) | 27.2 | 24.4 | 26.3 | 26.1 | 27.3 | 28.7 | 29.6 | 30.7 | 31.7 | 31.9 |
| Liquidity ratio 2/ | 44.1 | 62.6 | 54.5 | 52.8 | 50.9 | 50.3 | 48.8 | 46.4 | 46.3 | 48.4 |
| Liquid assets share of total assets | 30.6 | 38.3 | 36.5 | 34.8 | 34.0 | 34.2 | 33.2 | 31.8 | 31.7 | 32.9 |
| **Asset quality** | | | | | | | | | | |
| Gross loans (billions of Moldovan lei) | 24.8 | 22.4 | 22.2 | 23.5 | 24.4 | 25.5 | 26.5 | 27.7 | 29.0 | 29.2 |
| Nonperforming loans (billions of Moldovan lei) | 1.3 | 3.7 | 3.9 | 4.1 | 3.8 | 3.4 | 2.8 | 2.6 | 2.4 | 2.8 |
| Substandard | | | | 2.3 | 2.1 | 2.3 | 1.7 | 1.6 | 1.6 | 2.1 |
| Doubtful | | | | 1.7 | 1.4 | 1.0 | 1.0 | 0.8 | 0.5 | 0.5 |
| Loss | | | | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| Loan loss provisions (billions of Moldovan lei) | 1.2 | 2.2 | 2.3 | 2.4 | 2.3 | 2.1 | 2.0 | 1.9 | 1.9 | 2.0 |
| Provisions to non-performing loans | 94.2 | 59.2 | 58.8 | 59.5 | 60.1 | 63.2 | 71.8 | 76.0 | 79.3 | 71.6 |
| Nonperforming loans as a share of total loans | 5.2 | 16.3 | 17.4 | 17.5 | 15.7 | 13.3 | 10.7 | 9.2 | 8.1 | 9.7 |
| Substandard | 3.6 | 9.6 | 10.0 | 10.0 | 8.6 | 8.9 | 6.3 | 5.7 | 5.7 | 7.2 |
| Doubtful | 1.5 | 6.5 | 7.4 | 7.3 | 5.7 | 3.9 | 3.9 | 2.9 | 1.8 | 1.8 |
| Loss | 0.1 | 0.2 | 0.1 | 0.1 | 0.3 | 0.6 | 0.5 | 0.5 | 0.7 | 0.8 |
| Loan-loss provisioning/gross loans | 4.9 | 9.7 | 10.2 | 10.4 | 9.4 | 8.4 | 7.7 | 7.0 | 6.5 | 7.0 |
| **Profitability** | | | | | | | | | | |
| Return on equity | 19.9 | -2.1 | 8.9 | 9.9 | 6.9 | 3.0 | 10.1 | 10.3 | 11.5 | 12.5 |
| Return on assets | 3.5 | -0.4 | 1.6 | 1.8 | 1.2 | 0.5 | 1.7 | 1.8 | 2.0 | 2.1 |
| **Interest rates** | | | | | | | | | | |
| Domestic currency average lending rate | 21.0 | 18.6 | 17.3 | 16.5 | 15.8 | 14.8 | 14.6 | 14.2 | 14.1 | 14.0 |
| Domestic currency average deposit rate | 18.1 | 9.8 | 9.1 | 6.7 | 7.4 | 6.5 | 7.9 | 7.3 | 6.9 | 7.6 |
| Interest rate spread, domestic currency | 2.9 | 8.8 | 8.1 | 9.8 | 8.4 | 8.2 | 6.7 | 6.9 | 7.2 | 6.4 |
| Foreign currency average lending rate | 14.6 | 10.6 | 10.2 | 10.5 | 9.8 | 9.4 | 9.1 | 8.9 | 8.9 | 8.8 |
| Foreign currency average deposit rate | 9.6 | 3.8 | 3.4 | 3.3 | 3.5 | 3.3 | 3.4 | 3.6 | 3.9 | 4.1 |
| Interest rate spread, foreign currency | 5.0 | 6.8 | 6.8 | 7.2 | 6.3 | 6.1 | 5.7 | 5.3 | 4.9 | 4.7 |
| 182-day T-bill (nominal yield) | 19.2 | 6.1 | 8.5 | 7.5 | 7.3 | 7.4 | 12.1 | 11.6 | 13.5 | 13.3 |
| **Foreign currency assets and liabilities** | | | | | | | | | | |
| Total liabilities (billions of Moldovan lei) | 32.1 | 33.0 | 32.2 | 32.5 | 33.5 | 35.0 | 36.0 | 37.4 | 38.5 | 38.9 |
| Foreign currency liabilities (billions of Moldovan lei) | 15.4 | 17.1 | 16.3 | 16.0 | 16.9 | 17.7 | 18.2 | 19.0 | 19.6 | 19.9 |
| Share of foreign currency denominated liabilities in total | 48.0 | 51.7 | 50.4 | 49.2 | 50.5 | 50.7 | 50.6 | 51.0 | 50.8 | 51.1 |
| Foreign currency denominated assets | 12.9 | 16.1 | 15.0 | 15.1 | 17.3 | 17.2 | 17.7 | 18.4 | 20.0 | 20.4 |
| Share of foreign currency denominated assets in total | 33.0 | 40.2 | 38.3 | 38.1 | 42.3 | 40.8 | 40.6 | 41.1 | 43.1 | 43.6 |
| Share of foreign currency deposits in total deposits | 41.1 | 49.3 | 47.5 | 46.2 | 45.9 | 45.6 | 45.4 | 45.1 | 44.3 | 44.3 |
| Share of foreign currency denominated loans in total loans | 41.2 | 44.7 | 43.4 | 43.0 | 41.5 | 42.3 | 43.8 | 44.9 | 43.9 | 43.5 |

Source: National Bank of Moldova.

1/ Total regulatory capital over total risk-weighted assets.

2/ Liquid assets over total deposits.

Table 6. Moldova: External Financing Requirements and Sources, 2009-12

(Millions of U.S. dollars, unless otherwise indicated)

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| **1 Total requirements** | **2,559** | **2,854** | **3,526** | **3,714** |
| Current account deficit (excluding current transfers and compensation of employees) | 2,183 | 2,474 | 3,048 | 3,246 |
| *Of which:* exports of goods | 1,327 | 1,590 | 2,306 | 2,549 |
| Imports of goods | -3,276 | -3,810 | -5,128 | -5,500 |
| Debt amortization | 377 | 380 | 478 | 469 |
| Public and publicly guaranteed | 45 | 46 | 62 | 50 |
| Private | 332 | 334 | 416 | 419 |
| **2 Identified financing sources** | **2,359** | **3,148** | **3,444** | **3,577** |
| Capital Account | -18 | -28 | -20 | -22 |
| Foreign direct investment (net) | 139 | 189 | 261 | 269 |
| Portfolio investment | -5 | 5 | 5 | 6 |
| New borrowing | 334 | 453 | 627 | 634 |
| Public | 41 | 50 | 5 | 2 |
| Private | 293 | 403 | 622 | 631 |
| Other capital flows | 18 | 147 | 374 | 312 |
| Current transfers | 1,151 | 1,211 | 1,398 | 1,532 |
| Worker's remittances | 627 | 633 | 747 | 802 |
| Official transfers | 103 | 137 | 122 | 186 |
| Other transfers | 421 | 441 | 529 | 545 |
| Compensation of employees | 497 | 671 | 804 | 863 |
| Use of Fund credit | -15 | 175 | -6 | -16 |
| Errors and omissions | 50 | 63 | 0 | 0 |
| Exceptional financing | 208 | 262 | 0 | 0 |
| **3 Gross international reserve accumulation (+: increase)** | **-201** | **294** | **294** | **276** |
| **4 Financing gap** | **…** | **…** | **376** | **413** |
| Millions of SDR | … | … | 238 | 265 |
| Percent of quota | … | … | 193 | 215 |
| **5 Prospective financing** | **…** | **…** | **376** | **413** |
| IMF | … | … | 160 | 233 |
| Millions of SDR | … | … | 100 | 150 |
| Percent of quota | … | … | 81 | 121 |
| Other donors | … | … | 217 | 180 |
| European Commission | … | … | 129 | 87 |
| World Bank | … | … | 74 | 72 |
| EIB/EBRD/CEDB | … | … | 14 | 20 |

Sources: Moldovan authorities; and IMF staff projections.

