

LAW ON THE BUDGETARY SYSTEM AND THE BUDGETARY PROCESS

Parliament adopts the present Law.

TITLE I GENERAL DISPOSITIONS

Article 1. Basic notions.

The following notions are used through out the present Law:

Annual Budget Law - the annual law through which Parliament approves the State budget, which includes revenue sources and destination of expenditures for one budget year.

Annex - a component part of the Annual Budget Law, which includes revenues, expenditures of the state budget, as well as other specifications.

Explanatory Note - additional materials about the strategies and policies of the Government.

Budget Year - the twelve consecutive months for which is developed, implemented, and reported upon, and for which the national public budget is approved.

Appropriation - an authorization by Parliament for the Government or any State Organ to make, or commit to make, expenditures, or to permit the Treasury to effect payments for special provisions, in the limits of the annual budget law .

Permanent Appropriation - an appropriation for a specific purpose which is included in a law of the Republic of Moldova and that is effected in terms and conditions of the assumed obligations.

Treasury - unit in the Ministry of Finance that effects operations from the Treasury account for stipulations specified in the Annual Budget Law concerning revenues and expenditures, exercises cash execution of the budget.

Treasury Account - the account into which all revenues are collected and from which all budgetary expenditures are made.

Article 2. Budgetary system.

(1) The budgetary system is an integral part of the system of public finance of the Government,

and consists of the national public budget, which includes:

- a) the State budget, that includes the totality of state revenues and expenditures, necessary for the implementation of the Government's strategies and objectives.
- b) local budgets, that represent the budgets of territorial-administrative units; regions, cities (municipals), communes (villages), other administrative units, instituted in accordance with the legislation;
- c) the budget of the State Fund for Social Protection; and
- d) extra-budgetary funds.

(2) As independent elements the state budget and the local budgets form the consolidated budget.

Article 3. Budgetary process

The budgetary process is the process that begins with the elaboration of the budget and ends with the approval of the report on its execution for the respective budgetary year.

Article 4. Budget Year.

The Budget Year on the territory of Republic Moldova begins on January 1 and ends on December 31 of each year.

Article 5. Getting into effect and publication of the Annual Budget Law.

Annual budget law gets into effect on January 1 of each year or on the date provided in its text and is published in the Official Monitor of Republic Moldova.

Article 6. Budget and fiscal policies.

(1) When undertaking their responsibilities under this Law, the Ministry of Finance, the Government and the Parliament will act to ensure:

- a) Elaboration of a budget in conditions:
 - i) Long-term stability of the national currency;
 - ii) Stability in prices and wages;
 - iii) Stable development of the economy.

b) A balance over time of revenues collections and expenditures effecting;

(2) The Ministry of Finance will coordinate its responsibilities under paragraph (1) of this Article with the National Bank of Moldova.

Article 7. Budget classification.

- (1) Budgets are elaborated and implemented on the basis of a unique budget classification system.
- (2) The budget classification includes classification of budget revenues, organizational classification, functional classification and economic classification of budget expenditures as follows:
 - a) classification of budget revenues groups budget revenues on bases of legislation that determines the sources of revenues;
 - b) functional classification of budget expenditures groups the expenditures that reflect the use of financial resources for the implementation of the basic functions of the state;
 - c) organizational classification of budget expenses systemises the expenses on types of enterprises, institutions, organizations and measures that reflect the distribution of appropriations between the direct beneficiaries of budget resources;
 - d) economic classification of budget expenses groups and gives details to expenses in accordance with their exact destination;
- (3) Internal and external sources of financing of the budget deficit, as well as the internal and external state debt are components of the classifications mentioned to the paragraph (2).
- (4) Budget classification ensures:
 - a) systematisation of budget indexes for the elaboration, approval and implementation of budgets; and
 - b) will ensure the international comparability of budgetary data., containing similarities with the classification systems used by international financial organisms.
- (5) Budget classification is developed by the Ministry of Finance and is approved by the decision of the Parliament.

Article 8. Budget revenues.

- (1) Budget revenues consist of all taxes, fees and any other receipts that are specified by the legislation.
- (2) Budget revenues do not include borrowing by the State.
- (3) The list of budget revenues is approved as annex to the annual budget law.

Article 9. Appropriations.

- (1) The Annual Budget Law includes specific appropriations allowing the State Bodies to make expenditures.
- (2) Bodies of public administration may not make additional expenditures without a specific

appropriation defining the purpose in the Annual Budget Law.

- (3) Expenditure for the service of the state debt, including for obligations proceeded from granting of guarantees by the Government, have a permanent appropriation and are effected in the terms settled.

Article 10. Budget expenditures.

