

THE LAW OF THE REPUBLIC OF MOLDOVA

The 2005 State Budget Law

No. 373-XV, dated 11.11.2004

The Official Monitor of the Republic of Moldova

No. 224-225/978, dated 05.12.2004

The Parliament adopts this organic law.

Chapter I

GENERAL PROVISIONS

Art.1. – (1) The state budget is approved on the revenue side in the amount of Mdl 7473.2 million and expenditure side in the amount of Mdl 7724.2 million, with a deficit of Mdl 251.0 million, determined by the receipt of foreign lending to finance investment projects.

(2) The synthesis of the state budget as to revenues, expenditures and sources of financing is shown in Annex 1.

(3) Court budgets are approved according to Annex 2.

(4) The list of program and performance based budgets of the central government is shown in Annex 3.

(5) Distribution by objects of the state budget allocations for financing of capital investments is shown in Annex 4.

(6) The following special funds are approved under the state budget:

a) the fund for textbooks, as shown in Annex 5;

b) the fund for financial support of some measures in the educational sector, as shown in Annex 6;

c) the national fund for supporting science, as shown in Annex 7;

d) the fund for supporting some measures in the health sector, as shown in Annex 8;

e) the republican fund for social assistance of the population, as shown in Annex 9;

f) the fund for encouraging the cultivation of walnuts, as shown in Annex 10;

g) the national environment fund and the synthesis of the local environment funds, as shown in Annexes 11 and 12;

- h) the fund for financing the development of a legal data base in constructions, as shown in Annex 13;
- i) the national energy conservation fund, as shown in Annex 14;
- j) the fund for the implementation of the comprehensive Program on exploitation of new lands and enhancement of soil fertility, as shown in Annex 15;
- k) the export support fund, as shown in Annex 16;
- l) the fund for promoting and developing tourism, as shown in Annex 17.
- m) penitentiary facilities fund, as shown in Annex 18.

Chapter II

REVENUE AND EXPENDITURE RELATED SPECIFIC REGULATIONS

Art.2. – (1) The water fee is established as shown in Annex 19.

- (2) The payers of the water fee are individuals and legal entities engaged in entrepreneurial activity.
- (3) The water fee calculation deadline is the date established for the payment of this fee.
- (4) The water fee is paid on a quarterly basis by the last day of the month immediately following the reporting quarter.

Art.3. – (1) The mineral resources usage fee is established as shown in Annex 20.

- (2) The payers of the mineral resources usage fee are legal entities and individuals engaged in the following activities:
 - a) geological explorations;
 - b) geological surveys;
 - c) extraction (mining) of mineral resources in natural environment;
 - d) use of underground space for underground constructions, other than those meant for the extraction of useful minerals;
 - e) use of underground space for other purposes than those related to the extraction of useful minerals.

(3) The payers shall present their reports and pay the mineral resources usage fee on a quarterly basis, by the last day immediately following the reporting quarter.

Art.4. – (1) The standing timber fee (forestry revenue) is established as shown in Annex 21.

(2) The payers of the standing timber fee from the state timber stock are legal entities (forestry companies), regardless of their ownership and legal form, and individuals.

(3) The legal entities shall present their reports and pay the standing timber fee on a quarterly basis, by the last day of the month immediately following the reporting quarter. The individuals shall pay this fee before receiving the permit (authorization for exploitation and forestry slip) from the forestry authorities.

Art.5. – (1) The levied private tax shall represent 1% of the value of public assets, purchased during privatization process, including of the value of purchased shares.

(2) The private tax shall be paid before signing the purchase-and-sale contract.

Art.6. – (1) The following items are exempt:

1) from water fee:

a) underground waters extracted together with the minerals or for preventing (eliminating) adverse effects of these waters;

b) water used for fire-extinguishing purposes;

c) water consumed by the enterprises of the blind, deaf and disabled people associations, and the medical and sanitary public institutions.

2) from payment to the budget of the natural resources usage fee: enterprises of penitentiary institutions

(3) Funds in the form of assessed taxes that under sub-paragraph (2) of paragraph (1) are left to the disposal of the taxpayer, are considered as non-taxable income.

Art.7. – Upon importers' request, the Customs Department shall extend, under Art. 126 and 127 of the Republic of Moldova Customs Code No. 1149-XIV of July 20, 2000, for no more than 90 days the deadline for the payment of value added tax on raw material, except for the goods (production) listed in Annex 22, and on goods and additional items imported by the legal entities (producers), and businesses specialized in providing agricultural services and holding authorizations from the Ministry of Agriculture and Food Industry on reporting about the services provided during agricultural products production.

Art.8. – (1) The minimum rent/lease of the public owned assets is established as shown in Annex 23.

