ATTACHMENT I: MOLDOVA: LETTER OF INTENT

Chişinău, June 30, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431 USA

Dear Mr. Strauss-Kahn:

Our reform efforts are proceeding well. Immediate fiscal and financial tensions have eased, and Moldova is beginning to recover gradually from the recession. The first quarter of 2010 showed early signs of stronger-than-expected growth of output and exports amid improved financial and external market conditions. The economy remains, however, confronted by a number of challenges: the needed fiscal adjustment combined with only a gradual recovery of remittances and scarce job opportunities restrain domestic demand; rising bank loan defaults inhibit credit to the economy; foreign investment inflows are still low partly owing to political uncertainties; and inflation rose rapidly in the past few months fueled by energy price hikes and the recent nominal depreciation.

Despite these difficulties, the program is on track. All quantitative performance criteria and indicative targets for end-March 2010 were observed. The structural benchmarks under the program were also completed as planned, and mostly on time. In particular, we put in place an action plan for a speedy expansion of a means-tested social assistance scheme which has already led to increased enrollment. Meanwhile, the NBM analyzed and shared with Fund staff the results of the diagnostic studies of all banks completed by an external auditor, which confirmed the banks' stable condition, and prepared legal amendments to the laws on financial institutions and deposit insurance to strengthen the bank resolution framework. These legal amendments have been approved by the Government and, despite some delay, submitted to Parliament for adoption.

In consideration of our strong record of program implementation, we request the completion of the first review of the program under the Extended Credit Facility/Extended Fund Facility and the associated disbursement of SDR 60 million. The second program review, assessing performance based on end-September 2010 performance criteria and structural benchmarks, is envisaged for December 2010.

Moldova remains committed to improving the well-being of the population through reforms that promote sustainable growth and reduce poverty. This commitment was shared and supported by our development partners during the Consultative Group meeting in Brussels in March 2010. In the period ahead, our program will focus on maintaining a measured pace of fiscal adjustment; reining in inflation while helping banks restart the flow of credit to the economy; strengthening financial stability through enhanced supervisory capacity and contingency planning; restructuring the energy sector; and implementing deep structural reforms that would support Moldova's reorientation toward export-led growth.

We believe that the policies set forth in the attached Supplementary Memorandum of Economic and Financial Policies (SMEFP) are adequate to achieve these 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

Attachment: Supplementary Memorandum of Economic and Financial Policies

ATTACHMENT II: SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

June 30, 2010

1. The present document supplements and updates the Memorandum of Economic and Financial Policies (MEFP) signed by the authorities of the Republic of Moldova on January 14, 2010, to account for recent macroeconomic developments and introduce policy adjustments, as well as additional policies necessary to achieve the objectives of the program. We remain committed to meet our obligations assumed previously under the program.

I. REVISED MACROECONOMIC FRAMEWORK

2. **Growth is outperforming expectations in 2010 so far, but the economy's full recovery will be gradual.** Real GDP rebounded strongly in the last quarter of 2009 and we now project a higher GDP growth of 2½ percent this year. But with the still tight credit conditions and the structural reforms requiring time to bear fruit, growth is likely to increase only gradually to 3.6 percent in 2011 and 5 percent in 2012. Exports and investment are expected to drive activity in the near term, with tailwind from trade liberalization reforms, a more favorable external environment, and improved competitiveness. Meanwhile, owing to slow projected growth of disposable income and consumer lending, consumption is likely to lag.

3. **Barring new external shocks, inflation should return to mid-single digits in 2011.** Fueled by the adjustment of energy tariffs, depreciation of the leu, and higher excise rates, twelve-month inflation spiked to over 8 percent as of April 2010. While the effect of these shocks may have already dissipated, further energy tariff hikes in May could keep the pressure up in the short run. Nevertheless, the subdued if recovering domestic demand contains core inflation (5½ percent in April), and we expect headline inflation to decline to 6 percent by mid-2011.

4. **Alongside, strengthening revenue has improved the fiscal position.** Solid revenue rebound in late 2009 and some expenditure savings contained the budget deficit to 6.4 percent of GDP in 2009. Revenue outperformed in the first quarter of 2010 as well and we now project additional fiscal revenue of 0.7 percent of GDP this year relative to the program.