- (1) Budget expenditures are determined by the appropriations contained in the Annual Budget Law.
- (2) Expenditures include:
- a) the salary fund of employees of bodies of public administration;
 - b) other expenses related to the operation of bodies of public administration;
 - c) expenditures for education, health protection, social protection, culture and arts, sports, environmental protection, science;
 - d) support of some fundamental scientific research programs;
 - e) investments in State programs for the development for the branches of the national economy which are adopted by the Government;
 - f) transfers to local public administrations, institutions financed from the budget, state enterprises;
 - g) investment in public infrastructure and in capital investments for the use of the Government or the public;
 - h) ensuring the national defense and protecting the public order;
 - i) service of state debt
 - j) payment of fees in different international organizations;
 - k) implementation of other Government policies and programs, as authorized by law.
- (3) Budget expenditures do not include repayments of principal on State debt.

Article 11. Budget balance.

- (1) The State budget balance is the difference between total State revenues and total State expenditures.
- (2) If State budget revenues exceed State budget expenditures, there is a State budget surplus.
- (3) If State budget expenditures exceed State budget revenues, there is a State budget deficit.
- (4) The draft of the Annual Budget Law will include the limit of the State budget surplus or deficit.
- (5) Following the adoption of a Annual Budget Law :

- a) no proposed law, other than the Budget law proposal, which decreases State budget revenues or increases State budget expenditures may be considered by Parliament, unless the bill also includes the source of covering the losses for maintaining the level of the settled budget deficit; and
- b) no law, other than the amendments to the Annual Budget Law, may be adopted which reduces the approved State budget surplus or increases the estimated State budget deficit.

Article 12. Special resources of the institutions financed from the budget.

- (1) Special resources of the institutions financed from the budget are considered the revenues of the budgetary institutions, obtained from some types of paid services, effecting of works or other activities not-provided as obligatory.
- (2) The institutions financed from the state budget or/and the local budgets can create and use the special resources in conditions of the present legislation with the permission of the Government or the state body authorized by the Government.

Article 13. Control and auditing of budget revenues and expenditures.

- (1) Financial review and auditing of the state budget revenues and expenditures will be implemented by the Chamber of Accounts of the Parliament.
- (2) Financial and administrative control over the budget revenues and expenditures is implemented respectively by the State Tax Inspectorate and the Financial Control bodies of the Ministry of Finance.

**TITLE II
STATE BUDGET**

**CHAPTER I
STATE BUDGET DEVELOPMENT**

Article 14. Purpose of the State budget.

The purposes of the State budget are:

- (1) To implement the economic, social and other policies and objectives of the Government;
- (2) To appropriate the funds necessary to finance the operations of the Government;
- (3) To maintain the balance between revenues and expenditures of the Government necessary to maintain a stable macro-economy in the state;
- (4) To provide for the effective, efficient and responsible management of the public finance of the

Government;

- (5) To explain in a clear and transparent manner the policies and objectives of the Government that shall be implemented by the budget.

Article 15. State budget development procedure.

- (1) The development and approval by the Parliament of the State budget law are exclusive subjects to this Law.
- (2) At a date to be determined by the Government, the Ministry of Finance will present to the Government an Annual Budget Proposal, a Annual Budget Proposal Annex and Explanatory Notes for the next budget year.
- (3) By September 15 of each year, the Government presents to the Parliament:
 - a) The annual budget law proposal for the next budget year and the explanatory note;
 - b) A list of legislative modifications proposed to the Parliament that affect the Annual Budget Proposal.
- (4) Additionally to the materials provided in paragraph (3) of the present article are presented the estimates of revenues and expenditures of the consolidated budget.

Article 16. Development of the State budget.

The Minister will develop the Annual Budget Proposal based upon the provisions of the Article 15(2) of the present law and:

- a) objectives provided in Article 14;
- b) sources of revenues and destination of expenditures;
- c) the detailed expenditure proposals of the State bodies;
- d) the revenue and grant proposals of the local public administrative bodies, as described in Title III of this law;
- e) suggestions regarding financing of the budget deficit, in case that state budget expenditures exceed the revenues;
- f) suggestions about the use of the budget surplus, if the revenues exceed expenditures.

Article 17. Development of preliminary revenue and expenditure targets by the Ministry of Finance.

- (1) Basic economic data, necessary for development of the state budget draft are presented to the Ministry of Finance in the term settled by the Government and should include in particular:
 - a) estimation of macro-economic and social development indicators for the Republic of Moldova for the upcoming budget year, to be determined, prepared and presented by the

Ministry of Economy;

- b) estimation of indicators for and requirements of the budget of State social insurance, to be determined, prepared and presented by the Ministry of Work, Social Protection and Family.
- (2) National Bank of Moldova determines, develops and presents the forecast of the balance of payments, credits, external obligations, and of other indexes that characterize the monetary-credit strategy of the Republic of Moldova.
- (3) Based on the data in paragraph (1) and (2) of this Article, and on other relevant information, the Ministry of Finance will determine preliminary total revenue and expenditure targets for the State budget.
- (4) Preliminary estimates are given to public authorities by the Ministry of Finance on the date settled by the Minister of Finance..