(2) Public institutions financed from the state budget shall be entitled to use the funds received from renting/leasing activity to cover their own expenditures, in the manner as established for the use of special funds. The surplus of revenues over expenditures, according to these institutions' special fund estimates, shall be transferred to the state budget.

(3) Budget financed institutions shall be exempt from the payment of rent for the use of premises rented from the public institutions financed by all level budgets, except for the public utility fees.

Art.9. – (1) The road fund is approved in the amount of Mdl 150.0 million.

(2) Out of the excise-duties on petrol and diesel fuel collected within the approved state budget revenues, 15% but no more than Mdl 69.6 million shall be transferred to the road fund. Excises on petrol and diesel fuel collected above the amount approved by the state budget shall be all transferred to the road fund.

Art. 10. – Approved as part of the state budget is the fund for granting support to agricultural sector. The value approved for the fund is Mdl. 60.0 million. The fund will be used pursuant to provisions set out by the regulation approved by the Parliament.

Art. 11. – (1) Expenditures incurred with the water gathering lakes of common use, rising inundation prevention facilities, using water meadows areas and inter-farming hydrotechnical (irrigation) plants are financed at the expense of the state budget within the limits of Mdl 8545.0 thousand.

(2) Mdl 2.0 million are allocated from the state budget to finance safety of barrage on hydro power station Costesti-Stanca.

(3) Costs related to payment for electricity and other energy resources used to pump water for irrigation purposes shall be financed from the state budget, and shall not exceed Mdl 7.0 million.

(4) Mdl 7620.0 thousand will be allocated at the expense of a grant extended by the European Community (Food Security Program) for purchasing small-scale irrigation equipment.

Art. 12. – (1) Compensated at the expense of the state budget to the commercial banks, which before July 29, 1994 have extended long-term preferential loans to housing construction cooperatives founded before January 1, 1993 that have started rising houses before that date, and to the commercial banks, which have extended such loans after July 29, 1994 to housing cooperatives specified under the Parliament Resolution No. 834-XIII dated May 16, 1996, No. 1011-XIII dated October 23, 1996, No. 1588-XIII dated February 27, 1998, No. 1611-XIII dated March 17, 1998, No. 1147-XIV dated July 20, 2000 and No. 905-XV dated March 7, 2002, pursuant to provisions stipulated in herewith mentioned Resolutions, will be the value of lost profit resulting from the extension of these loans.

(2) Same way as described in paragraph (1) compensated to the commercial banks will be lost income resulting from extending preferential an non-interest bearing loans to the persons, who pursuant to the law were benefiting on such right, depending on the source of compensating for such losses stipulated in the regulatory acts.

(3) Provisions set out under paragraphs (1) and (2) do not apply to the loans that were used for the purpose other than specified.

(4) Compensating 50% of the value of bank loans extended to Housing Cooperative No. 244 (municipality Chisinau) and to Housing Cooperative “Apartament” (municipality Balti), constituted with the sole scope of rising housing for the participants in the battle for the independence and territorial integrity of the Republic of Moldova, should be done at the

expense of the municipal budgets of Chisinau and Balti, depending on the duly approved cost of construction works as of the date of signing commission/acceptance documents for herewith specified objects.

Art.13. – Budget expenditures for compulsory medical insurance of categories of people that under the legislation shall be insured from the state budget, shall be established in the amount of Mdl 664.8 per person.

Art.14. – Mdl 560.0 thousand are established and approved under the state budget to be paid by the Society of Blind, and Mdl 446.0 to be paid by the Society of Deaf and Mdl 252.0 thousand to be paid by the Society of Disabled People.

Art.15. – Insurance payments to persons subject under the legislation to compulsory state insurance shall be paid on the basis of documents prepared by the specialized services of the authorities where these persons are employed, with the approval from the State Insurance and Non-State Pension Fund Supervision Inspectorate within the Ministry of Finance, and at the expense of the means provided by the institution where the person is employed.

Art.16. – The charges for distribution of pensions, allowances, compensations and other aid, under the state budget, among the retired military and commander personnel, troops of the internal affairs bodies and other categories of persons, and services rendered by the Savings Bank, shall be established when making the agreement between the Bank and the appropriate public authority, in the proportion of up to 0.8% of the distributed amount.

Art.17. – (1) The fees for the services of the financial institutions (commercial banks) related to the collection from the public of the contributions to the state budget (except for the payments for import and export rights) and to the budgets of the territorial administrative units shall be established in the proportion of up to 0.8% of the collected amount.

(2) The expenditures related to the services indicated in paragraph (1) shall be supported from the respective budgets.