Table 7. Moldova: Indicators of Fund Credit, 2008-20 1/

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Projection | | | | | | | | | |
| Fund obligations based on existing credit (millions of SDRs) | | | | | | | | | | | | | |
| Principal | 16.0 | 9.7 | 5.5 | 3.9 | 10.5 | 14.2 | 19.3 | 29.1 | 49.8 | 50.3 | 44.8 | 41.3 | 35.7 |
| Charges and interest | 0.9 | 0.5 | 0.3 | 0.8 | 1.7 | 1.7 | 1.6 | 1.5 | 1.3 | 1.1 | 0.8 | 0.6 | 0.4 |
| Fund obligations based on existing and prospective credit | | | | | | | | | | | | | |
| Principal | 16.0 | 9.7 | 5.5 | 3.9 | 10.5 | 14.2 | 19.3 | 29.1 | 55.6 | 70.8 | 71.2 | 67.8 | 62.1 |
| Charges and interest | 0.9 | 0.5 | 0.3 | 0.8 | 2.8 | 3.0 | 3.0 | 2.9 | 2.7 | 2.3 | 1.8 | 1.4 | 0.9 |
| Total obligations based on existing and prospective credit | | | | | | | | | | | | | |
| Millions of SDRs | 16.9 | 10.3 | 5.8 | 4.7 | 13.3 | 17.1 | 22.3 | 32.0 | 58.2 | 73.1 | 73.0 | 69.1 | 63.0 |
| Millions of U.S. dollars | 26.7 | 15.8 | 8.9 | 7.4 | 20.7 | 26.6 | 34.5 | 49.4 | 90.0 | 113.0 | 112.9 | 106.9 | 97.5 |
| Percent of exports of goods and services | 1.1 | 0.8 | 0.4 | 0.2 | 0.6 | 0.7 | 0.8 | 1.0 | 1.6 | 1.8 | 1.7 | 1.5 | 1.2 |
| Percent of debt service 2/ | 32.7 | 18.1 | 12.0 | 8.5 | 22.4 | 28.4 | 31.8 | 41.2 | 53.7 | 53.6 | 52.6 | 47.1 | 40.2 |
| Percent of GDP | 0.4 | 0.3 | 0.2 | 0.1 | 0.3 | 0.3 | 0.4 | 0.5 | 0.8 | 0.9 | 0.8 | 0.7 | 0.6 |
| Percent of gross international reserves | 1.6 | 1.1 | 0.5 | 0.4 | 0.9 | 1.1 | 1.4 | 1.9 | 3.3 | 3.7 | 3.4 | 3.0 | 2.5 |
| Percent of quota | 13.7 | 8.3 | 4.7 | 3.8 | 10.8 | 13.9 | 18.1 | 26.0 | 47.3 | 59.3 | 59.3 | 56.1 | 51.2 |
| Outstanding Fund credit | | | | | | | | | | | | | |
| Millions of SDRs | 107.9 | 98.2 | 212.6 | 308.7 | 447.8 | 433.6 | 414.3 | 385.2 | 329.7 | 258.9 | 187.7 | 119.9 | 57.8 |
| Millions of U.S. dollars | 170.5 | 151.4 | 324.5 | 487.8 | 696.9 | 673.0 | 641.7 | 595.7 | 509.8 | 400.3 | 290.2 | 185.4 | 89.4 |
| Percent of exports of goods and services | 6.8 | 7.6 | 14.2 | 15.5 | 20.1 | 17.2 | 14.3 | 11.7 | 8.9 | 6.5 | 4.4 | 2.6 | 1.1 |
| Percent of debt service 2/ | 208.9 | 172.8 | 439.4 | 561.5 | 754.5 | 719.0 | 592.0 | 496.5 | 303.8 | 189.7 | 135.1 | 81.7 | 36.8 |
| Percent of GDP | 2.8 | 2.8 | 5.6 | 6.9 | 8.8 | 7.8 | 6.8 | 5.7 | 4.4 | 3.2 | 2.1 | 1.2 | 0.6 |
| Percent of gross international reserves | 10.2 | 10.2 | 18.9 | 23.9 | 30.1 | 28.6 | 26.2 | 22.9 | 18.4 | 13.1 | 8.8 | 5.1 | 2.3 |
| Percent of quota | 87.6 | 79.7 | 172.6 | 250.6 | 363.4 | 352.0 | 336.3 | 312.7 | 267.6 | 210.1 | 152.3 | 97.3 | 46.9 |
| Net use of Fund credit (millions of SDRs) | 6.9 | -9.7 | 114.5 | 96.1 | 139.1 | -14.2 | -19.3 | -29.1 | -55.6 | -70.8 | -71.2 | -67.8 | -62.1 |
| Disbursements and purchases 3/ | 22.9 | 0.0 | 120.0 | 100.0 | 149.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayments and repurchases | 16.0 | 9.7 | 5.5 | 3.9 | 10.5 | 14.2 | 19.3 | 29.1 | 55.6 | 70.8 | 71.2 | 67.8 | 62.1 |
| Memorandum items: | | | | | | | | | | | | | |
| Exports of goods and services (millions of U.S. dollars) | 2,490 | 2,000 | 2,292 | 3,149 | 3,465 | 3,916 | 4,485 | 5,091 | 5,736 | 6,136 | 6,670 | 7,251 | 7,882 |
| Debt service (millions of U.S. dollars) 2/ | 81.6 | 87.6 | 73.8 | 86.9 | 92.4 | 93.6 | 108.4 | 120.0 | 167.8 | 211.0 | 214.8 | 227.1 | 242.7 |
| Nominal GDP (millions of U.S. dollars) 2/ | 6,055 | 5,438 | 5,813 | 7,062 | 7,914 | 8,622 | 9,465 | 10,423 | 11,478 | 12,636 | 13,736 | 14,932 | 16,232 |
| Gross International Reserves (millions of U.S. dollars) | 1,672 | 1,480 | 1,718 | 2,037 | 2,313 | 2,351 | 2,453 | 2,598 | 2,769 | 3,049 | 3,314 | 3,603 | 3,916 |
| Average exchange rate: SDR per U.S. dollars | 0.6 | 0.6 | 0.7 | 0.6 | … | … | … | … | … | … | … | … | … |
| Quota (millions of SDRs) | 123.2 | 123.2 | 123.2 | 123.2 | 123.2 | 123.2 | 123.2 | 123.2 | 123.2 | 123.2 | 123.2 | 123.2 | 123.2 |

Sources: IMF staff estimates and projections.

1/ Includes disbursements of SDR 60.0 million (of which, SDR 15.0 million for budget support) in 2011 and prospective disbursements of SDR 44.8 million in 2012 under the ECF, and purchases of SDR 40.0 million in 2011 and SDR 104.8 million in 2012 under the EFF.

2/ Total debt service includes IMF repurchases and repayments.

3/ In 2009, does not include Moldova use of the SDR allocation of SDR 117.71 million.

Table 8: Moldova: Selected Localized Millennium Development Goals and Progress Indicators, 2000-15

| | Actual data | | | | | | | Targets and status | |
|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2003 | 2006 | 2007 | 2008 | 2009 | 2010 | 2010 | 2015 |
| **Goal: Reduce extreme poverty and hunger** | | | | | | | | | |
| ▪ Population with consumption below $4.3 (PPP) a day (percent) 1/ | … | … | 34.5 | 29.8 | 30.4 | 29.5 | 26.8 | 29.0 (met) | 23.0 |
| ▪ Proportion of people under the absolute poverty line 1/ | 67.8 | 29.0 | 30.2 | 25.8 | 26.4 | 26.3 | 21.9 | 25.0 (met) | 20.0 |
| ▪ Proportion of people under the extreme poverty line 1/ | 52.2 | 15.0 | 4.5 | 2.8 | 3.2 | 2.1 | 1.4 | 4.0 (met) | 3.5 |
| **Goal. Achieve universal access to general secondary education** | | | | | | | | | |
| ▪ Gross enrollment ratio in general secondary education (percent) | 93.8 | 95.1 | 92.0 | 91.6 | 90.9 | 90.7 | 90.3 | 95.0 (missed) | 98.0 |
| ▪ Literacy rate for the 15-24 year-old population 1/ | … | … | 99.6 | 99.6 | 99.6 | 99.6 | 99.5 | 99.5 (met) | 99.5 |
| ▪ Enrollment rate for pre-school programs for 3-6 year-old children | 44.1 | 61.1 | 70.1 | 72.6 | 74.4 | 75.5 | 77.1 | 75.0 (met) | 78.0 |
| ▪ Enrollment rate for pre-school programs for 6-7 year-old children | 91.1 | 92.2 | 90.3 | 91.0 | 91.1 | 93.8 | 93.1 | 95.0 (missed) | 98.0 |
| **Goal: Reduce child mortality** | | | | | | | | | |
| ▪ Infant mortality rate (per 1,000 live births) 1/ | 18.3 | 14.4 | 11.8 | 11.3 | 12.2 | 12.1 | 11.7 | 16.3 (met) | 13.2 |
| ▪ Under-five mortality rate (per 1,000) 1/ | 23.2 | 17.8 | 14.0 | 32.3 | 32.8 | 31.9 | 32.9 | 35.6 (met) | 43.3 |
| ▪ Immunization, measles (percent of children under 2 years old) | 89.1 | 95.7 | 96.9 | 94.7 | 94.4 | 90.3 | 91.1 | 96.0 (missed) | 96.0 |
| **Goal: Improve maternal health protection** | | | | | | | | | |
| ▪ Maternal mortality ratio (per 100,000 births) 2/ | 27.1 | 21.9 | 16.0 | 15.8 | 38.4 | 17.2 | 44.5 | 15.5 (missed) | 13.3 |
| ▪ Births attended by skilled health personnel (percent) | 99.3 | 99.4 | 99.6 | 99.5 | 99.5 | 99.7 | 99.2 | 99.0 (met) | 99.0 |
| **Goal: Combat HIV/AIDS, tuberculosis and other diseases** | | | | | | | | | |
| ▪ HIV/AIDS incidence (per 100,000 people) 3/ | 4.0 | 6.2 | 14.7 | 17.4 | 19.4 | 17.1 | 17.1 | 9.6 (missed) | 8.0 |
| ▪ HIV incidence among 15-24 year-olds 3/ | 10.4 | 9.8 | 18.8 | 21.2 | 16.1 | 19.6 | 21.0 | 11.2 (missed) | 11.0 |
| ▪ Mortality rate associated with tuberculosis (deaths per 100,000 people) 2/ | 17.2 | 16.9 | 19.3 | 20.2 | 17.1 | 18.0 | 17.8 | 15.0 (missed) | 10.0 |
| **Goal: Ensure environmental sustainability** | | | | | | | | | |
| ▪ Proportion of land areas covered by forest (percent) | 10.5 | 10.5 | 10.7 | 10.7 | 10.9 | 10.9 | 10.9 | 12.1 (missed) | 13.2 |
| ▪ Ratio of area protected to maintain biological diversity (percent) | … | 2.0 | 4.7 | 4.8 | 4.8 | 4.8 | 4.8 | 4.7 (met) | 4.7 |
| ▪ Share of population with access to improved water sources (percent) | 37.8 | 39.7 | 46.0 | 47.0 | 53.0 | 55.0 | 56.5 | 59.0 (missed) | 65.0 |
| ▪ The share of population with access to sewage | 32.3 | 32.9 | 43.3 | 43.9 | 45.7 | 47.9 | 50.7 | 50.3 (met) | 65.0 |

Source: Moldovan authorities.

1/ The methodology was changed from 2006.
2/ The pandemic flu that resulted in 5 deaths led to a sharp deterioration of the maternal mortality ratio in 2010.
3/ Including data from Transnistria.

## Attachment I: Moldova: Letter of Intent

Chişinău, January 12, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431 USA

Dear Ms. Lagarde:

Sound macroeconomic policies under our IMF-supported program have propelled the real GDP well beyond its pre-crisis level in 2011. Alongside, external trade has boomed and the financial sector generally continued to strengthen. The expected slowdown in global economic activity is likely to cool Moldova's growth momentum in the period ahead, but—owing to the success of our program—we will face these challenges from strong fiscal and external positions.

Program implementation is broadly on track, although some end-September program conditions were missed. Weak tax collection resulted in overshooting the performance criterion on the general government budget deficit by 0.4 percent of GDP. The indicative target on reducing general government expenditure arrears was missed as well due to underpayment of district heating bills by the Chişinău municipality, and the implementation of the structural benchmark on reforming the debt restructuring framework was delayed owing to protracted internal discussions. All other quantitative performance criteria, indicative targets, and structural benchmarks for end-September were met.

As a matter of priority, we will put in place measures to eliminate these slippages. As prior actions, we will amend the 2011 budget and strengthen tax administration to ensure compliance with the budget deficit target by end-year. The Chişinău municipality will restrict its expenditures until end-2011 to eliminate its arrears. And the Government has already approved the legal amendments reforming the debt restructuring framework and submitted them to Parliament. These measures and continued implementation of reforms in other program areas will support our broader policy goals of improving the well-being of the population and reducing poverty by maintaining macroeconomic stability, promoting sustainable growth, and reducing the still high structural fiscal deficit.

In consideration of our strong record of program implementation and the proposed corrective actions we request the completion of the fourth review of the program supported by the Extended Credit Facility and the Extended Fund Facility arrangements and the associated disbursement of SDR 50 million. We also request a waiver for nonobservance of the end-September performance criterion on the general government budget deficit. The fifth program review, assessing performance based on end-March 2012 performance criteria and relevant structural benchmarks, is envisaged for end-June 2012.