Article 18. Issuance of explanatory notes about the development of state budget draft.

Ministry of Finance issues for the public authorities detailed explanatory notes about the development of the state budget draft.

Article 19. Presentation of budget proposals to the Ministry of Finance.

- (1) On a date to be determined by the minister of finance, State bodies will present their budget proposals to the Ministry of Finance.
- (2) The Ministry of Finance determines the structure and contents of the budget proposals of the State bodies that will include:
 - a) recorded revenues and expenditures for the prior budget year;
 - b) estimated revenues and expenditures for the current budget year;
 - c) estimated revenues and expenditures for the next budget year;
 - d) projected revenues and expenditures for a least one year beyond the next budget year; and
 - e) justifications of the expenditure requests with regard to the preliminary revenue and expenditure targets distributed by the Ministry of Finance under Article 17(4) as well as to expected results of the programs that are included in these requests.
- (3) The Ministry of Finance has the authority to request from State Bodies any additional information pertaining point 2 of this article, that is obliged to be submitted by State Bodies.

Article 20. Examination of the budget proposals by the Ministry of Finance.

- (1) The Ministry of Finance examines the budget proposals of all State Bodies based upon, that include:
 - a) the preliminary revenue and expenditure targets required by Article 16(b) ;and
 - b) the information and justifications required in Articles 17 and 19(2e).

- (2) On a date to be determined by the Minister of Finance, the Ministry will present to State Bodies its decisions regarding the revenue part and the expenditure part for the next budget year.
- (3) Based on the received information, all State Bodies modify their individual budget proposals and re-submit them to the Ministry by a date to be determined by the Minister of Finance.
- (4) State Bodies may appeal the decisions in paragraph (2) to the Minister of Finance. Remaining disagreements will be discussed, in the final instance, at the Government.

Article 21. Expenditures for capital investments.

- (1) Expenditures for capital investments will be included separately in the Annual Budget Proposal.
- (2) Expenditures for capital investments in Government and public institutions, in Government and public infrastructure, and in acquisition of Government or publicly-owned capital assets will be included by each State Organ to the Ministry of Finance and will include:
 - a) a technical evaluation of each investment or acquisition;
 - b) a financial evaluation of the total cost of each investment or acquisition;
 - c) an estimate of the annual expenditure requirements for each investment or acquisition; and
 - d) an estimate of the annual revenues or fees, if any, that are expected to accrue to the Government as a result of the investment or acquisition.
- (3) Based upon the information required by paragraph (2) of this Article, the Ministry of Finance reviews each proposed investment or acquisition to ensure that:
 - a) it is consistent with the policies and objectives of the Government;
 - b) it is a priority investment or acquisition within the overall expenditures limitations of the State budget; and
 - c) sources of financing will exist in subsequent years to complete the investment or specified acquisition.

Article 22. Reserve fund.

- (1) The reserve fund is approved by the Annual Budget Law.
- (2) The size of the reserve fund that is determined by the Government based on the suggestions of the Ministry of Finance, subject to the provisions of Articles 16 - 20.

Article 23. Presentation of the Annual Budget Proposal to the Government.

- (1) The Ministry of Finance will develop an Annual Budget Proposal and accompanying Budget Proposal Annex and Explanatory Notes based on the process delineated in Articles 16 through

20 of this Law.

- (2) The Budget Proposal Annex will include for each State Body:
 - a) recorded revenues and expenditures for the next budget year;
 - b) estimated revenues and expenditures for at least one year beyond the next budget year;
 - c) additional data, required by the annual budget law.
- (3) The Budget Proposal Explanatory Notes will include the forecasts required by Article 17(1), as well as data on and explanations of the following policies of the Government:
 - a) the social and economic development policies;
 - b) the budgetary and fiscal policies;
 - c) strategies of state debt;
 - d) strategies of financial support;
 - e) the strategy of reciprocal relations between the State Budget and local budgets.

Article 24. Adoption of the Annual Budget Proposal by the Government.

- (1) The Government will review the Annual Budget Proposal and Explanatory Notes in the following way. The Ministry of Finance presents at the request of the Government additional information or explanations regarding the Annual Budget Proposal and Explanatory Notes.
- (2) The Government determines procedures for appeals by State Bodies of the Annual Budget Proposal and Explanatory Notes.
- (3) The Government will determine any amendments to the Annual Budget Proposal and Explanatory Notes, and will direct the Minister to incorporate any such amendments.
- (4) After the amendments, if any, are incorporated, the Government will adopt the Annual Budget Proposal.

**CHAPTER II
EXAMINATION AND APPROVAL OF THE ANNUAL BUDGET LAW BY THE
PARLIAMENT**

Article 25. Presentation of the State annual budget proposal to the Parliament.

- (1) The Government will present the Annual Budget Proposal to the Parliament, by September 15.
- (2) The Annual Budget Proposal includes the Budget Proposal Annex and Explanatory Notes as specified in Article 23 of this Law.