5. **After a sharp drop to single digits in 2009, the external current account deficit will widen somewhat in 2010-11, before resuming its adjustment.** On account of growing import-intensive domestic demand and some worsening of the terms of trade, the current account deficit in 2010-11 is likely to widen by 1-2 percent of GDP to about 10½—11¼ percent of GDP. In the medium term, robust export growth and recovering remittances should steer the current account deficit towards its equilibrium of 7½ of GDP. Meanwhile, the recovery of foreign direct investment (FDI) as well as strong international assistance should provide adequate support for Moldova's external financing needs. At

the same time, as the economy's borrowing space is being filled quickly, further external borrowing will proceed at a measured pace to contain external debt.

6. **Concerns about financial sector stability have receded for now, but unblocking credit is a key priority.** As the deterioration of the economy in 2009 led to a decline in demand for credit, a rise in the share of nonperforming loans (over 17 percent as of April 2010), and a heightened perception of risk, banks have amassed large liquidity and capital buffers. This has increased their short-term resilience to potential risks, as confirmed by the NBM's regular stress tests and the diagnostic study by external auditors. However, this caution has also led to a large and protracted decline in credit since end-2008, thereby slowing down the economy's recovery.

II. Revised Policy Framework for 2010-11

A. Fiscal Policy

7. **Developing a fiscal policy framework that is commensurate with the country's resources and geared toward promoting growth will be critical in the medium term.** Our fiscal strategy is based on the following elements:

- Eliminate the large structural fiscal deficit over several years, at a pace matching the economy's speed of recovery;
- Achieve fiscal adjustment mainly through restraints on the unaffordable public sector wage bill and low priority current spending;
- Strengthen revenue primarily through improved tax administration to broaden the tax base and reduce fraud and abuse; and
- Use the created fiscal space to increase infrastructure investment and provide well-targeted social assistance to the most vulnerable.

8. **Consistent with this strategy, and reflecting the improved revenue outlook, we will adopt a revised 2010 budget with a deficit of 5.4 percent of GDP as a prior action.** Specifically, the government will use the additional projected revenue of MDL 1.5 bn to reduce the budget deficit by MDL 0.9 bn, thus broadly maintaining the planned speed of structural fiscal adjustment, and to fund additional essential spending on priority social spending (MDL 0.5 bn) and public investment (MDL 0.3 bn). Increased utility bills and slower-than-expected progress in procurement and internal financial control reforms necessitate an increase of MDL 0.3 bn in spending on goods and services in public institutions, which we have offset by savings in interest and other current expenditure. All other programmed expenditure restraints will be maintained. The Chisinau municipality will refrain from any previously unbudgeted payments to municipal employees other than limited amounts for heating assistance. The program targets for September and December 2010 will be revised accordingly and we request a corresponding modification of the performance criterion on the general government budget deficit for September 2010.

9. **Fiscal consolidation efforts through restraints on current spending will continue next year.** To advance the ongoing structural fiscal adjustment, we will aim to reduce the budget deficit further to 3.4 percent of GDP in 2011, while creating room to expand the strategically important capital expenditure. This will be achieved mainly through further rationalization of current spending (1.2 percent of GDP), supported by limiting budgetary sector employment to 228,000 positions through attrition while reorganizing offices as needed to continue eliminating permanent vacancies. The budget will also take advantage of gains in revenue (1 percent of GDP) stemming from the strengthening economy, increased grant assistance, and higher tax collection (¶11).

10. **Social concerns arising from high energy prices will be addressed through well-targeted social assistance.** Specifically, by end-September 2010, the government, in consultation with Moldova's development partners, will approve a framework for social assistance to help vulnerable households cope with higher energy tariffs during the five cold months of 2011. We estimate the cost of such a framework at about MDL 120 million and will seek, as in 2010, external grant assistance for this purpose.