We believe that the policies set forth in the attached Supplementary Memorandum of Economic and Financial Policies (SMEFP) are adequate to achieve program objectives but will take any additional measures that may become appropriate for this purpose. We will consult with the IMF on the adoption of such additional measures in advance of revisions to the policies contained in the SMEFP, in accordance with the Fund's policies on such consultation. We will provide the Fund with the information it requests for monitoring progress during program implementation. We will also consult the Fund on our economic policies after the expiration of the arrangement, in line with Fund policies on such consultations, while we have outstanding purchases in the upper credit tranches.

Sincerely yours,

/s/
Vladimir Filat
Prime Minister
Government of the Republic of Moldova

/s/
Valeriu Lazăr
Deputy Prime Minister
Minister of Economy

/s/
Veaceslav Negruţa
Minister of Finance

/s/
Dorin Drăguţanu
Governor
National Bank of Moldova

Attachments: Supplementary Memorandum of Economic and Financial Policies (SMEFP)
Technical Memorandum of Understanding (TMU)

## ATTACHMENT II: SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

January 12, 2012

1. The present document supplements and updates the Memoranda of Economic and Financial Policies (MEFPs) signed by the authorities of the Republic of Moldova on January 14, 2010, June 30, 2010, March 24, 2011, and June 27, 2011. It accounts for recent macroeconomic developments and introduces policy adjustments, as well as additional policies necessary to achieve the objectives of the program. We remain determined to meeting our commitments made previously under the program.

### I. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

2. **After two years of solid growth, a slowdown seems to be in the works.** In the first half of 2011, real GDP grew by 7½ percent surpassing its pre-crisis level, and the unemployment rate declined to 6¼ percent. Broad-based growth was supported by strong domestic demand—fuelled by rising incomes and bank credit—and booming exports facilitated by a combination of favorable external environment, new capacity, and improved access to international markets. However, inflows of remittances have begun to moderate, and the expected slowdown in global economic activity is likely to weigh on Moldova's growth performance. Therefore, we project real GDP growth to cool down to 6 percent this year and 3½ percent in 2012.

3. **Moderation of demand should narrow the current account deficit next year.** Rising international energy prices and import demand overshadowed the substantial export growth of about 57 percent so far in 2011. However, slowdown of domestic demand is expected to reverse this trend in 2012, narrowing the current account deficit from 11¾ to 10½ percent of GDP. In the medium term, the deficit should contract further to about 8 percent of GDP on the back of sustained reform and export promotion efforts, as well as tailwinds from economic recovery in trading partners and increased access to EU and CIS markets.

4. **Current pressures on inflation should fade by early 2012.** Inflation has been hovering around 8–9 percent since July, jolted by a series of food and energy price shocks as well as robust domestic demand. These effects would likely run their course by end-2011, when inflation is expected to reach about 9 percent. Helped also by the impact of the monetary policy tightening in mid-2011, inflation would decline to 6½ percent by end-2012.

5. **The financial sector remains strong despite some challenges.** The banking sector's continued write-off of bad loans and robust lending reduced the non-performing loans (NPL) ratio from 13 percent at end-2010 to 9.7 percent at end-October 2011. Credit growth net of write-offs remained at a healthy rate of 22 percent, while liquidity and capital adequacy ratios remain well above regulatory norms. Two banks that faced challenges (¶13) have applied corrective actions prescribed by the National Bank of Moldova (NBM) and do not appear to pose systemic risks.

## II. REVISED POLICY FRAMEWORK FOR 2011–12

6. **Notwithstanding the looming economic slowdown, we are determined to achieve the key objectives of our IMF-supported program by end-2012.** Our focus will remain on preserving macroeconomic stability, strengthening public finances, accelerating structural reforms to support the fiscal strategy and promote growth, and solidifying the stability of the financial sector. Specifically:

- *The fiscal adjustment will be completed,* helped by speedy implementation of key structural reforms**.** In this context, we will move expeditiously to correct this year's slippages, implement the next stage of the education reform, put into effect the tax policy amendments aimed at broadening the revenue base, decisively improve tax administration, and rationalize current expenditure. We will cement these gains by placing preservation of fiscal sustainability as the cornerstone of our medium-term budget framework (MTBF).

- *The NBM will continue to target mid-single digit inflation while allowing exchange rate flexibility.* Alongside, we plan to adopt amendments to the legal framework to enhance the NBM's independence and governance, and improve coordination between the NBM and the Ministry of Finance (MoF) with regard to liquidity management.

- *Financial sector policies will seek to solidify stability and crisis preparedness* by intensifying supervision of troubled banks, enacting the long-awaited reform of the insolvency framework, and putting in place an effective mechanism to promote shareholder transparency.

- *We will persevere with key structural reforms.* We will aim to normalize payments of current bills and ensure cost-recovery in the energy sector, advance privatization plans, complete the transition to a system of targeted social assistance, and press forward with cutting red tape, reducing barriers to trade, and improving competitiveness.

### A. Fiscal Policy

7. **We are committed to overcoming earlier setbacks and meeting the 2011 budget deficit target of 1.9 percent of GDP.** Worryingly weak tax collection—notably value-added tax (VAT) and payroll taxes—amid a booming economy is projected to result in an end-year revenue shortfall of MDL 417 million (0.5 percent of GDP) relative to the approved budget. Furthermore, the fiscal space has been squeezed by MDL 150 million (0.2 percent of GDP) due to accumulation of applications for agricultural subsidies in excess of the budget allocation. These missteps require compensating measures of about 0.7 percent of GDP. We plan to fill this gap with offsetting savings from further cuts in various current expenditure (0.4 percent of GDP) and the expected under-utilization of the capital budget (0.3 percent of GDP). We amended the 2011 budget to reflect these changes as a **prior action.**

8. **In this context, our immediate priority is to reverse the recent fiscal slippages.** To this end:

- *We will assign increased urgency to upgrading tax administration.* To safeguard budget deficit targets, the MoF issued an order in early November (**prior action**) to the State Tax Inspectorate (STI) to intensify monthly inspections of high-risk taxpayers and extend the program for voluntary compliance to all large taxpayers with respect to their VAT and payroll tax payments. In parallel, by end-2011 we will enact legal amendments to allow indirect assessment of individuals' income based on their assets and other indicators. Concurrently, the STI will establish a unit responsible for high-wealth individuals tasked with audit of relevant tax returns, enforcement, and outreach. Furthermore, by end-June 2012, we will extend the scope of the large taxpayer office to cover at least 50 percent of tax revenue and improve its audit capacity with particular focus on VAT and payroll tax compliance. Finally, the STI will review and improve its compliance strategy for 2012 to include more sectors of the economy.

- *We will reform the mechanism for allocating agricultural subsidies to bring commitments in line with available funds.* In 2011, acceptance of subsidy applications has stopped on October 31. After amending the 2011 budget, we will issue a new Government decision distributing the new budget allocation of MDL 150 million among the subsidized activities, while leaving no accepted applications unfunded in 2011. Going forward, the mechanism for allocation of subsidies will be amended along the following principles: i) the number of subsidized activities will be reduced to allow better prioritization of the state assistance; in particular, fertilizer and pesticides subsidies will be excluded; ii) subsidy applications will be accepted after the adoption of the Government decision on the scope and allocation of the subsidies until November 1 of the budget year; iii) to ensure the credibility of the budget allocation, subsidy payments before November 1 of the budget year will amount to no more than 75 percent of the calculated amount for each application, and the possibility of adjusting the unpaid amount will be reflected in the contract with the subsidy recipient; iv) before making final subsidy payments, the subsidy norms will be adjusted based on the volume of applications to match the budget allocation, in line with the policies of the Ministry of Agriculture and Food Industry; v) no legal provisions will be made to pay subsidies for applications filed in the previous cycle. The scope of subsidized activities in 2012 will be approved by Parliament as part of the 2012 budget. A Government decision consistent with the above principles will be approved by end-March 2012 **(structural benchmark)**.

- *The Chişinău municipality has committed to eliminate its heating arrears by end-2011* (¶16).

9. **Building on these efforts, we aim to complete the fiscal adjustment by lowering the budget deficit to about 0.9 percent of GDP in 2012 and ¾ percent of GDP in the medium term.** This level would ensure the budget's ability to sustain itself without relying on exceptional levels of

external assistance. In line with our overall fiscal strategy, the remaining consolidation will be achieved by a combination of revenue gains (0.3 percent of GDP) and continued decline in current expenditure (1½ percent of GDP) partly offset by higher investment (0.7 percent of GDP). The sizable gains from the reintroduction of the corporate income tax (CIT) and adjustments in the excise rates will be partially offset by the extension of cash VAT refunds to the whole country and the loss in direct taxes due to the declining share of the wage fund in GDP. As a **prior action**, we will adopt a 2012 budget consistent with the targeted budget deficit and supported by the tax policy and expenditure reforms (¶10). To firmly anchor the fiscal policy going forward, by end-June 2012 we will adopt a medium-term budget framework (MTBF) for 2013–15 with a budget deficit target of about ¾ percent of GDP. The wage bill and spending on goods and services will be capped at 9½ and 8¾ percent of GDP respectively creating space for capital expenditure to rise to 6¼ percent of GDP by 2015 in line with improved implementation capacity.

10. **Achieving these goals will require unyielding implementation of key reforms underpinning the fiscal strategy.** Emphasis will be placed on the following areas:

- A new *fiscal responsibility framework* will introduce a rule-based fiscal framework, enhancing fiscal discipline, and improving transparency. These principles form the cornerstone of a new law on public finance and accountability to be adopted in Parliament by end-March 2012.

- Comprehensive *tax policy reform* in line with ¶12 of the SMEFP dated June 27, 2011 will be enacted before end-2011 to put revenue on a sustainable basis and stimulate investment. Key elements include re-introduction of the CIT with a single rate of 12 percent **(structural benchmark)**; extension of cash VAT refunds for post-2011 purchases of investment goods to the entire country **(structural benchmark)**; and adjustment of selected excise rates in line with the EU integration agenda. In addition, we will reintroduce a personal income tax (PIT) for software developers on the same base they currently use for social security contributions (two average economy-wide wages). Moreover, the municipality of Chişinău intends to raise its real estate tax rate by 0.02 percentage points across the board.

- Our *public sector wage policy* in 2012 will follow previous agreements. Specifically, we will implement the wage policies delayed from 2009 as described in the MEFP dated January 14, 2010, and as reflected in the amended Law 355 as of end-2009. The budget wage bill will also reflect the policies described in the new Law on Wages of Civil Servants, which limits the wage bill increase for civil servants to 12 percent. These policies are consistent with our wage bill target of MDL 8,745 million for 2012.

- In close cooperation with the World Bank, we will continue to implement a comprehensive reform of the oversized *education sector*—a major impediment for growth and fiscal sustainability—to improve its quality and efficiency while reducing the net fiscal cost by

0.5 percent of GDP upon completion. The reform will receive additional impetus from the legal amendments aimed at unblocking further optimization of the sector (¶19 of the SMEFP dated March 24, 2011). Having secured Government adoption, we will seek approval of these amendments by Parliament before end-March 2012 **(structural benchmark)**. This will support the credibility of the 2012 budget by enabling savings of 0.2 percent of GDP after setting aside funds to improve quality and facilitate the reform. Furthermore, to preserve safe and adequate access to education, we will make rehabilitation of school bus routes a priority for the Road Fund in 2012–13.