(3) The commission fee for receiving import/export rights from individuals shall be paid by the customs authorities at own expense on the basis of a contract made with the financial institutions.

Art.18. – (1) Public institutions financed from the state budget shall repay the accounts payable incurred before January 1, 2005, from and within the approved allocations for them in 2005.

(2) In 2005, the budget executing entities shall contract goods, works and services, and incur expenditures only within the allocations assigned to the respective institutions, less the accounts payable that the institution has by January 1, 2005.

Art.19. – The taxpayers which, under Art. 228, paragraph (5) of Title V of the Tax Code No. 407-XV of July 26, 2001, are not subject to penalty taxes, shall not levy penalties on budget financed public institutions for their failure to timely pay for the goods and services, which fall under the approved allocations.

Chapter III

PUBLIC DEBT
AND GOVERNMENT LOANS

Art.20. – The domestic public debt shall not exceed Mdl 3687.4 million, as of December 31, 2005, while the external debt administered by the government shall not exceed US \$687.2 million.

Art.21. – The privatization proceeds obtained based on the individual projects in the energy sector shall be used to repay the loans contracted from the National Bank of Moldova in 2004.

Art.22. – (1) When approved and applied, the tariff on the natural gas shall include US \$4 per 1,000 m³, meant for recovering the funds used to repay the bills issued by Moldovan government for “Gazprom” joint stock company from the Russian Federation.

(2) The funds indicated in paragraph (1) that are received on a cash accounting basis shall be transferred to the state budget on a monthly basis no later than the 20th day of the month immediately following the reporting month.

(3) The income received by the enterprises of the “Moldova-Gaz” joint stock company as a result of the inclusion of these means into the natural gas tariff, shall be exempt from the income tax.

(4) The Main State Tax Inspectorate within the Ministry of Finance shall follow the implementation of this article.

Art.23. – The National Bank of Moldova shall:

a) issue loans to the government that fall due in 2005, to close the temporary cash deficit in the state budget caused by non-uniform revenue collections to the budget, taking into account to the quarterly constraints established in its monetary program;

b) extend the maturity of Mdl 400.0 million worth (purchase price) government securities paid against loans contracted by the government in the prior years until 2006;

c) renew the loan contracts in the amount of Mdl 2211.0 million extended against government securities due in 2006.

Chapter IV

RELATIONS BETWEEN THE STATE BUDGET AND THE BUDGETS
OF THE TERRITORIAL ADMINISTRATIVE UNITS

Art.24. – (1) The allocations from the general government revenues to the raion budgets, Chisinau and Balti municipality budgets and central budget of the territorial administrative

unit with a special legal status Gagauzia (except for the value added tax and the excise duties) shall be approved as shown in Annex 24.

(2) The value added tax on commodities and services supplied by the businesses registered in the territorial administrative unit with a special legal status Gagauzia, as well as the excise duties on excisable goods (production) manufactured within this territorial unit shall be channeled in full to the central budget.

(3) Allocations from general government revenues assigned to the budgets indicated in paragraph (1) cannot be diverted from the state budget, unless to settle the liabilities of these budgets before the state budget.

Art.25. – According to Art. 10, paragraph (3) of the Local Public Finance Law No. 397-XV of October 16, 2003, Mdl 110.0 million from the Chisinau municipality budget and Mdl 23.0 million from the Balti municipality budget shall be transferred to the regional support fund under the state budget.

Art.26. – (1) The regional financial support budget shall be approved under the state budget in the amount of Mdl 778.4 million.

(2) The amounts to be transferred from the regional financial support fund to the raion budgets and the central budget of the territorial administrative unit with a special legal status Gagauzia shall be established in Annex 25.

Art.27. – (1) A fund of Mdl 3300.0 thousand shall be approved under the state budget for offsetting according to the law of the difference in electricity and natural gas tariffs used by inhabitants of some locations from Dubasari and Căușeni raions.

(2) Offsetting of the expenditures from the fund indicated in paragraph (1) shall be done on a quarterly basis, based on the reports presented by the appropriate public authorities.

Art. 28. – Notwithstanding Art. 6, par. (9) of Chapter I of the Tax Code No. 1163-XIII dated April 24, 1997 and Art. 4 and 5 of the Law No. 397-XV dated October 16, 2003 on local public finances it has been established that size of VAT on goods produced and services rendered in the territory of Moldova, collected in 2005 in excess of the indicative amounts specified in Annex 26, should be distributed between the state and local budgets in pro rate of 70% and 30% respectively.

Art.29. – (1) A fund of Mdl 15.0 million shall be approved under the state budget to compensate the revenues lost by the budgets of the territorial administrative units through the execution of Art. 18 of Law No. 392-XIV of May 13, 1999, on restructuring of privatized farms.