11. **In parallel, efforts will carry on to reduce fiscal risks and ensure sustainability of public finances in the medium term.** The following measures will be combined with a number of structural reforms in the pipeline (¶18-20) to ensure a financially sound public sector:

- To address the high level of spending on goods and services, we are implementing a procurement reform with the assistance of the World Bank. By end-2010, we will automate the bids for delivery of goods and services in the government's centralized procurement agency, which will improve price discovery, thus lowering the budget cost.
- To improve control over budget execution, we have drafted a law on internal financial control, which will create internal audit units in central administration agencies. We expect the law to be passed by Parliament by end-September 2010 and the units to be fully operational by end-December 2010.
- Having secured financial and technical support for a comprehensive tax administration reform, an overall reform strategy and a time-bound action plan along the lines suggested by a recent IMF TA report will be developed by the Ministry of Finance by end-July 2010. By end-September 2010, the Ministry of Finance will adopt a tax compliance strategy for 2011, introducing risk-based audit selection, targeting economic agents not fully included in the tax net, and combating tax evasion practices and outright fraud (**structural benchmark**). The strategy will guide detailed operational plans for audit, arrears collection, and taxpayer service activities during 2011, to be developed by end-2010.
- To address misuse of the sick leave benefits mechanism, by July 31, 2010 we will amend the relevant government decision to introduce much-needed oversight, namely that a panel of doctors review the issuance of sick leave certificates. Furthermore, a draft law will be adopted by December 31, 2010 to make the mechanism for sick leave benefits more incentive-compatible for employees and

employers by assigning the responsibility for the first day of sick leave to the employee and the second day to the employer **(structural benchmark)**. This law will also extend the requirement to pay social contributions to all persons employed in Moldova in line with bilateral treaties. Another draft law, to be passed by December 31, 2010, will phase out the early retirement privileges for civil servants, judges and prosecutors by raising their retirement age by six months every year until it reaches the regular retirement age **(structural benchmark)**. All these measures will become effective immediately after the publication of the amendments in the Official Monitor.

B. Monetary and Exchange Rate Policies

12. **The NBM continues to develop its new monetary policy strategy focusing on inflation as a single nominal anchor.** Despite short-term challenges, steady efforts by the NBM to improve its communication and forecasting capacity—including by closer coordination with ministries and public agencies, as well as holding regular press briefings and publication of monetary policy reports—will help increase effectiveness of monetary policy in the medium term. The NBM will consider increasing its operational flexibility, including by extending the policy horizon and widening the target range to accommodate high underlying uncertainty and the still underdeveloped transmission mechanism. Furthermore, the NBM will propose amendments to the central bank law that further strengthen its monetary policy framework, including by shortening the lag between the adoption and effective dates of policy changes. At the same time, the NBM will work to improve financial market infrastructure and its own operations to achieve closer alignment of the bank interest rates with the policy interest rate.

13. **The NBM aims at bringing inflation to mid-single digits, while avoiding premature tightening.** On current trends, the likely overshooting of the end-2010 objective of 5 ±1 percent should be short-lived. The recent NBM interest rate hikes (200 basis points) have contributed to stabilizing inflation expectations—thus alleviating second-round effects from the cost-push shocks—and calming the foreign exchange market. As domestic demand does not generate inflation pressures at present, a pause in monetary tightening appears appropriate to reassess the inflation outlook. Further monetary tightening might be necessary if domestic demand recovers strongly and/or sustained depreciation pressures emerge. NBM communication of the transitory effects of cost-push shocks on inflation and a commitment to abstain from direct central bank financing to the economy are of key importance to uphold its accountability and independence as well. NBM interventions in the foreign exchange market will continue to aim at smoothing erratic movements, but not resist sustained depreciation pressures.

C. Financial Sector Policy

14. **Notwithstanding the abating immediate financial sector tensions, strong contingency planning is needed to guard against future risks.** In addition to the forthcoming strengthening of the bank resolution legislation, further institutional action should ensure appropriate interagency coordination and demarcation of responsibilities, as well as timely responses to extraordinary financial shocks. In this context, by end-

June 2010 we will establish a high-level Financial Stability Committee including senior policymakers from the institutions likely to be involved in responding to financial emergencies. Furthermore, by end-December 2010, these institutions will sign a memorandum of understanding (MoU) with rules of coordination and a clear division of responsibilities between them in times of financial sector distress (**structural benchmark**). These measures will create a framework for preparing detailed operational contingency plans and the necessary legal amendments in the course of 2011.