- Raising *efficiency of public investment* will be critical to promote growth. We have already reviewed and prioritized the list of capital projects envisaged for 2012 on the basis of their viability, economic growth potential, and capacity for implementation. Furthermore, the MoF has developed proposals to reform the mechanism for allocating capital expenditure along the same lines. We plan to finalize these proposals in consultation with IMF staff, and by end-March 2012, the new mechanism will be adopted by the Government and applied starting 2013.

- Other structural reforms *rationalizing the use of health care* and *improving public procurement* will proceed as planned (¶11 of the SMEFP dated March 24, 2011). Specifically, in 2012, the mechanism for sick leave benefits will be further improved by increasing the number of sick leave days covered by employers to 3; a copayment of 20 lei will be introduced for primary visits by uninsured patients, excluding the most vulnerable and people with chronic diseases; and an electronic system of collecting bids for supplies of goods and services will be put in place in the Government's central procurement agency.

- Finally, to ensure the credibility of the budgeted wage bill, the 2012 budget will be based on a target of 208,700 positions in the public sector, including 125,900 positions in the education sector by end-2012 (consistent with the targets set in ¶19 of the SMEFP dated March 24, 2011), along with maintaining the freeze on hiring of non-teaching personnel. To this end, we will include in the 2012 budget a provision on establishing a wage bill ceiling for the education sector of MDL 4,770 million.

### B. Monetary and Exchange Rate Policies

11. **The NBM's current monetary policy stance will be eased against the outlook of receding inflation risks.** Strong inflation pressures during 2011 and substantial excess liquidity in the banking system prompted several hikes of the policy interest rate and reserve requirements during the year. This helped contain inflation within single digits. Next year, the expected slowdown of demand and waning impact of earlier food and energy price shocks should steer inflation toward the NBM's objective of 5 ±1½ percent. Therefore, the NBM has cut its policy rates by 150 basis points in December-January and plans to continue with gradual policy easing going forward. Should the

inflation outlook improves even faster than expected, the policy easing could accelerate in 2012. That said, the still rapid growth of monetary aggregates warrants continued vigilance. Meanwhile, the NBM should maintain exchange rate flexibility, limiting its interventions in the foreign exchange market to smoothing erratic movements.

12. **The operational and legal aspects of monetary policy will be upgraded next year.** Significant drawdown of government deposits at the NBM throughout 2011 worked to weaken the impact of monetary policy tightening thereby complicating sterilization of excess liquidity. To minimize such counter effects, the MoF and NBM will seek to improve their coordination by reactivating the joint Liquidity Committee. Furthermore, by end-2011 the NBM will propose legal amendments to the central bank law to increase its independence in line with international best practice and establish appropriate mechanisms of internal control over NBM's corporate governance.

### C. Financial Sector Policy

13. **The NBM's supervision efforts will be focused on continued diagnosis and remedial actions in vulnerable banks.**

- A small bank (Universalbank) has recently struggled to maintain adequate capital and liquidity, prompting special supervision and later special administration by the NBM. Unless the bank is recapitalized, the NBM plans to continue with an orderly scaling down of the bank's operations in line with the recently introduced bank resolution tools.

- We have relieved the majority state-owned Banca de Economii (BEM) from the legacy of its involvement in the resolution of the failed Investprivatbank (¶17 of the SMEFP dated June 27, 2011). This has allowed the bank to maintain comfortable capital adequacy and liquidity ratios. To further strengthen the bank, we will address its under-provisioning to minimize fiscal and financial stability risks. Specifically, in consultation with IMF staff, the NBM will introduce a program of remedial measures involving, among other things, close oversight over the bank's lending and collateral policies and compliance with the NBM's risk management requirements. Implementation of these measures will be assessed in the context of the NBM's next on-site audit. The MoF, through its representatives on the Board of BEM, will press for improving internal audit and control and for strengthening the Board's oversight over the bank management.

- More generally, the Government remains committed to keep BEM strong in preparation for its privatization and will consider an increase in the bank's capital should such a need arise. By end-January 2012, the Government will reactivate its contract with the existing privatization advisor and ask them to prepare an action plan and a timetable for privatizing BEM (**structural benchmark**).

14. **In parallel we have set out to improve the transparency of our banking system.** Recent legal disputes over—and dubious transfers of—ownership in several banks point to significant deficiencies of the existing legal framework. Several legal amendments already implemented significantly reduce the risk of such incidents in the future. But the key underlying deficiency—non-transparent ownership in banks—remains. Besides inviting unlawful behavior and endangering financial stability, it creates risks for money laundering, tax evasion, and gives rise to reputational concerns for the entire banking system. Therefore, the NBM will create an inter-agency working group tasked with developing—with technical assistance from the IMF and the World Bank—legal amendments to ensure full transparency and disclosure of ultimate controllers in banks in line with Basel Core Principles and Financial Action Task Force standards. We will develop these amendments by end-March 2012, and ensure their parliamentary passage by end-June 2012 **(structural benchmark)**.

15. **The long-overdue measures strengthening the debt restructuring framework are ready to be rolled out.** The Government approved the legal amendments to enhance the speed and predictability of collateral execution by credit institutions and to strengthen their incentives to restructure nonperforming loans (¶15 of the SMEFP dated June 30, 2010). Parliamentary adoption is envisaged before end-March 2012 **(reset structural benchmark)**. Furthermore, with technical assistance from the World Bank and in consultation with IMF staff, we will seek to strengthen and simplify other aspects of the insolvency framework. Specific draft legal amendments in this area will be adopted by the Government by end-March 2012. In the meantime, we will continue working on finalizing the contingency planning framework and optimizing the financial sector supervisory framework (¶16–18 of the SMEFP dated March 24, 2011).

## D. Structural Reforms

16. **Achieving stability in payment of current bills in the energy sector is a key short-term challenge.** Despite the signing of the Memorandum of Understanding (MoU) in the energy sector, the Chişinău municipality's failure to meet its commitment to pay its bills to the heating company Termocom (¶21 of the SMEFP dated March 24, 2011) has undermined orderly implementation and forced Termocom to contract new bank loans to pay its current bills. This, combined with pressure from the municipality to limit the heating tariff increase, substantially worsened Termocom's financial position at the outset of a difficult heating season. To address these challenges:

- The Chişinău municipality will reduce its expenditures and repay its remaining 2011 arrears to Termocom of MDL 62 million by end-2011 without accumulating new arrears. The municipality has already identified MDL 60 million savings for this purpose, pending approval of the municipal council. Furthermore, the Mayor of Chişinău has issued an order making payments to Termocom a priority by freezing all discretionary expenditure until Termocom arrears and current bills are paid in full. The same provision will also be included in the municipality's 2012 budget.

- Meanwhile, the Ministry of Economy, in cooperation with relevant stakeholders, will coordinate discussions to put in place a durable framework for payment of current bills in the heating sector by end-November 2011. Key elements of the framework will be along the lines of ¶21 of the SMEFP dated June 27, 2011 or ¶21 of the SMEFP dated March 24, 2011. Furthermore, by end-November 2011, the Chişinău municipality will ensure through the Termocom's managing bodies that the company is prohibited from contracting new bank loans until the draft energy sector framework is put in place. The Ministry of Economy, through its controlling stakes, will enforce the same restriction for Chişinău's combined heating and powers plants (CHPs).

- By end-2011, the Government will approve the energy sector restructuring concept and decisions on launching the process of corporate, financial, and institutional restructuring of the sector, developed in close cooperation with the World Bank.

- In addition to the recently adopted measures to support cost recovery in the heating sector (¶22 of the SMEFP dated June 27, 2011), under the auspices of the Ministry of Economy we will create a joint working group consisting of the representatives of Ministry of Regional Development and Construction, Ministry of Environment, the Chişinău municipality, Termocom, the water distributor Apă Canal, and representatives of the civil society with the aim to end persistent under-billing for water delivery and develop a framework to reconcile common and individual hot and cold water meters in Chişinău by end-2011.

17. **We will keep up our efforts to reduce the state's presence in the economy.** Government decisions substantially shortening the list of companies not subject to privatization and expanding the list of companies subject to inclusion in regular privatization auctions will be adopted by end-March 2012. Alongside, drawing on the results of the ongoing privatization advisory work at Moldtelecom, by end-March 2012 the Ministry of Economy will propose a roadmap for introducing private participation in the company and implementing accompanying sector reforms. In the context of our accession to the common aviation space with the EU, we are in the process of incorporating Air Moldova amid continuing search for potential investors.

18. **Reforms to cut red tape, safeguard competitiveness, and stimulate trade are broadly on track.** First, a strategy to comply with the EU veterinary and food safety standards has been adopted by the Government in August 2011. Second, legal amendments to relax the requirement for repatriation of export proceeds by extending the repatriation period and reducing penalties for noncompliance have been submitted to Parliament. Third, the Government has approved a concrete action plan to remove nontariff barriers to trade identified by the Ministry of Economy. Finally, a new draft law on state inspections that will considerably reduce the number of state inspections while increasing accountability is awaiting Government approval.

19. **We plan to complete the transition to the system of targeted means-tested social assistance in 2012 with additional safeguards for the people in need.** Improved capacity of social services and continuous awareness campaigns have raised applications and expanded enrollment in the means-tested *Ajutor Social* to 70 percent of potential beneficiaries in 2011. Maintaining this trend will allow us to phase out the old nominative compensation system, except for Chernobyl victims and war veterans, from April 1, 2012. Legal amendments to this effect will be adopted along with the 2012 budget. To smooth this transition and to better assist the vulnerable groups in coping with higher energy prices, we will undertake the following measures:

- The guaranteed minimum income (GMI) will be increased to MDL 640 from January 1, 2012, raising the total amount of assistance under *Ajutor Social* by 23 percent.

- The cold-month assistance will be raised to MDL 150 per month. Moreover, we will authorize the approval of cold-month assistance in November and December 2011 for families who would otherwise become eligible only in January 2012 when the higher GMI sets in. Furthermore, a one-off supplement of MDL 50 per month will be provided during November 2011 through March 2012 to all households eligible for the cold-month assistance.

- Finally, the Ministry of Labor and Social Protection will allocate additional resources to strengthen its capacity to promptly process applications for *Ajutor Social* in order to ensure adequate access to social assistance.

20. **Alongside, we will continue to discourage excessive dependency on social aid and promote active and flexible labor market.** The legal amendments adopted in July 2011 have made access to social assistance to the unemployed conditional on active job search and non-refusal of job offers. Unemployment insurance benefit is now based on actual—as opposed to average economy-wide—wage, and prior employment required for eligibility for unemployment benefits was lengthened from six to nine months. Going forward, we will consider making participation in public works mandatory for recipients of unemployment benefits. Legislation to delink the wages in economy from the minimum guaranteed wage, to be adopted by Parliament by end-2011, will reduce wage setting rigidity and promote merit-based compensation in the economy. Finally, the Ministry of Labor and Social Protection is expected to complete its analysis and approve an action plan to put other benefits and social payments on a means-tested basis by end-June 2012.