(2) The compensation from the fund indicated in paragraph (1) shall be done by the Ministry of Finance based on the Main State Tax Inspectorate data about the settlement in the reporting quarter of the current liabilities to the budget through the Ministry of Finance T-bills.

Chapter V

FINAL AND TRANSITIONAL PROVISIONS

Art.30. – Notwithstanding Art. 20, paragraph (2) of the National Bank Law No. 548-XIII of July 21, 1995, by the 15th day of the month immediately following the reporting quarter, the National Bank of Moldova shall transfer, for Q1, 2 and 3 of 2005, 90% of the net income received on the cash accounting basis, after deduction of the running costs, provisions for doubtful and bad assets, redemption of government securities held by the National Bank, payments to reserve fund, including the deduction of unrealized losses from exchange rate trends and reevaluation of securities. The net income for the Q4 of 2005 shall be transferred within the same timeframe and in the proportion of 50% on the basis of current data. The balance of the net income remaining from 2005 shall be transferred only after external auditor report is received to the annual financial report of the National Bank.

Art.31. – Upon justified requests from the major budget executing entities and with the Ministry of Finance consent, the expenditures that are above the budget limits can be incurred from additional budget revenues, special means and funds, received investment project loans and external grants, including the balances on the special funds' accounts and investment projects' accounts in the beginning of 2005.

Art.32. – (1) The government is entitled to redistribute the allocations for financing capital investments, among the recipients and objects listed under Annex 4, depending on how the recipients use these allocations.

(2) The state budget funds allocated to the local governments (except for receipts of external loans and government contribution to investment projects) pursuant to Annex 4 shall be transferred to the budgets of the respective territorial administrative units as special purpose transfers.

(3) Acting as the recipients of the constructed objects that are stipulated by the investment programs and approved by the Parliament and the Government, including the objects listed under Annex 4, the central and local governments shall be responsible for the accurate assessments of conducted work and incurred expenditures during their construction, reflecting the expenditures in the accounting records.

Art.32. – the Ministry of Finance shall be authorized to:

- a) to remit up to 20% of the state budget revenues to a special account, to be used under a government approved regulation for the public institutions preparation and sustained operation in autumn/winter season, within the budget approved allocations for these purposes.
- b) make, upon the requests of the recipients in constructions and capital repairs, advance payments of up to 30% of the established limit for the object, to organize the technological processes, purchase inputs and equipment, depending on the terms of the contracts made between the recipients and the contractors, with a subsequent conforming of the paid amounts to the actual work done during the reference year;

c) settle from the general funds of the state budget the liabilities that have arisen before December 31, 2004, to the budgets of the territorial administrative units and state social insurance budget, reflecting these operations in the cash budget execution records;

d) make, within the budget year, expenditures related to the redemption of government securities by using the funds obtained from domestic debt financing and temporary reallocation of budget funds;

e) temporarily use the available balances of the special funds and means of the public institutions financed from the state budget to cover general state budget expenditures, with their repayment during the budget year;

f) reallocate the funds approved under the state budget based on the justified requests from the major budget executing entities:

- between the groups of the same branch (function) except for the “Administrative Bodies” group;
- between the central governments if some units, internal sub-units or subordinated institutions are transferred, in the established manner (including as a result of separation), into the subordination of another central government;
- between the programs approved for a major budget executing entity within a functional group, except for the administrative bodies’ programs;

g) re-credit, tier II local governments and municipality Balti from external loans without requesting any payment guarantees;

h) modify the relations between the state budget and the budgets of the territorial administrative units by the sums resulting from the adoption or modification of normative acts related to the territorial administrative organization or transfer, in the established manner, of some institutions subordinated to local governments in to the subordination of central governments and vice versa;

i) suspend, during the budget year, the payments to the state budget and the budgets of the territorial administrative units in relation to the amounts charged against taxpayers’ accounts, but not yet collected to this budget due to the insolvency declared by the financial institutions;

Art.34. – The expenditures related to the payment of payrolls, scholarships, pensions, monthly allowances, compensations and fringe benefits, compulsory health insurance and public debt commitments shall be financed, as a priority, subject to the revenues collected to the state budget.

Art.35. – The government will distribute to the recipients the allocations provided under the state budget for: science and innovations, membership fees in international organizations where the Republic of Moldova is a member; demarcation of state border; implementation of the Law on Establishing Basic Wages and Benefits in the Budget Sector for persons holding public positions.

Art.36. – Annexes 1-26 shall be an integral part of this law.

Art.37. – This law shall take effect on January 1, 2005.

CHAIRPERSON OF PARLIAMENT
Eugenia Ostapciuc

Chsinau, November 11, 2004
No. 373-XV