15. **Meanwhile, we will focus on removing impediments to bank credit through facilitating resolution of problem loans and strengthening contract enforcement.** Resumption of credit will be facilitated by enhancing the speed and predictability of collateral execution by banks and by strengthening regulatory incentives for banks to restructure nonperforming loans. To this end, we will consider making NBM regulations more supportive of debt restructuring, including by allowing faster reclassification of restructured loans into lower-risk categories. Moreover, we will prepare amendments to:

- the legislation regulating execution of real estate collateral, to allow for a speedy disposition of the collateral, preferably without mandatory recourse to courts in case of a dispute between the creditor and the debtor, but with proper safeguards for the debtor, including swift and transparent auction procedures;
- the legislation on corporate insolvency, to facilitate restructuring of viable companies, inter alia by establishing a maximum period after the initiation of the (preliminary) insolvency procedure during which secured creditors do not have the right to dispose of the collateral and upon the expiration of which the secured creditors will be given the authority to dispose of the collateral in accordance with the other applicable legal provisions. This will create incentives for the debtor and its creditors to negotiate a restructuring plan and avoid long liquidations. The amendments will also establish an optional procedure allowing the court to swiftly approve a restructuring plan supported by the required majority of creditors, therefore limiting the ability of minority creditors to forestall restructuring;
- other relevant laws, as necessary, to achieve the above objectives.

By June 15, 2010, we will set up an expert group from key stakeholders to prepare these amendments and consider other measures necessary to support the above mentioned objectives. If necessary, we will seek technical assistance from the IMF staff and other partners. The expert group will prepare a first draft of the amendments and share it with Fund staff by October 15, 2010. The Government will adopt the legislative amendments and submit them to Parliament by end-2010 (**structural benchmark)**.

D. Structural Reforms

Improving the Business Environment

16. **Our efforts are focused on cutting red tape and stimulating private investment and exports.** We have already removed a number of export and import

restrictions and simplified licensing and custom control procedures (MEFP of January 14, 2010, ¶21). In addition, we will implement the following additional measures:

- By end-September 2010 we will simplify the VAT regime by extending the option to receive VAT refunds for purchases of investment goods to the entire country from 2011 on (**structural benchmark**). Other options to simplify the VAT regime, in particular for exporters, will also be examined.
- Cost of doing business will be lowered further by reducing the frequency of inspections of enterprises by various state agencies and simplifying access to digital signatures. These measures will be put in place by end-October 2010. Meanwhile, we continue to review and streamline business regulations and permit requirements, including the mechanism for issuing sanitary and veterinary permits.
- To promote trade, we will extend the "one stop shop" provision of business services to the customs administration while also creating adequate IT capabilities to enable automated data exchange and electronic document processing. The Export Promotion Organization will be strengthened further with a view to turn it into a one stop shop with a wide range of consultancy services for exporters and investors.
- To stimulate private investment and strengthen protection of investors' rights, we will review and amend as needed investment-related legislation, including the laws on joint stock companies, entrepreneurship, and capital markets.
- We will amend the Land Code and other related legislation to simplify the procedure of converting agricultural land for other business needs.

Raising Efficiency of the Public Sector

17. **A modern economy requires efficient and motivated civil service.** In accordance with our plans, we will proceed gradually to introduce a new merit- and performance-based wage system for public sector employees. As a first step, by end-2010 the Government will finalize the descriptions of job functions and responsibilities and assess the needs to restructure institutions and offices. This system—which should not lead to a marked increase in the public sector wage bill—will be put in place by end-September 2011.

18. **An oversized education sector, not fully attuned to the needs of the economy, is a major impediment to growth and fiscal sustainability, and requires urgent action.** Our strategy is to eliminate excess capacity allowing a leaner and better-equipped education system with adequately trained and paid staff.