21. **To boost economic growth and promote poverty reduction, we will adopt a new medium-term National Development Strategy (2012–20).** The previous strategy (2008–11) expires at the end of this year. The new strategy—based on input from line ministries and government agencies—will be adopted by Parliament by end-March, 2012, after consultations with civil society and our external partners. It outlines seven priority areas for reforms and development: education, access to financing, road infrastructure, business regulation, energy efficiency, justice system, and social assistance. Upon its implementation, the strategy is expected to add 12 percentage points to

GDP growth over the 9-year horizon and reduce the national poverty rate to less than 15 percent by 2020.

## E. Program Monitoring

22. **The program will be monitored through semi-annual reviews, prior actions, quantitative performance criteria and indicative targets, and structural benchmarks.** The phasing of purchases under the arrangement and the review schedule are set out in Table 1 of this memorandum. The list of the quantitative performance criteria and indicative targets remains as set in ¶27 of the MEFP dated January 14, 2010, except that the target on reserve money has been discontinued after March 31, 2011. We are requesting modifications of the performance criterion for the overall cash deficit of the general government for end-March 2012 (Table 2). Moreover, we are proposing new performance criteria and indicative targets for September 30, 2012 and December 31, 2012. The prior actions for completion of the fourth review, existing and proposed structural benchmarks are outlined in Table 3. The understandings regarding the quantitative performance criteria described in this memorandum are specified in the attached TMU. A modification of the adjuster on the ceiling on the overall cash deficit of the general government is proposed, to allow domestically-financed investment to offset the shortfall in the foreign-financed investment, while still preventing higher current spending (TMU ¶25).

Table 1. Moldova: Disbursements, Purchases, and Timing of Reviews Under the ECF/EFF Arrangements 1/

| Date 2/ | Conditions | Amount (millions of SDR) | | | Percent of quota | | |
|---|---|---|---|---|---|---|---|
| | | | of which | | | of which | |
| | | Total | ECF | EFF | Total | ECF | EFF |
| January 29, 2010 | Board approval of the Arrangement | 60.00 | 40.00 | 20.00 | 48.70% | 32.5% | 16.2% |
| July 16, 2010 | Observance of end-March 2010 performance criteria and completion of first review | 60.00 | 40.00 | 20.00 | 48.70% | 32.5% | 16.2% |
| April 6, 2011 | Observance of end-September 2010 performance criteria and completion of second review | 50.00 | 40.00 | 10.00 | 40.58% | 32.5% | 8.1% |
| July 13, 2011 | Observance of end-March 2011 performance criteria and completion of third review | 50.00 | 20.00 | 30.00 | 40.58% | 16.2% | 24.4% |
| December 31, 2011 | Observance of end-September 2011 performance criteria and completion of fourth review | 50.00 | 16.96 | 33.04 | 40.58% | 13.8% | 26.8% |
| June 30, 2012 | Observance of end-March 2012 performance criteria and completion of fifth review | 50.00 | 13.92 | 36.08 | 40.58% | 11.3% | 29.3% |
| December 31, 2012 | Observance of end-September 2012 performance criteria and completion of sixth review | 49.60 | 13.92 | 35.68 | 40.26% | 11.3% | 29.0% |
| | Total | 369.60 | 184.80 | 184.80 | 300.0% | 150.0% | 150.0% |

Source: IMF staff estimates and projections.

Note: A total of SDR 95 million of access under the ECF has been disbursed to the account of the Ministry of Finance at the National bank of Moldova for budget support. This amount was spread over the first three purchases as follows: (i) SDR 40 million from the first purchase; (ii) SDR 40 million from the second purchase, and (iii) SDR 15 million from the third purchase.

1/ Moldova's quota is SDR 123.2 million

2/ For past purchases, actual dates are shown. For potential future purchases, the earliest possible dates are shown.

Table 2. Moldova: Quantitative Performance Criteria and Indicative Targets, December 2010–December 2012 1/

(Cumulative from the beginning of calendar year; millions of Moldovan lei unless otherwise indicated)

| | 2010 | | 2011 | | | | | | | 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec. 31 | | March 31 | | June 30 | | Sept. 30 | | Dec. 31 | March 31 | | June 30 | | Sept. 30 | Dec. 31 |
| | Indicative targets | | Performance criteria | | Indicative targets | | Performance criteria | | Indicative targets | Performance criteria | | Indicative targets | | Performance criteria | Indicative targets |
| | Program | Adjusted program | Program | Adjusted program | Program | Adjusted program | Program | Adjusted program | Program | Program | Revised | Program | Revised | Program | Program |
| **1. Quantitative performance criteria** | | | | | | | | | | | | | | | |
| Ceiling on the overall cash deficit of the general government 2/ | 3,596 | 3,491 | 685 | 610 | 994 | 1,121 | 1,119 | 1,093 | 1,596 | 218 | 312 | 470 | 505 | 673 | 837 |
| Actual | | 1,786 | | 518 | | 1,363 | | 1,407 | | | | | | | |
| Ceiling on net domestic assets of the NBM (stock) 2/ | -6,224 | -5,609 | -5,594 | -5,051 | -7,003 | -6,531 | -6,509 | -6,137 | -6,500 | -6,190 | | -5,754 | -5,949 | -6,170 | -5,856 |
| Actual | | -7,049 | | -7,090 | | -6,781 | | -6,551 | | | | | | | |
| Floor on net international reserves of the NBM (stock, millions of U.S. dollars) 2/ 3/ | 1,464 | 1,414 | 1,430 | 1,423 | 1,603 | 1,565 | 1,707 | 1,677 | 1,730 | 1,706 | | 1,682 | 1,702 | 1,776 | 1,821 |
| Actual | | 1,594 | | 1,614 | | 1,652 | | 1,699 | | | | | | | |
| Ceiling on contracting or guaranteeing of non-concessional external debt of the general government (millions of U.S, dollars) 3/ | 125 | | 50 | | 80 | | 80 | | 80 | 80 | | 80 | | 80 | 80 |
| Actual | 28 | | 0 | | 0 | | 0 | | | | | | | | |
| **2. Continuous performance criteria** | | | | | | | | | | | | | | | |
| Ceiling on accumulation of external payment arrears (millions of U.S. dollars) 2/ | 0 | | 0 | | 0 | | 0 | | 0 | 0 | | 0 | | 0 | 0 |
| Actual | 0 | | 0 | | 0 | | 0 | | | | | | | | |
| **3. Indicative targets** | | | | | | | | | | | | | | | |
| Ceiling on change in domestic expenditure arrears of the general government | -107 | | 0 | | -25 | | -50 | | -50 | 0 | | -24 | -12 | -24 | -24 |
| Actual | -187 | | 63 | | 1 | | -41 | | | | | | | | |
| Ceiling on the general government wage bill | 7,550 | | 1,830 | | 4,064 | | 5,807 | | 7,844 | 2,028 | | 4,538 | 4,628 | 6,650 | 8,745 |
| Actual | 7,317 | | 1,767 | | 3,939 | | 5,677 | | | | | | | | |
| Floor on priority social spending of the general government 4/ | 9,634 | | 2,369 | | 4,933 | | 7,391 | | 10,457 | 2,590 | 2,482 | 5,179 | 5,181 | 7,852 | 10,696 |
| Actual | 9,717 | | 2,403 | | 5,118 | | 7,657 | | | | | | | | |
| **Memorandum items:** | | | | | | | | | | | | | | | |
| EC Macro Financial Assistance budgetary grants (millions of euros) | 50 | | 0 | | 20 | | 20 | | 50 | 0 | | 0 | | 0 | 0 |
| Actual | 40 | | 0 | | 0 | | 20 | | | | | | | | |
| Budget support grants | … | | … | | … | | 797 | | 1,488 | 236 | 288 | 236 | 288 | 506 | 981 |
| Actual | | | | | | | 549 | | | | | | | | |
| Official external budget support and project grants and loans from the European Commission and the World Bank (millions of U.S. dollars) | 232 | | 20 | | 88 | | 126 | | 201 | 30 | | 40 | 59 | 91 | 160 |
| Actual | 180 | | 13 | | 50 | | 96 | | | | | | | | |
| Foreign-financed project loans | 1,070 | | 299 | | 834 | | 1,117 | | 1,331 | 165 | 52 | 350 | 373 | 551 | 748 |
| Actual | 619 | | 132 | | 368 | | 719 | | | | | | | | |
| Other capital expenditures 5/ | | | … | | … | | … | | … | 448 | | 793 | | 1,714 | 3,000 |
| Actual | | | | | | | | | | | | | | | |
| Reserve requirement ratio | 8 | | 8 | | 11 | | 14 | | 14 | 14 | | 14 | | 14 | 14 |
| Actual | 8 | | 11 | | 11 | | 14 | | | | | | | | |

Sources: Moldovan authorities; and IMF staff estimates and projections.

1/ 'Program' columns up to June 2012 refer to targets in effect during the third review of the program; 'Adjusted program' columns refer to program targets incorporating adjusters as defined in the TMU; 'Revised' columns refer to targets, if any, that were revised during the fourth review.

2/ Adjusters apply to the ceiling on the overall cash deficit of the general government, ceiling on net domestic assets, floor on net international reserves, and ceiling on reserve money. The indicative target on reserve money was discontinued after March 2011.

3/ Program target based on the program exchange rates.

4/ The priority social spending of the general government is the sum of essential recurrent expenditures directed to social protection.

5/ Defined as total capital expenditures minus foreign-financed project loans.