- (3) In addition to the state annual budget proposal, the Ministry of Finance presents:
 - a) the calculations of revenues,
 - b) description of expenditures that exceed 0,01% of the total amount of budget expenses.
- (4) The state annual budget proposal is examined by the Chamber of Accounts, that presents to the Parliament a note on the date settled by the Parliament.

Article 26. Examination of the proposed State budget in Parliaments Commissions.

- (1) The appropriate Permanent Commissions of the Parliament, as determined by the Parliament, will examine the Annual Budget Proposal for a time period to be determined by the Parliament.
- (2) On a date to be determined by the Parliament, each Permanent Commission will report on its examination of the Annual Budget Proposal to the Commission on Budget and Finance.
- (3) On the basis of the reports of the Permanent Commissions and of its own examination, the Commission on Budget and Finance will prepare a report and a list of recommendations on the Annual Budget Proposal. The Commission will present this report to the Parliament on a date to be determined by the Parliament.

Article 27. Examination of the proposed State budget by the Parliament.

- (1) The Parliament will examine the Annual Budget Proposal as a rule in three readings.
- (2) In each reading, the Parliament examines the components of the Annual Budget Proposal and the explanatory notes as specified in Articles 28-30 of the present law.
- (3) The annual budget law may be adopted in the second reading, with the condition of examining the issues provided in art. 30.

Article 28. First Reading

- (1) During the first reading, the Parliament hears to the report of the Government and co-report of the Commission for Budget and Finance on the proposal of the annual budget law and examines:
 - a) main budgetary and fiscal policies;
 - b) the basic policies and objectives to be implemented by the Annual Budget Proposal; and
- (2) The Parliament approves in first reading the proposal of the annual budget law and returns it to the Budget and Finance Commission for preparation of examination in second reading.
- (3) In case of disapproval, the Parliament will set a deadline for the reexamination and presentation of the Annual Budget Proposal in first reading.

Article 29. Second Reading.

- (1) During the second reading, the Parliament, at the presentation of the Commission on Budget and Finance will examine:
 - a) the estimated total revenues, and their structure;
 - b) the estimated total expenditures, and their structure and destination;
 - c) the resulting deficit or surplus of the State budget.
- (2) Based on this examination, the Parliament will approve, and return to the Commission on Budget and Finance the Annual Budget Proposal for preparation of re-examination in third reading.
- (3) In case of disapproval of the project in second reading, the Parliament will set a deadline:for reexamination and presentation of the Annual Budget Proposal in the second reading;

Article 30. Third Reading.

- (1) During the third reading the Parliament, at the presentation of the Commission on Budget and Finance:
 - a) examines the detailed appropriations of expenditures for State Bodies;
 - b) settles the appropriations of expenditures which will be financed on a priority basis during the budget year; and
 - c) examines other details of the Annual Budget Law.
- (2) The Parliament will adopt the Annual Budget Law by December 20 of each year.

**CHAPTER III
IMPLEMENTATION OF THE STATE BUDGET**

Article 31. Responsibility for implementation of the State budget.

The implementation of the State budget is the responsibility of the Government.

Article 32. Quarterly allocation of revenues and expenditures.

- (1) Within 10 working days of the adoption of the Annual Budget Law, the Ministry of Finance will:
 - a) require all State bodies to provide suggestions regarding the distribution of quarterly expenditure;
 - b) makes quarterly distributions of revenue contained in the annual budget law and the

present laws.

- (2) 25 days after the approval of the annual budget law, Ministry of Finance approves quarterly estimates of revenues and expenditures, in accordance with the budgetary classifications. The Ministry of Finance may also determine appropriations for each Government Program.
- (3) A quarterly apportionment is signed by the Minister of Finance or his delegate that approves a specific expenditure for a specific purpose.
- (4) No State body may make expenditures, without first obtaining a signed apportionment from the Minister of Finance or his delegate.
- (5) In addition to the quarterly allocations required by paragraph (2) of this Article, the Ministry of Finance may, through a written and signed apportionment, place any other conditions on the authority of a State Bodies to make expenditures, provided that these conditions are consistent with the Annual Budget Law and other laws of the Republic of Moldova. Regulation about the status, rights and obligations of the orderers of credit are approved by the Ministry of Finance.

Article 33. Cash execution of the State budget.

- (1) The cash execution of the State budget is implemented by the Treasury Department of the Ministry of Finance.
- (2) Ministry of Finance can involve Banks that operate on the territory of the Republic of Moldova as agents to carry out cash operations related to the cash execution of the budget.
- (3) In carrying out the functions required by paragraph (1) of this Article, the Ministry of Finance is responsible to:
 - a) ensure the strict evidence of collection of revenues into the account of the Treasury on the basis of effective collections in the procedure of collections;
 - b) make expenditures only if there is an appropriation in accordance with Articles 9 and 32 (3) and (4);
 - c) administer all revenues and expenditures through distinct accounts based on the budget classification;
 - d) ensure the service of State Debt; and
 - e) implement any other financial operations of State and local bodies, provided that these operations are consistent with the Annual Budget Law and the present legislation.
- (4) Each year on December 31, the Ministry of Finance will close all accounts opened during the current budget year in order to prepare the annual report in accordance with Article 43 of the present law.