- In accordance with our plans, a government decision to merge ten vocational schools will be passed by end-June and, combined with seizing enrollment in three pedagogical colleges as of September 2010, will allow directing resources to improve conditions in other schools. Further efficiency gains are expected from the reduction of the number of classes in secondary schools from school year 2010/11, as well as from allowing schools greater freedom to generate revenue from own assets.

- Going forward, we continue preparations for a comprehensive education reform. It will seek school consolidation with a large part of the immediate budget savings used to improve quality of the schools, procure a large fleet of school buses, and repair school bus routes. Awaiting results from the two pilot rayons and the nationwide feasibility study to be launched this summer, we, in cooperation with the World Bank, aim to prepare a timetable for a school optimization program by end-2010.

19. **We are committed to a credible strategy to resolve structural problems in the energy sector, a long-standing drain on public resources.** A long history of politicized heating tariff setting has already bankrupted the heating company Termocom, created large domestic and external gas payment arrears, with snowballing effects from under-investment and inadequate coordination between creditors, utility companies, and the authorities. To remedy the situation, our strategy will include the following elements:

- By end-December 2010, the Ministry of Economy, the Chisinau municipality, and key companies from the thermal energy sector, in consultation with the World Bank and the IMF staff will agree on a restructuring plan for this sector, including Termocom **(structural benchmark)**.
- Until then, Termocom's ability to operate must be preserved through a credible creditor coordination framework. To this end, by June 15, 2010, we will conclude a MoU involving the Ministry of Economy, Termocom, its main creditors, and the Chisinau municipality. Key elements of the MoU will include: (i) a method of distribution of Termocom's cash inflow that will allow the company to remain current on its 2010 liabilities and prepare for the 2010/11 heating season, with allowance for collection lags in its receivables; (ii) creditors' abstention from blocking Termocom's bank accounts to allow the company to conduct normal operations as long as the MoU is being observed; (iii) seeking resolution of Termocom's historic arrears (accumulated prior to end-2009) primarily through asset sales/swaps.
- The National Agency for Energy regulation (ANRE), in accordance with its mandate and methodology, shall continue to set tariffs at levels that do not lead to accumulation of arrears and losses in public utility companies.
- Having secured financial assistance from the Swedish International Development Agency (SIDA), by end-June 2010, ANRE, in consultation with SIDA, the World Bank, and the IMF staff, will select a reputable international auditor to conduct a financial audit of Termocom, to be completed by end-September 2010. The audit results, combined with the results of ANRE's own audit of Termocom, shall inform Termocom's restructuring plan.
- The legacy of wage tariff norms, set in fixed proportion to the minimum wage, still persists in utility companies and leads to unwarranted hikes of their wage costs every time the minimum wage is raised. To alleviate the impact of this

practice on tariffs, ANRE will allow in the tariffs only inflation indexation of the wage bill and the direct impact of minimum wage increases on wages below the new threshold, while leaving utilities the freedom to raise wages further out of profits and efficiency gains.

20. **With the external investment climate gradually improving, the government will revive efforts to divest its noncore assets.** By end-2010 the government, with assistance from international financial institutions, will seek to select an advisor to explore and propose options to develop the telecommunications sector, including through divestiture of Moldtelecom. At the same time, by end-2010 the government will review the list of state assets and prepare a timetable for the divestiture of other public companies to facilitate liberalization of key sectors, particularly air and rail transportation.

E. Program Monitoring

21. **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 second review under the program is expected to be completed by December 31, 2010, and the third review – by June 30, 2011. The list of the quantitative performance criteria and indicative targets remains as set in ¶27 of the MEFP of January 14, 2010. The indicators set as performance criteria will also serve as indicative targets at end-December 2010. The quantitative performance criterion on the ceiling on the general government deficit for September 30, 2010 has been revised in line with the updated fiscal projections (Table 2). The quantitative indicative targets for September 30, 2010 and for December 31, 2010 have been revised as well. New performance criteria and indicative targets for March 31, 2011 have been set (Table 2). The prior actions for completion of the first review and structural benchmarks are set out in Table 3. Prior actions and structural benchmarks for the third review will be further specified at the time of the second review. The understandings regarding the quantitative performance criteria described in this memorandum are specified in the TMU attached to the MEFP dated January 14, 2010.