Table 3. Moldova: Prior Actions and Structural Benchmarks for the Fourth Review

| Measure | Due | Status | Objective |
|---|---|---|---|
| ***Prior action for the fourth review*** | | | |
| Parliamentary passage of an amended 2011 budget with a deficit target in line with the program objectives (¶7) 1/ | PA | Done | Maintain fiscal adjustment in 2011 on track. |
| Ministry of Finance will issue an order to the State Tax Inspectorate to intensify monthly inspections of high-risk taxpayers and extend the program for voluntary compliance to all large taxpayers with respect to their VAT and payroll tax payments (¶8) 1/ | PA | Done | Overcome revenue weakness relative to the economy's performance. |
| Parliamentary passage of a 2012 budget with a deficit target in line with the program objectives, supported by tax policy and expenditure reforms (¶9) 1/ | PA | | Maintain the programmed speed of structural fiscal adjustment. |
| ***Structural Benchmarks*** | | | |
| **Fiscal consolidation and governance** | | | |
| Re-introduce the corporate income tax (CIT) with a single rate of 12 percent (¶12) 2/ | 31-Dec-11 | Done | Increase tax revenue. |
| Cabinet approval of mechanism to bring commitments on agricultural subsidies in line with available funds (¶8) 1/ | 31-Mar-12 | Proposed benchmark | Control spending and maintain fiscal discipline. |
| Parliamentary approval of legal amendments to continue the reform in the education sector (¶10) 1/ | 31-Mar-12 | Proposed benchmark | Support the 2012 budget. |
| **Financial stability** | | | |
| Parliamentary passage of legal amendments to facilitate debt restructuring and speed up execution of collateral on bank loans (¶15) 1/ | 30-Sep-11 | Delayed. Proposed for reset for end-March | Clean bank balance sheets and reduce structural impediments to bank lending. |
| Parliamentary passage of legal amendments to strengthen disclosure of bank owners (¶14) 1/ | 30-Jun-12 | Proposed benchmark | Raise transparency in the banking sector to strengthen confidence by depositors and prevent further raider attacks. |
| **Supporting growth and mitigating fiscal risks** | | | |
| Adoption of legal and regulatory amendments to introduce a minimum payment of 40 percent of the monthly heating bill and set August 1 as a legal deadline for settling all heating bills for the past heating season, as well as raise the heating fee for apartments disconnected from central heating from 5 percent to 20 percent of the average building heating bill (¶22) 2/ | 30-Sep-11 | Done | Ensure financial soundness of the heating companies and current payments for imported natural gas. |
| Extend the option to receive value-added tax (VAT) cash refunds for new purchases of investment goods (excluding buildings and cars) to the entire country (¶12) 2/ | 31-Dec-11 | Done | Promote new investment and establish equitable taxation regime for all companies. |
| Government will reactivate its contract with Banca de Economii's privatization advisor BNP Paribas and ask the advisor to prepare an action plan and a timetable for the bank privatization (¶13) 1/ | 31-Jan-12 | Proposed benchmark | Promote market-oriented decision-making at Banca de Economii. |

1/ Paragraph numbers refer to paragraphs of the SMEFP dated January 12, 2012.

2/ Paragraph numbers refer to paragraphs of the SMEFP dated June 27, 2011.

## ATTACHMENT III. MOLDOVA: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative targets (prior actions, performance criteria and indicative benchmarks) established in the Memorandum of Economic and Financial Policies (MEFP) and describes the methods to be used in assessing the program performance with respect to these targets.

### F. Quantitative Program Targets

2. The program will be assessed through performance criteria and indicative targets. Performance criteria are set with respect to:

- the ceiling on the overall cash deficit of the general government;
- the ceiling on the net domestic assets (NDA) of the National Bank of Moldova (NBM);
- the floor on the net international reserves (NIR) of NBM;
- the ceiling on contracting or guaranteeing of nonconcessional external debt of the general government;
- the ceiling on accumulation of external payment arrears of the central government (continuous).

Indicative targets are set on:

- the ceiling on reserve money (applicable up to the test date of March 31, 2011 and discontinued thereafter);
- the ceiling on change in domestic expenditure arrears of the general government;
- the ceiling on the general government wage bill;
- the floor on priority social spending of the general government.

### G. Program Assumptions

3. For program monitoring purposes, U.S. dollar denominated components of the NBM balance sheet will be valued at program exchange rates. The program exchange rate of the Moldovan leu (MDL) to the U.S. dollar has been set at 12.3000 MDL/US$. Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the cross rates as of end-September 2009 published on the IMF web site

http://www.imf.org, including US$/EUR = 1.4643, JPY/US$ = 89.7700, CHF/US$ = 1.0290, US$/GBP = 1.6113, CNY/US$ = 6.8290, SDR/US$ = 0.631164.

## H. Institutional Definitions

4. The **general government** is defined as comprising the central government and local governments. The **central government** includes the state budget (including special funds and special means, as well as foreign-financed projects), state social insurance budget, and health insurance budget. The **local governments** include special funds and special means, as well as foreign-financed projects. No new special or extrabudgetary funds will be created during the program period. Excluded from this definition are any government-owned entities with a separate legal status.

## I. Program Definitions

5. **Net international reserves (NIR) of the NBM** in convertible currencies are defined as gross reserves minus reserve liabilities in convertible currencies. For program monitoring purposes, 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 that are readily available and controlled by the NBM, including holdings of securities denominated in convertible currencies that are freely usable for settlement of international transactions, calculated using program assumptions on bilateral exchange rates. Excluded from reserve assets are capital subscriptions to foreign financial institutions, long-term non-financial assets, funds disbursed by the World Bank or other international institutions assigned for on-lending and project implementation, assets in nonconvertible currencies, and foreign assets pledged as collateral or otherwise encumbered, including claims in foreign exchange arising from transactions in derivative assets (futures, forwards, swaps, and options). Reserve liabilities in convertible currencies are defined as use of Fund credit by the NBM, and convertible currency liabilities of the NBM to nonresidents with an original maturity of up to and including one year. Liabilities arising from use of Fund credit by the NBM do not include liabilities arising from the use of SDR allocation and use of Fund credit by the general government. Excluded from reserve liabilities are liabilities with original maturities longer than one year.

6. **Reserve money** is defined as currency in circulation (outside banks), vault cash of banks, total required reserves, and balances on correspondent accounts of banks in the NBM in lei. For the purpose of assessing compliance with the program targets, the value of reserve money will be calculated as arithmetic average of its values for the last 5 working days before and including the program test date.

7. **Net foreign assets (NFA) of the NBM** are defined as gross reserves in convertible currencies (defined in paragraph 5) plus foreign assets in nonconvertible currencies, funds disbursed by the World Bank or other international institutions assigned for on-lending and project implementation, and foreign assets pledged as collateral or otherwise encumbered, including claims in foreign exchange arising from transactions in derivative assets, and net other foreign assets, minus foreign exchange liabilities of the NBM to nonresidents.

8. **Net domestic assets (NDA) of the NBM** is defined as the difference between reserve money (defined in paragraph 6) and net foreign assets (NFA) of the NBM. For the purpose of assessing compliance with the program targets, the value of NDA will be calculated as arithmetic average of its values for the last 5 working days before and including the program test date.

9. For the purposes of calculating overall cash deficit of 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 (exclusive of the claims associated with accrued interest, tax and social contribution payments by commercial banks, and foreign financed on-lending by banks), including overdrafts, direct credit and holdings of government securities, less deposits of the general government (excluding accrued interest on government deposits, and including the accounts for foreign-financed projects).[1] The Ministry of Finance will provide data on the holdings of government securities and foreign-financed projects.

10. The **ceilings on the overall cash deficit of the general government** are cumulative from the beginning of calendar year and will be monitored **from the financing side** as the sum of net credit of the banking system to the general government, the general government's net placement of securities outside the domestic banking system, other net credit from the domestic non-banking sector to the general government, the general government's receipt of disbursements from external debt[2] for direct budgetary support and for specific projects minus amortization paid, and privatization proceeds stemming from the sale of the general government's assets, after deduction of the costs directly associated with the sale of these assets.

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[1] For the calculation of the net credit of the banking system to general government the following accounts will be excluded: 1731, 1732, 1733, 1735, 1761, 1762, 1763, 1801, 1802, 1805, 1807, 2711, 2717, 2721, 2727, 2732, 2733, 2796, 2801 and 2802.

[2] Debt is defined as in footnote 3.

11. **Government securities** in the form of coupon-bearing instruments sold at face value will be treated as financing items in the fiscal accounts, in the amount actually received from buyers. On redemption date, the sales value (face value) will be recorded as amortization, and the coupon payments will be recorded as domestic interest payments.

12. **External debt ceilings** apply to the contracting or guaranteeing by the general government or any other agency acting on behalf of the general government of (i) short-term external debt (with an original maturity of up to and including one year) and (ii) non-concessional medium- and long-term debt with original maturities of more than one year. Debt denominated in currencies other than the U.S. dollar shall be converted to the U.S. dollars using program assumptions on bilateral exchange rates. The debt ceilings will not apply (i) to loans classified as international reserve liabilities of the NBM, (ii) to changes in indebtedness resulting from refinancing credits and rescheduling operations of existing debt, (iii) to credits from international financial institutions (IFIs), including credits extended by the Fund.

13. For program purposes, the definition of **debt** is set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274, adopted on August 24, 2000 and revised on August 31, 2009).[3] This definition applies also to commitments contracted or guaranteed for which value has not been received, and to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. Excluded from this definition are normal import-related credits, defined as liabilities that arise from the direct extension, during the normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion are self-liquidating; they contain pre-specified limits on the amounts involved and the times at which payments must be made; they do not involve the issuance of securities.

14. For purpose of the program, the **guarantee** of a debt arises from any explicit legal obligation of the general government or the NBM or any other agency acting on behalf of the general government to service such a debt in the event of nonpayment by the recipient

[3] Debt is defined as a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

(involving payments in cash or in kind), or from any implicit legal or contractual obligation to finance partially or in full any shortfall incurred by the debtor.

15. **Concessionality** will be calculated using currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs) and taking into account all details of the loan agreement, inlcuding maturity, grace period, payment schedule, upfront commision, and management fees. The ten-year average of CIRRs will be used as the discount rate to assess the concessionality of loans of an original maturity of at least 15 years, and a six-month average of CIRRs will be used to assess the concessionality of loans with original maturities of less than 15 years. To both the ten-year and six-month averages, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–30 years; and 1.25 percent for over 30 years. Grant element of the loan can be calculated using the concessionality calculator available at the IMF web site http://www.imf.org.[4] For program purposes, a debt is **concessional** if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the CIRRs published by the OECD.

16. For the purposes of the program, **external payments arrears** will consist of all overdue debt service obligations (i.e., payments of principal or interest, taking into account contractual grace periods) arising in respect of any debt contracted or guaranteed or assumed by the central government, or the NBM, or any agency acting on behalf of the central government. The **ceiling on new external payments arrears** shall apply on a continuous basis throughout the period of the arrangement. It shall not apply to external payments arrears arising from external debt being renegotiated with external creditors, including Paris Club creditors; and more specifically, to external payments arrears in respect of which a creditor has agreed that no payment needs to be made pending negotiations.

17. For the purposes of the program, general government **expenditure arrears** are defined as non-disputed (in or out of court) payment obligations that are due but not paid for more than 30 days. They can arise on any expenditure item, including transfers, debt service, wages, pensions, energy payments and goods and services. Arrears between the state, local government, and social and health insurance budgets, are not counted towards the expenditure arrears' ceiling on the general government.

[4] Currently available at http://www.imf.org/external/np/pdr/conc/calculator/default.aspx.

18. The **general government wage bill** will be defined as sum of budget spending on wages and salaries of public sector employees. This will include current spending reported in line "Wages" of the general government budget according to the program classification of the annual budget except for salaries of the social and health funds' employees.[5]

19. The priority **social spending of the general government** is defined as the sum of essential recurrent expenditures for social assistance, unemployment insurance, and pension payments by the Social Insurance Fund as well as 95 percent of health expenditures.

## J. Adjusters

20. The adjusters set in this TMU apply for assessing compliance with the program's quantitative targets starting from end-March 2010.

21. The **ceiling on the overall cash deficit** of the general government will be increased by the amount paid in cash for recapitalization of the NBM or by the face value of government securities issued for the same purpose.

