# REPUBLIC OF MOLDOVA

## Memorandum of Economic and Financial Policies of the Government and National Bank of Moldova



Chisinau, November 30, 2000

Mr. Horst Köhler
Managing Director
International Monetary Fund
700 19th Street NW
Washington, D.C. 20431

Dear Mr. Köhler:

We are pleased to convey to you the attached Memorandum of Economic and Financial Policies (MEFP), describing our economic program for the coming three years and for which we request your support. In this memorandum, the government of Moldova and the National Bank of Moldova (NBM) report on the implementation of policies during 2000. Despite a difficult economic environment and the absence of a program supported by the IMF for most of the year, the government and the NBM continued to work closely with IMF staff and successfully implemented policies in line with staff recommendations. The MEFP describes our objectives and policies for the coming three years and, in particular, our stabilization and reform policies for the first year of our program. In support of our program, we request a three-year arrangement under the IMF's Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 110.88 million. We request that the Executive Board of the IMF consider our request for an arrangement under the PRGF after the prior actions specified in paragraph 36 of the attached MEFP have been implemented.

The government and the NBM are aware that disbursements under the PRGF arrangement are subject to observance of quarterly performance criteria and the completion of semi-annual program reviews, as specified in paragraph 37 of the attached MEFP and in the technical memorandum of understanding attached to the MEFP. We understand that the phasing of disbursements for the second and third year and the establishment of associated conditionality will be established in the context of the second and fourth reviews, respectively.

We believe that the policies set out in the MEFP are adequate to achieve the objectives of the program. The Government and the NBM, however, are ready to take any additional measures appropriate for this purpose and will consult with the IMF on such matters in accordance with the policies of the IMF. The Government and the NBM will provide the IMF with all the information needed for the IMF to assess progress in implementing the policies and reaching the objectives of our program.

In addition to the MEFP, we are pleased to also send you our Interim Poverty Reduction Strategy Paper (I-PRSP) that has been prepared by the Government as a first and important step to prepare our Poverty Reduction Strategy. We are convinced of the need to make our policies known to the international community and we have already published the I-PRSP on the Government's internet site. We would also request that the IMF make the MEFP and the I-PRSP available on its internet site.

Sincerely yours

/s/

Petru Lucinschi
President
Republic of Moldova

/s/

Dumitru Braghis
Prime Minister
Republic of Moldova

/s/

Leonid Talmaci
Governor
National Bank of Moldova

Attachments

**REPUBLIC OF MOLDOVA**

# Memorandum of Economic and Financial Policies of the Government and National Bank of Moldova

## I. Introduction

1. **Economic performance thus far in 2000 has been relatively good**. Financial policies have been appropriately tight and there has been important progress in the area of structural reform, notably with the wineries, the energy sector, and land privatization. Inflation has been on a downward trend, and we expect it to be halved in 2000 (to around 21 percent). The current account deficit, however, is likely to increase in 2000, largely on account of higher imports. Notwithstanding the lack of external financing through most of this period and the significant external debt payments, gross reserves remained virtually unchanged, hovering around 2 ½ months of imports of goods and services. The exchange rate has also remained broadly stable. Despite good policy implementation, real GDP (which fell by 4 percent in 1999) is expected to remain at the previous year's level; output in agriculture is expected to drop on account of adverse weather conditions, while production in industry, transport, and construction is picking-up.

2. **The government reduced the fiscal deficit (on a commitment basis) by about 6 percentage points of GDP in 1999, to 2.6 percent**.[1] The budget remained tight in the first three quarters of 2000, with a commitment deficit of 0.4 percent of GDP (on an annual basis). On a cash basis, the deficit was reduced from about 3 1/2 percent of GDP in 1998 to 1.2 percent of GDP in the first three quarters of 2000 (on an annual basis), with domestic budgetary arrears (including wages and pensions) falling by Mdl 147 million (or 13 percent of the stock at end-1999). Revenues have been slightly higher than budgeted, partly because of improved tax collection. Netting operations of the consolidated budget have been reduced and VAT exemptions to the agricultural sector were eliminated in the 2000 budget. A surcharge of US$4/1000 cubic meters on gas consumption has also been introduced in the 2000 budget in combination with the issuance of bonds for arrears to our main gas supplier. Importantly, wide-ranging, non-targeted energy privileges were eliminated in the 2000 budget and replaced by a better targeted scheme with the introduction of the *Law on Nominal Compensation* that limits energy privileges to 9 categories.