22. **In accordance with the rules on the use of the Extended Credit Facility, we will submit to the Fund and the World Bank an annual progress report on the implementation of the National Development Strategy (2008-11) by end-October 2010.** The report will reflect progress in poverty reduction for the period with the latest available data and will update the poverty reduction objectives for 2011.

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

Date of Availability	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%
June 30, 2010	Observance of end-March performance criteria and completion of first review	60.00	40.00	20.00	48.70%	32.5%	16.2%
December 31, 2010	Observance of end-September performance criteria and completion of second review	50.00	40.00	10.00	40.58%	32.5%	8.1%
June 30, 2011	Observance of end-March 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 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 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 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: Fund Staff Estimates and Projections

Note: A total of SDR 95 million of access under the ECF will be disbursed to the account of the Ministry of Finance at the National bank of Moldova for budget support. This amount will be 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

Table 2. Moldova: Quantitative Performance Criteria and Indicative Targets, December 2009–March 2011

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

	2009	2010							2011
	Dec. 31	March 31		June 30	September 30		December 31		March 31
		Performance criteria		Indicative	Performance criteria		Indicative		Perfor-mance criteria
		Program	Adjusted Program		Program	Revised Program	Program	Revised Program	
1. Quantitative performance criteria									
Ceiling on the overall cash deficit of the general government 1/		1,161	1,087	2,254	3,308	2,711	4,474	3,596	685
Actual	3,837		869						
Ceiling on net domestic assets of the NBM (stock) 2/ 3/		-5,834	-5,576	-6,411	-6,661		-5,867	-6,224	-5,594
Actual	-6,036		-5,978						
Floor on net international reserves of the NBM (stock, US$ million) 2/ 3/		1,351	1,330	1,407	1,436		1,430	1,464	1,430
Actual	1,341		1,351						
Ceiling on contracting or guaranteeing of non-concessional external debt of the general government (US$ million) 2/		65		125	125		125		50
Actual	…	15							
2. Continuous performance criteria									
Ceiling on accumulation of external payment arrears (US$ million) 2/		0		0	0		0		0
Actual	0	0							
3. Indicative targets									
Ceiling on reserve money (stock) 3/		10,784		10,889	10,999	11,330	11,716	11,780	11,990
Actual	10,456	10,644							
Ceiling on change in domestic expenditure arrears of the general government 4/		0		0	0	-82	0	-107	0
Actual	459	-57							
Ceiling on the general government wage bill		1,888		3,905	5,665	5,717	7,531	7,550	1,830
Actual	7,000	1,735							
Floor on priority social spending of the general government 5/		2,161		4,504	7,005	7,054	9,317	9,634	2,369
Actual	6,370	2,211							
Memorandum items:									
EC Macro Financial Assistance budgetary grants (millions of euros)		0		25	25		50		0
Actual	0	0							
Official external budget support and project grants and loans from the European Commission and the World Bank (US$ million)		33		126	169		243	232	20
Actual	113	12							
Foreign-financed project loans		175		441	924	702	1,117	1,070	299
Actual	456	104							

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

1/ Adjusters apply to the ceiling on the overall cash deficit of the general government.

2/ Program target based on the program exchange rates. The reported actual numbers for net domestic assets are averages for the last five business days of the month.

3/ Adjusters apply to ceiling on net domestic assets, floor on net international reserves and ceiling on reserve money.

4/ Actual amount shown at end-December 2009 refers to stock at that time.