Article 34. Collection of revenues.

- (1) Taxes, fees and any other revenues will be collected into the budget only in accordance with

the laws.

- (2) All revenues that are established by law will be accumulated on the Treasury account upon collection.
- (3) Any revenue not collected until December 31, will be collected on the account of the next budget year.

Article 35. Implementation of Expenditures.

- (1) During the process of state budget execution, public authorities can make expenditures for diverse governmental programs, with the condition that the appropriations correspond to the annual budget law and to be effected in accordance with art 32 (4).
- (2) Salaries and compensation for personnel which are allocated by State Bodies, and which have a specific quarterly apportionment, may not be increased without a revision in the apportionment.
- (3) Expenditures appropriated for specific uses may not be transferred to other destinations.
- (4) Expenditures quarterly apportioned for specific uses may not be transferred to other destinations without the notification and approval of the Minister of Finance.
- (5) Financing of expenditures of the state budget by direct monetary emission or by direct financing by banks is prohibited.

Article 36. Lapsing of appropriations.

- (1) All appropriations lapse at the end of the budget year.
- (2) If an appropriation is made for more than one year, the necessary funds are provided in the ulterior annual budget laws.
- (3) Resources which remain unused at the end of the budget year may be re-appropriated for the next budget year.

Article 37. Use of the Reserve Fund.

- (1) The reserve fund is used by the Government, on the bases of the regulation approved by the Parliament, in justified cases of use of approved budget resources, in accordance with legal dispositions, for financing of some new actions or objectives intervened during the year.
- (2) Resources financed from the reserve fund are allocated only on the bases of the decisions of the Government, issued in form of decisions or dispositions, with the indication of destination, beneficiary and the amount in national currency.
- (3) Decisions of the Government about the allocation of the resources from the reserve fund are signed second signature by the Minister of Finance.

Article 38. Financing Government expenditures in case the Annual Budget Law is not adopted by December 31.

- (1) If the Annual Budget Law is not adopted by the Parliament on or before December 31, financing of expenditures will be implemented for each month at one twelfth of the sum of expenditures for the preceding budget year.
- (2) In the case where the Annual Budget Law is not enacted by the Parliament on or before December 31, and in exceptional cases (such as natural calamities or war), as determined by the Ministry, the Ministry may propose to the Government, and the Government may propose to the Parliament, any additional expenditures. If the Parliament approves the proposal of the Government, or takes no action on the proposal within 15 working days of its presentation, the additional expenditure will be effectuated.
- (3) Any additional appropriation for expenditures created as a result of the provisions of paragraphs (2) of this Article will lapse with the approval of the Annual Budget Law.

Article 39. Sequestration of Expenditures.

- (1) If during the budget year the Ministry of Finance determines that the level of the budget deficit exceeds or will exceed the level approved in the Annual Budget Law, the Minister shall sequester expenditures in sufficient quantity to enforce the approved level of the State budget deficit, approved in the Annual Budget Law.
- (2) The Ministry of Finance shall sequester expenditures through quarterly proportional reductions of all expenditures, with the exception of categories or chapters of expenditures that are specified in the annual budget law.
- (3) As an exception to the provisions of paragraph (2) the Ministry of Finance may propose to the Government, and the Government may propose to the Parliament, sequesters that are not quarterly proportional reductions of all expenditures. If the Parliament approves the proposal, or takes no action on the proposal within 15 working days of its presentation, the proposed sequester will take effect.
- (4) Depending on the collections of revenues into the state budget, 5 days before the end of each current quarter, the Ministry of Finance can modify the estimates of expenditures for the next period, informing the respective State Bodies about the modifications.

Article 40. Rectification of the State Budget.

- (1) In case of necessity, the Ministry of Finance will present to the Government and the Government to the Parliament a draft review of the annual State budget law. The review will include:
 - a) revised estimates of revenues, of obligatory expenditures (including service on State debt), and of the resulting budget deficit or surplus;
 - b) revised estimates of repayment of principal on State Debt; and

- c) revised estimates and descriptions, if any, to the annexes and explanatory notes of the provisions required by Article 23.

Article 41. Additional appropriations in cases of rectification of the state budget.