22. The **ceiling on the overall cash deficit** of the general government will be adjusted upward—that is, the deficit target will be increased—by the net value of government securities that are recorded as budget expenditure in the context of resolving the failed Investprivatbank.

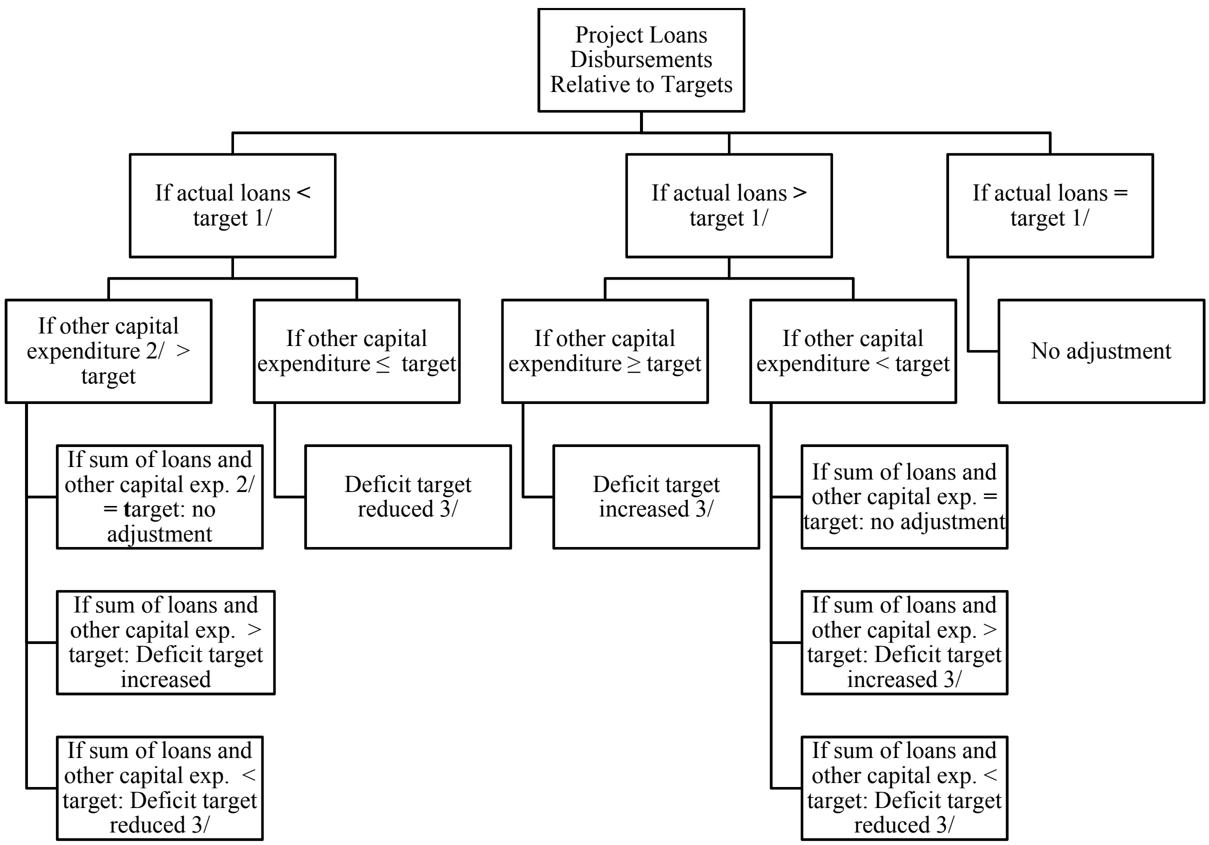
23. The **ceiling on the overall cash deficit** of the general government will be adjusted upward (downward)—that is, the deficit target will be increased (reduced)—by the full amount of any shortfall (excess) between actually disbursed and programmed Macro Financial Assistance budgetary grants from the European Commission (EC), valued at the exchange rates at the program test dates.

24. From end-September 2011, the **ceiling on the overall cash deficit** of the general government will be adjusted upward (downward)—that is, the deficit target will be increased (reduced)—by the amount of any shortfall (excess) between the total amount of actually disbursed and programmed budget support grants excluding Macro Financial Assistance budgetary grants from the European Commission (EC). The upward adjustment is capped at the equivalent of MDL 250 million, valued at the exchange rates at the time of disbursement.

[5] For the calculation of the total general government wage bill the following accounts for central government, local government, and special funds from the Treasury system in the Ministry of Finance will be used: 111, 112, and 116.

25. The **ceiling on the overall cash deficit** will be adjusted downward (upward)—that is, the deficit target will be reduced (increased)—for any lower (higher) than programmed disbursement of foreign-financed project loans as specified in Table 2 of the MEFP. Starting from end-March, 2012, the downward (upward) adjustment of the deficit ceiling will be reduced by the amount of capital expenditure financed from other sources in excess (shortfall) of the programmed allocation at each target date. Owing to monitoring lags, the net downward adjustment is capped at a quarter of the programmed amount of foreign-financed project loans. The net upward adjustment is capped at the equivalent of US$25 million, valued at program exchange rates. Figure 1 outlines the step-by-step process of applying this adjuster.

Figure 1. Application of the Adjuster Described in Paragraph 25




1/ "Target" refers to program target.
2/ "Other capital expenditure" or "other capital exp." stands for total capital expenditure minus foreign-financed project loans.
3/ Caps apply to the reduction or increase of the deficit target, as discussed in ¶25.

26. The ceiling on **reserve money** will be adjusted downward (upward) and the ceiling on **NDA of NBM** will be adjusted downward (upward) symmetrically for any reduction (increase) in the required reserve ratio on the deposits of commercial banks denominated in

lei. The adjustment amount will be calculated by multiplying the change in the required reserve ratio by the amount of commercial banks' deposits and liabilities in lei subject to reserve requirements.

27. The floor on **NIR of the NBM** will be lowered and the ceiling on **NDA of NBM** will be raised symmetrically by any shortfall in the official external grants and loans from the EC and World Bank capped up to an equivalent of US$50 million. For the purpose of this definition, the program exchange rates will apply for calculating the amounts of the grants and loans.

## K. Reporting Requirements

28. Macroeconomic data necessary for assessing compliance with performance criteria and indicative targets and benchmarks will be provided to Fund staff including, but not limited to data as specified in Table 1. The authorities will transmit promptly to Fund staff any data revisions.

## Table 1. Moldova: Data to be Reported to the IMF

| Item | Periodicity |
|---|---|
| **Fiscal data** (to be provided by the MoF) | |
| General budget operations for revenues, expenditure and financing (functional and economic) | Monthly, within three weeks of the end of each month |
| General government wage bill | Monthly, within three weeks of the end of each month |
| Number of budgetary sector positions by ministry | Monthly, within three weeks of the end of each month |
| Number of employees in the budgetary sector by ministry, and their respective wage bill | Monthly, within three weeks of the end of each month |
| Expenditure on social assistance as stipulated under activity 457 of social payments paid from the social fund budget | Monthly, within three weeks of the end of each month |
| Expenditure on pensions and unemployment benefits, and health expenditures as reported by NSIH and NHIC respectively | Monthly, within three weeks of the end of each month |
| Domestic debt | Monthly, within two weeks of the end of each month |
| Domestic arrears | Monthly, within three weeks of the end of each month |
| Privatization receipts received by the budget (in lei and foreign exchange, net of divestiture transactions costs) | Monthly within three weeks of the end of each month |
| **Monetary data** (to be provided by the NBM) | Weekly within one week of the end of each week |
| Monetary survey of the NBM | |
| Monetary survey for the whole banking system | Weekly within two weeks of the end of each week |
| Net claims on general government (NBM and commercial banks) | Weekly within two weeks of the end of each week |
| Financial indicators of commercial banks (from NBM's Banking Supervision) | Monthly within four weeks of the end of each month |
| Foreign exchange cash flows | Monthly, within two weeks of the end of each month |
| Foreign exchange operations (NBM data) | Monthly, within two weeks of the end of each month |
| Foreign exchange market data (volume of trades, interventions, exchange rates) | Daily within 12 hours of the end of each day |
| NBM's sterilization operations | Weekly within one week of the end of each week |
| Interbank transactions (volumes, average rates) | Weekly within one week of the end of each week |

**Table 1. Moldova: Data to be Reported to the IMF (continued)**

| Item | Periodicity |
|---|---|
| **Balance of Payments** (to be provided by the NBM) | |
| Current and capital account data. | One quarter after the end of the previous quarter |
| Transfers of individuals from abroad through the banking system | Monthly within six weeks of the end of each month |
| **External debt data** (to be provided by MoF and NBM) | |
| Information on all new external loans contracted by the government or government guarantee. | Monthly within three weeks of the end of each month |
| Total debt service due by creditor, and debt service paid. | Monthly within three weeks of the end of each month |
| Disbursements of grants and loans by creditor | Monthly, within three weeks of the end of each month |
| **Other data** (to be provided by NBS) | |
| Overall consumer price index. | Monthly within two weeks of the end of each month. |
| National accounts by sector of production, in nominal and real terms. | Quarterly within three months of the end of each quarter. |
| Export and import data on value, volume, and unit values, by major categories and countries. | Monthly within two months of the end of each month. |

**Statement by the IMF Staff Representative**
**February 1, 2012**

1. **This statement provides additional information on program implementation and presents new data on economic developments in Moldova that became available since the issuance of the staff report.** The additional information does not change the thrust of the staff appraisal.

2. **Program implementation has proceeded generally well, with all prior actions met.** The last prior action for the Executive Board consideration of the authorities' request to complete the fourth reviews of the program was completed in mid-January with the parliamentary passage of expenditure reforms supporting a 2012 budget in line with the program objectives (SMEFP Table 3). Moreover, the Government has reactivated its contract with the privatization advisor of Banca de Economii and has approved a new mechanism to bring commitments on agricultural subsidies in line with available funds, two structural benchmarks for end-January and end-March, respectively (SMEFP Table 3). The authorities' efforts to improve tax collection and rein in current expenditure closed most of the gap with the program's deficit target recorded in September and brought the annual deficit within 0.2 percent of GDP from its indicative target. All other indicative targets for December were essentially met. On January 26, the NBM cut its main policy rate by 200 bps, bringing the cumulative reduction since November to 350 bps.

3. **The latest available data came broadly as expected.** Inflation fell to 7.8 percent in December 2011 reflecting reversals of earlier food and gasoline price hikes and demand moderation. The banks' nonperforming loan ratio reached 10.7 percent in December, raised mainly by weaknesses in the two banks discussed in the staff report (¶12).