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

Table 3. Moldova: Prior Actions and Structural Benchmarks 1/

Measure	Due	Status	Objective
Prior actions for approval of arrangement			
Parliamentary passage of an amended 2009 budget with a deficit target in line with the MEFP (¶10).	PA	Done	To bring budget allocations in line with available resources.
Parliamentary passage of a 2010 budget with a deficit target in line with the MEFP (¶13).	PA	Done	To facilitate macroeconomic stability and mitigate rising fiscal sustainability risks.
Parliamentary passage of amendments to Budget System Wage Law 355 to bring wages in line with the wage bill allocation in the 2010 budget and with the MEFP (¶13).	PA	Done	To ensure the credibility of the budget and rationalize spending on wages to increase resources available for investment and social protection.
The NBM's net international reserves, as defined in the TMU, will amount to US$1300 million by end-December (¶18).	PA	Done	To provide for an adequate level of reserves and enhance market confidence by offsetting in part the loss of reserves in early 2009.
Parliamentary passage of legislation transfering to ANRE the authority to set tariffs for heat directly, rather than indirectly through the municipalities as at present (¶24).	PA	Done	To depoliticize tariff setting and foster cost recovery in the district heating sector.
The new heating tariff, to be set by ANRE by January 14, 2010, will cover at least amortization and all variable costs and will be legally binding (¶24).	PA	Done	To alleviate fiscal risks stemming from inadequate tariffs.
Structural benchmarks			
The Cabinet will adopt a plan for the speedy expansion of the new targeted social assistance system with a view to cover at least 2/3 of all eligible recipients by end-2010 (¶25).	31-Mar-10	Done	To rectify a fragmented system and improve efficiency of welfare benefits during the recession.
Cabinet approval and submission to parliament of amendments to the Law on Financial Institutions to strengthen the tools available to resolve problem banks (¶19).	15-Feb-10	Done with a delay	To facilitate speedy resolution of problem banks.
The NBM will collect and share with Fund staff the results of the ongoing diagnostic studies in all banks that use conservative methods of asset valuation previously agreed with Fund staff (¶20).	15-Feb-10	Done	To identify banking system vulnerabilities.
Cabinet approval and submission to parliament of amendments to the Law about guaranteeing the deposits of physical persons in the banking system that provides depositors with early access to their deposit funds in the event of a bank failure (¶19).	15-Apr-10	Done	To allow insured depositors early access to deposit funds and thus strengthen confidence in the banking system.

1/ Paragraph numbers refer to the corresponding paragraphs in the MEFP of January 14, 2010.

Table 3. Moldova: Prior Actions and Structural Benchmarks (Concluded) 1/

Measure	Due	Status	Objective
Prior actions for First Review			
Parliamentary passage of an amended 2010 budget with a deficit target in line with the updated MEFP (¶8).	PA	Done	To maintain the programmed speed of structural fiscal adjustment in light of the faster than expected economic recovery.
Structural Benchmarks			
Fiscal consolidation and governance			
The Ministry of Finance will adopt a tax compliance strategy for 2011, introducing risk-based audit selection, targeting economic agents not fully included in the tax net, and combatting tax evasion practices and outright fraud (¶11).	30-Sep-10		Raise tax collection, reduce the administrative burden on compliant taxpayers, and improve taxpayer services in 2011.
Parliament will adopt legislation to phase out early retirement privileges of civil servants, judges and prosecutors (¶11).	31-Dec-10		Improve financial sustainability of the social insurance system and allow higher pension replacement rates over time.
Parliament will adopt legislation to redistribute the burden of sick-leave benefits between employees, employers, and the Social Fund (¶11).	31-Dec-10		Eliminate abuse of the system and improve employers' incentives to monitor absenteeism.
Financial stability			
The MoE, MoF, NBM, NCFM, and DGF will sign a Memorandum of Understanding with rules of coordination and a clear division of responsibilities between them in times of financial distress (¶14).	31-Dec-10		Ensure quick response to financial emergencies, prevent bank runs and spillovers, and enhance public confidence in the banking sector.
Cabinet approval and submission to Parliament of legal amendments to facilitate restructuring of bank's bad debts and execution of collateral (¶15)	31-Dec-10		Clean bank balance sheets and reduce structural impediments to bank lending
Supporting growth and mitigating fiscal risks			
Cabinet approval of a draft legislative amendment to extend the option to receive VAT refunds on purchases of investment goods to the entire country from 2011 on (¶16).	30-Sep-10		Improve the business climate and promote investment
The Ministry of Economy, the Chisinau municipality, and key companies from the thermal energy sector, in consultation with the World Bank and the IMF staff will agree on a restructuring plan for this sector, including Termocom (¶19).	31-Dec-10		Ensure a sustainable financial position of the heating sector.

1/ Paragraph numbers refer to the corresponding paragraphs of the SMEFP.