3. **Monetary policy was tightened in 2000**, with reserve money growing by 8 percent in the first half of 2000. Money growth accelerated, however, in the third quarter, reflecting strong inflows of foreign exchange, including from workers remittances, and an increase in the demand for lei. After some pressure on the exchange rate in late 1999, largely associated with political uncertainties, the exchange rate of the leu stabilized in early 2000, while the strong inflows in the summer months, aided by the increase in minimum capital requirements for banks, caused the leu to appreciate vis-à-vis the U.S. dollar. These events allowed the National Bank of Moldova (NBM) to purchase foreign exchange; gross international reserves increased to US$189 million at end-September (program definition), up from US$181 million at end-1999. Meanwhile, the NBM has been increasing its use of open market operations (both with repos and outright sales and purchases of treasury bills) to manage bank liquidity, returning to the situation prevailing before the Russian crisis: the remuneration of reserve requirements was raised to 100 percent of the NBM's base rate; the level of required reserves was reduced from 15 percent to 13 percent, with required reserves now being held in banks' correspondent accounts (with reserve averaging permitted) instead of on separate blocked accounts; and the liquid asset ratio requiring banks to invest 5 percent of their assets in treasury bills was eliminated. The NBM continued to

implement its policy aimed at banking sector consolidation through a step-wise increase in the minimum capital requirements.

4. **Progress in structural reforms, which had been uneven in the years before, markedly improved in 2000**. In the energy sector, three electricity distribution companies were sold to a strategic investor, and the sale of two additional distribution companies and the power generation companies is underway. In agriculture, progress continued to be made in liquidating state farms and in distributing land to individual farmers. Bankruptcy or restructuring procedures have been initiated against 57 firms with arrears to the state and social fund budgets (including on credits from the Ministry of Finance) exceeding Mdl 1 million. Moreover, in October, Parliament approved a law allowing for the privatization of five wineries and six tobacco companies through an open tender process. A first important step was also made in strengthening the legal framework with the first reading in parliament of a market-oriented civil code.

| | 1998 Actual | 1999 Actual | 2000 Estimate | 2001 Projection |
|---|---|---|---|---|
| GDP growth (in percent) | -6.5 | -4.4 | 0.0 | 5.0 |
| Inflation (eop, in percent) | 18.2 | 43.8 | 21.0 | 10.0 |
| End-period gross official Reserves (in millions of dollars) | 140 | 181 | 207 | 257 |
| End-period gross official Reserves (in months of imports) | 1.4 | 2.9 | 2.7 | 3.1 |
| External current account balance (in percent of GDP) | -16.7 | -2.6 | -7.9 | -6.8 |
| General government balance (in percent of GDP; commitment basis) | -8.6 | -2.6 | -1.5 | -1.5 |

## II. The Objectives for 2001-2003

5. **Over the next three years, the government will continue to implement policies based on the objective of high and sustainable economic growth which is an important prerequisite for poverty reduction**. We are aware that to achieve this objective we have to preserve macroeconomic stability, deepen the process of structural reforms, improve governance, and strengthen efforts to attract foreign investment. The remainder of this memorandum details the macroeconomic and structural policies for the period ahead. We believe that these policies will be sufficient to achieve the program objectives listed below, but will take additional measures and seek new understandings with the IMF should the program diverge from its specified targets.

6. **The government considers that the poverty reduction goal can be achieved only in the context of financial stability accompanied by high and sustainable growth**. The medium-term objectives are: annual growth rates of 5 percent or even higher (which requires an increase in non-government investment); a lowering of the public debt burden (including domestic expenditure arrears) to around 70 percent of GDP in 2003 from 92 percent of GDP in 2000 (including a reduction in the stock of external public and publicly guaranteed debt from 75 percent of GDP in 2000 to around 60 percent of GDP in 2003); a further reduction in the annual inflation rate to about 10 percent (end of period); and containing the external current account deficit to around 6 percent of GDP.

7. To achieve the medium-term objectives, the government will continue to implement a prudent fiscal policy. In particular, it will be important to aim at a primary budget surplus of at least 2 percent of GDP over the medium-term to reduce the debt burden and avoid crowding-out private investments. This implies an overall fiscal deficit of less than 2 percent of GDP. At the same time, the budget allocation for the social sectors will be consistent with the poverty reduction strategy. The government will also give a further impetus to the structural reform programs through more vigorous efforts to strengthen the legal framework, restructure/liquidate firms with large debt to the budget, complete the privatization program (including wineries, energy and telecommunication companies), strengthen the market for agricultural land, achieve additional public administration reform and further deregulation. We will also be working closely with the World Bank in these areas in order to attain our growth objectives.