- (1) State bodies may send requests for additional appropriations during the budget year to the Ministry of Finance.
- (2) Each request will include a justification for the additional expenditures, and will propose offsets, in the form of increased revenues or reduced expenditures.
- (3) The Ministry of Finance will review each request for additional expenditures and, if it approves the request, will propose to the Government an additional appropriation for the proposed expenditures, as well as offsets.
- (4) The Government, if it approves the proposal of the Ministry of Finance, will propose to the Parliament the additional appropriations for the requested expenditures, as well as offsets, by offering an amendment to the Annual Budget Law and, if necessary, amendments to the existent legislation..
- (5) The Parliament will examine the proposed amendments of the Government, and will make one of the following actions:
 - a) reject the amendments for additional expenditures;
 - b) approve the amendments for additional expenditures, as well as the amendments for offsetting revenue increases or expenditure reductions; or
 - c) approve the amendment for additional expenditures, amending the Annual Budget Law to increase the level of the budget deficit, or decrease the level of the budget surplus.

Article 43. Budget deficit or surplus in the Annual Budget Law.

- (1) Any decision to increase the budget deficit, or decrease the budget surplus, in the Annual Budget Law will be made through a separate amendment to the Law, and will be consistent with the domestic and external obligations of the Republic of Moldova.
- (2) Any decision to increase the budget deficit, in the annual budget law will be accompanied with a decision of the Parliament, through amendments to the Annual Budget Law or any other relevant laws, on how the increased deficit shall be financed, in compliance with Article 131(5) of the Constitution of the Republic of Moldova.
- (3) In case of budget surplus, the decision about the objectives and quantities of its use is taken by the Parliament at the suggestion of the Government.

Article 44. Annual report on implementation of the State budget.

- (1) After the end of each budget year, the Ministry of Finance will prepare a report on the implementation of the State budget and its relationship with local budgets, and will present

this report to the Government and the Parliament by April 15 of the ulterior year of the administration one.

(2) The structure of the report is determined by the Minister of Finance.

TITLE III LOCAL BUDGETS

Article 44. Functions of local budgets.

- (1) Local budgets are the budgets of local administrative and territorial units that have legal status under the Constitution and laws.
- (2) Local budgets provide the financial resources to support the measures for the social-economic and cultural necessities of the population and for the development of the subordinated territories according to the provisions of the Law on Local Public Administration and the existing legislation.
- (3) The development, approval and implementation of local budgets is the sole responsibility of the local public administrative bodies, subject to the provisions of this Chapter.
- (4) Local budgets are integral parts of the consolidated budget.

Article 45. Revenues of local budgets.

The revenues of local budgets include:

- a) local taxes and fees of the local public administrative bodies as provided for in the Law on local taxes and charges;
- b) a proportion of state national taxes and fees, if any such proportion is defined in the annual budget law;
- c) transfers from hierarchy superior budgets, in accordance with the laws of the Republic of Moldova;
- d) sales of assets of local public administrative bodies; and
- e) other collections provided in the legislation.

Article 46. Expenditures of local budgets.

The expenditures of local budgets include:

- a) expenditures for the services, measures, and functions mandated upon the local public administrative bodies by the existing legislation;
- b) expenditures for any other services, measures, and functions that are determined by the local public administrative bodies and are authorized by the existing legislation of the Republic of Moldova.

Article 47. Local budget classification.

The revenues and expenditures of local budgets are utilized in accordance with the budget classification system, provisioned in Article 7.

Article 48. Reserve funds for local budgets.

- (1) Local public administrative bodies may create reserve funds in the local budgets under their power.
- (2) The size, conditions of formation and objective of use of the reserve funds are determined by the local public administrative bodies.

Article 49. Local public administrative body borrowing.

- (1) Local public administrative bodies may borrow temporarily from the state budget during the budgetary year.
- (2) The terms and conditions of the borrowing are determined in the annual budget law.
- (3) Borrowing of local public administrative bodies from the state budget are subject to the appropriation and quarterly apportionment requirements of Articles 9 and 32 (3) and (4).
- (4) Local public administrative bodies may borrow from the banking system or from other sources, under the guarantee of the revenues of the local budgets on reimbursement principles.

Article 50. Local budget deficits.

- (1) Local budgets may not include deficits in their budgets, with the exception of the provisions of paragraph (2) of this Article.
- (2) Local budgets may provide budget deficits in the limit of the amounts for investments in the local infrastructure and for the purchase of immovable patrimonial goods, with the condition that these amounts are approved separately by the local council and to be financed in accordance with the provisions of art. 49.
- (3) Temporary deficits in local budgets may be covered using the budgetary surplus from the previous budget year, or, if no surplus exists, through the provisions of Article 49 of this law.
- (4) With the exception of the cases described in paragraphs (2) and (3) of this Article, local public administrative bodies will take all necessary actions, including increasing revenues or decreasing expenditures, to maintain the budget balance that has been approved in each local budget.

Article 51. Development of local budgets.

- (1) Local budgets are developed by the local public administrative bodies under procedures adopted by these bodies.