4. **The authorities have consented to the publication of the staff report, the Letter of Intent, SMEFP, and TMU dated January 12, 2012.**

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/31
FOR IMMEDIATE RELEASE
February 1, 2012

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Completes Fourth Reviews Under the Extended Credit Facility and the Extended Fund Facility Arrangements with Moldova, Approves US$77.5 Million Disbursements**

The Executive Board of the International Monetary Fund (IMF) has completed the fourth reviews of Moldova's economic performance under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) arrangements. The blended financing arrangements under the ECF and the EFF for an amount equivalent to SDR 369.6 million (about US$572.7 million) were approved on January 29, 2010 (see Press Release No. 10/21). The completion of the fourth reviews makes an amount equivalent to SDR 50 million (about US$77.5 million) immediately available for the authorities.

In completing the reviews, the Executive Board approved the authorities' requests for waiver of nonobservance of the performance criterion on the general government deficit for end-September 2011, which was missed by 0.4 percent of GDP, and for modification of the same criterion for end-March 2012 owing to updates of the macroeconomic framework.

After the Executive Board's discussion, Ms. Nemat Shafik, Deputy Managing Director and Acting Chair, said:

"Moldova's economy continued to expand vigorously in 2011, although the expected slowdown in major trading partners is likely to moderate growth in 2012. The authorities have maintained macroeconomic and financial stability, promoted balanced and inclusive growth, and reduced poverty in the context of the Fund-supported program.

"After corrective measures to address the fiscal deficit overshooting in the second half of 2011, the program is back on track to restore fiscal sustainability. The budget for 2012 continues the programmed fiscal consolidation by reducing current spending and raising revenue while increasing investment, enhancing targeted social assistance, and supporting growth. Over the medium term, scaling back the oversized public sector will be key to maintaining a sustainable fiscal position.

"Subsiding inflationary pressures and the fragile external environment call for a more accommodative monetary stance. The recent monetary policy easing is therefore welcome.

Further easing should be considered if slowing domestic demand leads to a faster than expected decline in projected inflation.

"Overall conditions in the financial sector have remained stable. The potentially destabilizing effects of schemes to defraud bank shareholders have been avoided, and the planned reforms to strengthen supervision and the judiciary aim to avoid similar incidents in the future. The authorities should promptly adopt the legal amendments strengthening the debt restructuring framework to consolidate financial stability and support credit growth. The National Bank of Moldova has applied appropriate remedial measures to two banks that developed weaknesses. Efforts should now focus on resolving the small bank under special administration and advancing the privatization process for the state-owned bank.

"Structural reforms have improved the business climate and promoted competitiveness. The Government should continue divesting state enterprises to enhance efficiency and attract foreign investments. A comprehensive restructuring is needed to make the energy sector financially viable."

**Statement by Mr. Yuriy G. Yakusha, Alternate Executive Director for Moldova and Mr., Tsvetan S. Manchev, Advisor to the Executive Director**
**February 1, 2012**

Since the previous review, the economy of Moldova continued to expand strongly, even though a deterioration of the external environment led to a moderation of GDP growth in the second half of 2011. Nevertheless, the consensus estimate of 6 percent GDP growth in 2011, after 7.1 percent growth in 2010, marks a second year of vigorous economic activity. Inflation fell to below 8 percent in late 2011, while core inflation remained below 5 percent. Central to this sense of stability and healthy growth is the implementation of the Fund-supported program, which has so far proceeded generally well. However, heightened uncertainty surrounds the domestic and external environment at present. The recent economic slowdown in trading partners poses additional challenges to the outlook, and especially to the export growth and remittances.

The end-September 2011 quantitative performance criteria (PCs) were met with one exception - the ceiling on the general government budget deficit was missed by 0.4 percent of GDP due to weak tax collection and expenditure overruns. The authorities and staff agreed on prior actions for the fourth review, aimed at securing the necessary 2011 budget adjustments to reach program targets, strengthening tax collection, and ensuring passage of the 2012 budget, consistent with program objectives and supported by strong tax and expenditure reforms. One structural benchmark for end-September 2011 has been delayed owing to protracted consensus-seeking internal discussions and reset for end-March 2012. All other structural benchmarks for end-September and end-December 2011, as well as one for end-March 2012, have been implemented, confirming the authorities' commitment to the program policies and objectives, as outlined in this and previous SMEFPs.

The authorities highly appreciate the constructive dialogue with Fund staff, whose advice continues to support the policy formulation process in Moldova. They believe that the policies described in the Supplementary Memorandum of Economic and Financial Policies (SMEFP) of January 12, 2012, are adequate to achieve the program's objectives. Nevertheless, the authorities stand ready to take any further measures that may become necessary to respond timely to unexpected changes in the external or domestic environment and will consult the Fund on the adoption of such measures and in advance of revisions to the policies contained in the SMEFP.

The authorities would like to request a waiver for non-observance of a performance criterion on the deficit for end-September 2011 PC under the EFF in the context of corrective actions that have already been taken. A modification of the same PC for end-March 2012 is also requested, mainly due to updates of the macroeconomic framework.

**Recent developments, outlook and risks**

Despite the recent moderation of growth, the Moldovan economy has been outperforming program projections for a second consecutive year. The main drivers of GDP growth are private demand and exports, but this positive growth also reflects the improved business climate. Gross international reserves of the central bank rose steadily and reached 3.8 months of imports at the end-2011. Public and publicly guaranteed debt declined from 30.2 to 28.3 percent of GDP in the course of 2011. The surging domestic demand widened the current account deficit to about 11.7 percent of GDP, but it is projected to decline gradually in the medium term, following expanded access to international markets and improvements in competitiveness. The net FDI inflows rebounded strongly and increased from 3.3 to 3.7 percent of GDP.

The expected slowdown in Europe is also likely to hamper growth next year, before it rebounds to its medium-term potential rate of 4.5–5 percent. While export growth has remained very strong so far, as a small open and resource-dependent economy, Moldova will continue to be susceptible to external shocks. Successful reorientation of the economy towards the tradable sector also means that the export share of the economy has increased significantly over the recent years, increasing the economy’s vulnerability to external demand shocks. This tilted the risks to the downside in the short run. On the other hand, some of Moldova’s major exports partners (Russia, Germany, and Poland) seem less affected by the crisis.

The authorities are fully aware that further competitiveness gains are essential to cushion adverse external demand developments in the medium term, and they remain committed to making further progress with structural reforms. The key priorities in 2012 are the following: (i) to normalize payments of the current energy bills; (ii) to increase energy efficiency and ensure better cost recovery in the energy sector; (iii) to reduce the state’s presence in the economy by advancing privatization plans; (iv) to complete a recovery of the transition to a system of targeted social assistance; and (v) to press forward with cutting red tape, and reduce barriers to trade.

Active labor market policy will be another pillar in gaining additional competitiveness. Following legal amendments in July 2011, the authorities discouraged excessive dependency on social aid and promoted an active and flexible labor market. Unemployment insurance benefits in the labor market were re-based on actual – as opposed to average economy-wide – wages, and prior employment required for eligibility for unemployment benefits was lengthened from six to nine months. The authorities will consider making participation in public works mandatory for recipients of unemployment benefits. New legislation to delink the wages in the economy from the minimum guaranteed wage was passed in late 2011. The new medium-term National Development Strategy, which aims to reduce poverty and boost the economy’s potential, will be adopted by the Parliament by end-March 2012.

Despite the progress achieved so far, Moldova’s authorities are aware of the fact that economic stability and sustainability remain vulnerable to a number of political risks. They acknowledge that the absence of an elected President raises political uncertainty and this poses downside risks to investment and growth, although the ruling coalition has a majority in the Parliament.

**Fiscal Policy**

In the last quarter of 2011, the immediate priority of the authorities in the fiscal field was to address the slippages, and pave the way to a programmed medium-term fiscal adjustment. In consultation with Fund staff, a number of measures were implemented on both the revenue and expenditure sides to restrain current expenditure and lock in savings from capital under-spending, while clearing the backlog of unpaid agriculture subsidies. Monthly inspections of high-risk taxpayers were intensified and the program for voluntary compliance with respect to VAT and payroll tax payments will be extended to all large taxpayers. The 2011 budget was amended with a view to keeping the deficit within the projected trajectory of 1.9 percent of GDP, which remained consistent with the structural adjustment path of the program. Although slowing economic activity led to missing marginally the end-December indicative target on the deficit by 0.16 percent of GDP, the authorities managed to reverse more than half of the fiscal slippage recorded in September 2011.

The fiscal policy strategy for 2012 remains unchanged and in line with the program. It aims at continuous improvement in the efficiency of current spending while boosting public investments, in line with the long-term priorities. Building on the already described ambitious structural reform agenda and the recent efforts to strengthen the budgetary performance, the authorities aim to complete the fiscal adjustment by lowering the budget deficit to about 0.9 percent in 2012 and to 0.75 percent in the medium term. They plan to eliminate the budget's dependence on exceptional levels of external assistance, while relying on growth-friendly policy measures. To this end, the authorities adopted a comprehensive tax policy reform package, including re-introduction of the corporate income tax with a low rate of 12 percent accompanied by accelerated asset amortization, extension of cash VAT refunds for new purchases of investment goods to the entire country, and adjustment of selected excise duties in line with the EU integration agenda.

The objective of the authorities to increase the effectiveness of the public sector also gave rise to a number of key reforms. The implementation of the ambitious reform to rationalize parts of the education sector while improving quality continues in close cooperation with the World Bank. The legal amendments set to unblock further optimization of the sector and achieve a reduction of the net fiscal cost by 0.5 percent of GDP upon completion will be adopted by the Parliament before end-March 2012. Other structural reforms, rationalizing the use of health care and improving public procurement will proceed as already planned in the SMEFPs.

In consultation with staff and the World Bank, the mechanism for allocating capital expenditure will be revamped during 2012 and applied starting in 2013. The new fiscal responsibility law will introduce a rule-based fiscal framework to underpin fiscal discipline and improve transparency of public finances in line with the best international practices. It will be adopted by the Parliament by end-March 2012 as a new organic budgetary law.

**Monetary and Financial Sector Policy**

Inflation pressures and substantial excess liquidity in the banking system prompted several hikes of the policy interest rate and reserve requirements during 2011. This helped the National Bank of Moldova (NBM) to contain annual inflation within the single digits. The waning impact of earlier surges in international food and energy prices, together with the expected slowdown of domestic and external demand, has considerably improved the inflation outlook in late 2011 and early 2012. The NBM has already cut its policy rate by 150 bps in December-January and just announced a further 200 bps cut as the inflation outlook has improved faster than expected. The NBM remains vigilant because of high volatility in the domestic foreign exchange market and the existing growth of monetary aggregates. In 2012, legal and operational aspects of monetary policy making in Moldova will be strengthened further, in line with the best international practices.

In parallel, the authorities continue improving transparency of the banking system, contingency planning, and financial stability framework, thanks to technical assistance from the World Bank and IMF staff. Legal amendments to ensure full transparency and disclosure of the ultimate controllers in banks in line with the Basel Core Principles and Financial Action Task Force standards will be developed by end-March 2012 and are expected to be passed by the Parliament by end-June 2012. The government approved the long-delayed legal amendments to enhance the speed and predictability of collateral execution by credit institutions and to strengthen their incentives to restructure non-performing loans. Their parliamentary adoption is envisaged before end-March 2012.