- (2) The local public administrative bodies will present to the Ministry of Finance, on or before a date to be determined by the Government, the following information:
 - a) estimated revenues from local taxes and fees for the next budget year;
 - b) estimated expenditures for those services and functions that are required by any law of the Republic of Moldova for the next budget year;
 - c) any other information that is requested by the Ministry of Finance.
- (3) Defining the procedures exposed in Chapter I of Title II the Ministry of Finance determines the components of state general taxes and fees for local administrative bodies.

Article 52. Approval of local budgets.

- (1) Local budgets are approved by the relevant council, according to the procedures adopted by each local council not later than the December 20 of each year.
- (2) After approval, in terms settled by the Minister of Finance, the local budget with an annual estimation of revenues and expenditures with quarterly distribution is deposited in the Ministry of Finance.
- (3) Local budgets are published during 10 days after approval.

Article 53. Correlation of local budgets with the Annual Budget Law.

- (1) No later than 15 days after the adoption of the Annual Budget Law by Parliament, each local government and local council will amend its local budget, as necessary, in order to make it consistent with all relevant components of the Annual Budget Law.
- (2) These changes will be communicated to the Ministry of Finance immediately upon adoption by the local council.

Article 54. Incorporation of local budgets into the consolidated budget.

- (1) By a date to be determined by the Minister of Finance, local public administrative bodies will submit their budgets for inclusion in the consolidated budget.
- (2) Any changes to a local budget, will be immediately communicated to the Ministry of Finance by the local financial territorial body.

Article 55. Prohibition of requirements that increase expenditures or decrease revenues of local budgets.

The Parliament may not adopt any law imposed to the local public administrative bodies that as a result increases expenditures or reduces revenues, unless it also provides the sources of covering of increased expenditures or reduction of local budget expenditures in quantum, necessary for the compensation of increased expenses, settled by the rectified annual budget law.

Article 56. Cash execution of local budgets.

- (1) Cash execution of the local budgets is accomplished by the territorial treasuries , or by any banks acting as agents of the Ministry of Finance, which will ensure that:
 - a) revenues will be collected in accordance with the laws on taxes and revenues, specifications contained in the Annual Budget Law, and each local budget;
 - b) expenditures will be made in accordance with the Annual Budget Law, and in accordance with each local budget; and
 - c) the budget balance approved by each local public administrative organ is maintained.
- (2) Local public administrative bodies are prohibited from making expenditures unless those expenditures are approved by the local council, or by local administrative bodies granted this authority by the local council.
- (3) Allocation and approval of expenditures will be implemented on the basis of quarterly estimates.
- (4) Local councils or local public administrative bodies which have been given approval authorities may place additional conditions upon expenditures, provided that these conditions are not inconsistent with the local budget or with any law of the Republic of Moldova.
- (5) Local public administrative bodies may not receive transfers or borrowing from the State budget until these resources have received apportionment in accordance with Article 32 of this law.

Article 57. Reports on local budgets implementation.

- (1) The local financial territorial body presents the report about the execution of the monthly, quarterly, half-year, nine months and yearly local budget.
- (2) The report includes all data and information that is requested by the Ministry of Finance.

**TITLE IV
SOCIAL STATE PROTECTION BUDGET**

Article 58. Budget of the Social State Protection Fund.

- (1) The budget of the State Social Protection Fund is constituted from the contributions of physical and legal persons.
- (2) The distribution and utilization of the monetary resources of the state social protection fund is effected in accordance with the present law.

- (3) The administration of the state social protection fund is effected by the Ministry of Finance through Treasury.

Article 59. Elaboration, examination and approval of the State Social Protection Budget.

- (1) The budget of the State Social Protection Budget will be elaborated together with the State budget in accordance with the provisions of Chapter I of Title II of the present law.
- (2) Elaboration of the draft of the state social protection budget is the responsibility of the Government and is being effected by the Ministry of Work, Social Protection and Family and Ministry of Finance.
- (3) The budget of the State Social Protection Budget will be examined and approved by the Parliament together with the State budget in accordance with the provisions of Chapter II of Title II of the present law.

**TITLE V
EXTRA-BUDGETARY FUNDS**

Article 60. Extra-budgetary funds.

- (1) A special extra-budgetary fund is a fund which collects revenues for the Government and makes expenditures on behalf of the Government.
- (2) The Government may propose, and the Parliament may approve, special extra-budgetary funds under the following conditions:
 - a) a justification of the need for each special extra-budgetary fund is included in the Annual Budget Proposal Explanatory Notes;
 - b) the revenues and expenditures of each special extra-budgetary fund are included in the Annual Budget Proposal Annex;
 - c) estimates of the revenues and expenditures of each special extra-budgetary funds are developed by the Ministry of Finance, on the basis of proposals by State Bodies, and subject to the provisions of Articles 16 through 20 of this Law;
 - d) implementation of special extra-budgetary funds is subject to the provisions of Articles 9 and 32 of this Law; and
 - e) the estimated revenues and estimated expenditures of extra-budgetary funds result in a fund surplus. Fund deficits are prohibited.
- (3) Special extra-budgetary funds, except those specified in paragraph (2) of this Article, are prohibited.
- (4) Administration of extra-budgetary funds through distinct accounts based on budget

classification is effected by the Ministry of Finance through Treasury.

TITLE VI SERVICE OF THE STATE DEBT

Article 61. State debt and state guarantees

- (1) The Government may borrow from any domestic or external source only as authorized by the laws of the Republic of Moldova.
- (2) The Government may issue guarantees of the Government for any debt incurred by legal persons, only in conformity with the laws of the Republic of Moldova.

Article 62. Inclusion of information on State debt and Government guarantees in the State budget.

The following will be included in the Explanatory Notes of the Annual Budget Proposal:

- a) The total outstanding domestic and external State debt, and annual estimates for the next budget year and at least one subsequent budget year of the interest and principal payments required on this debt.
- b) An estimate of the total borrowing of the Government proposed by the Government for the next budget year.
- c) The total (cumulative) amount of outstanding Government guarantees, the estimated risk of these guarantees, and the sum of the resources used for honoring of state guarantees. Including those outstanding by credit beneficiaries, until the next budget year;
- d) An estimate of the total amount of Government guarantees proposed by the Government for the next budget year, and an estimate of the budgetary resources that will be required to cover the estimated risk of these guarantees.

Article 63. Limitations of State Debt and State Guarantees.

- (1) The Annual Budget Proposal will include a limitation on the total amount of State debt that may be outstanding during the Budget year.
- (2) In developing the proposed limitation on outstanding State debt, the Ministry of Finance will consider any relevant factors, including the following:
 - a) refinancing requirements of the domestic State debt;
 - b) financing requirements of the budget deficit; and

- c) estimates of the following macro-economic indicators:
 - i) the ratio of total State debt to the Gross Domestic Product;
 - ii) the ratio of the annual interest payments on State debt to the Gross Domestic Product;
 - iii) the amount of borrowing from the banking system, including from the National Bank of Moldova under the guarantee of state securities;
 - iv) the proportion of total internal debt that is short-term;
 - v) the proportion of total State debt that is external debt;
- (3) Limitations of state guarantees are included in the state budget proposal.
- (4) While developing the limitations for state guarantees, the Ministry of Finance will take into account all the relevant factors provided in the legislation.
- (5) The Parliament adopts limitations of the state debt and of the state guarantees for the budget year through the annual budget law.

Article 64. Service of State Debt and honoring of State guarantees.

- (1) Expenditures for the service of state debt, honoring of state guarantees have a permanent appropriation, under this Law.
- (2) During the implementation of the Annual Budget Law, modifications may not be made to indexes required to service Government debt, except to adjust these payments to changes in the actual domestic and external debt obligations.
- (3) The provisions of Article 32 and Article 39 of this Law do not apply to the amounts stipulated for the repayment and servicing of state debt and of state guarantees.

**TITLE VII
INTERNATIONAL FINANCIAL-BUDGETARY RELATIONS**

Article 65. International financial and budgetary relations.

- (1) International financial and budgetary relations are conducted in accordance with the bilateral agreements signed by the Republic of Moldova and any other sovereign country or international organization.
- (2) Financial obligations of the Government fixed in bilateral agreements and the financial help granted to other countries, as well as other revenues and expenses regarding the financial-budget international relations are included in annual budget law.

**TITLE VIII
FINAL AND TRANSITORY DISPOSITIONS**

Article 66. Delegation of authority.

The Minister of Finance may delegate any authorities or responsibilities granted to or imposed on him by this Law to the vice-minister responsible for the budget issues.

Article 67. Precedence of the present Law over any other law.

Provisions of the present law take precedence over the provisions of any other law regarding the budgetary system and budgetary process.

Article 68. Getting into effect of the present law.

The present law gets into effect on the date of publication, with the exception of art. 19 and 23 (2b), that get into effect on January 1, 1998.

Article 69. Repeal of contradictory laws of the Republic of Moldova.

At the date of the entry into force of this law are repealed:

- a) the Law of the Republic of Moldova #381-XII of November 29, 1990 regarding the budgetary system ;
- b) the Law about the modification of the Law about the budgetary system # 983-XII from March 25, 1992;
- c) the Law for the additions to Article 3 of the Law about the budgetary system #218-XIII from September 22, 1994; and
- d) the Law about the way of examination and approval of the state budget # 250-XIII from November 2, 1994.

Article 70. Correlation of the existent legislative and normative acts with the present law.

The Government in term of 2 months:

- a) will present to the Parliament suggestions regarding the conformance of the existent legislation with the present law;
- b) will settle its normative acts in consistency with the present law.
- c) will present to the Parliament for approval the budget classification.

Chisinau
May 24, 1996

Chairman of the Parliament
Petru Lucinschi