8. **To better focus our policies toward poverty alleviation, we are preparing a comprehensive poverty reduction strategy, which will be incorporated in a Poverty Reduction Strategy Paper (PRSP) to be approved by the government by early 2002**. This strategy will build upon the work already done in this area--undertaken in the context of policies developed with the assistance from the World Bank, UNDP, and other international organizations and bilateral donors. To strengthen the effectiveness and public support of our poverty-alleviating policies, we will organize a broad consultative process that will include representatives of civil society groups, local communities, and foreign donors.

9. The steps for arriving at a full-fledged PRSP are described in our interim PRSP, approved by the government in November 2000. This document describes Moldova's poverty profile, reviews policies implemented over the past few years to strengthen the economy and reduce poverty, sets out the medium-term economic scenario on which the program is based, and indicates the key elements of a poverty reduction strategy. The interim paper also specifies the institutional framework and consultative process that will be used to prepare the strategy, the poverty reduction targets, and a timetable for its preparation. A matrix of objectives and measures that the government intends to implement in the next three years has also been prepared.

## III. The Program for 2001

### A. Objectives

10. **Macroeconomic policies for 2001 will aim at supporting a turnaround in GDP as well as reducing inflation and maintaining a prudent level of official reserves**. To achieve the growth target of about 5 percent, we intend to proceed rapidly with structural reforms, improve governance, and implement the privatization process as described below. While there are downside risks for the targeted growth rate in 2001, the implementation of structural reforms, including the privatization program, a post privatization plan for agriculture, the initiation of public administration reform, and a strengthening of the legal framework, as well as an improvement in the external environment, are expected to contribute to the turnaround in GDP in 2001. Inflation is targeted to further decline to about 10 percent (end of year basis) in line with the tight financial policies. External reserves are expected to increase to over 3 months of imports of goods and nonfactor services.

### B. Fiscal policy

11. **The 2001 budget**, passed by parliament by early December (prior action), **aims at stabilizing Moldova's total stock of public and publicly guaranteed debt at around 74 percent of GDP through achieving a sizeable primary surplus of 4 percent of GDP**. The

overall cash deficit for the consolidated government is budgeted at Mdl 400 million (1.9 percent of GDP) with domestic budgetary arrears (including wages and pensions) budgeted to further decline by Mdl 100 million, resulting in an expected deficit on a commitment basis of Mdl 300 million (1.5 percent of GDP). The deficit target shows our commitment to fiscal prudence and our determination to further strengthen public finances and reduce the debt burden. The budget features measures to increase tax revenues to 22 percent of GDP. Expenditures will decline slightly as a share of GDP despite the large interest payments and the further reduction of domestic expenditure arrears. At the same time, **the share of expenditure on education and health care is budgeted to increase**. As a result of our ambitious, large-scale privatization program, involving the energy, and telecommunication sectors, we expect sizeable, but as yet unquantifiable, proceeds to be available to the budget. Accordingly, the budget assumes for a low amount of privatization proceeds. All privatization proceeds will be allocated to the budget and any privatization proceeds received during the year in addition to the amounts included in the 2001 budget will be used to reduce domestic budgetary expenditure arrears (including on wages and pensions) and public external and domestic debt, including credit to the government from the NBM, or reserved for debt service in later years, in proportions to be determined in consultation with Fund staff.

12. **Despite the recent improvements in tax performance, we are aware that further progress is required to meet the ambitious revenue target for 2001**. Accordingly, netting-out operations will be reduced to 3 percent of total revenues of the combined state and local governments, down from 5 percent in 2000 and 10 percent in 1999 (except for those involving debt clearing operations with the Social Fund). Moreover, we will resist all calls for new laws to provide for tax exemptions, holidays, amnesties, or deferrals of any kind. As regards the Free Economic Zones (FEZs), we will draft a new law with technical assistance from the Fund that will restrict the zones to export-oriented production and trans-shipment. The intention will be to strictly limit privileges and, ultimately, to phase out the FEZs. We will submit such a draft, together with other necessary legislative changes, to parliament by end-February, 2001 (structural benchmark). We will also analyze the appropriateness of a presumptive tax on small enterprises to draw new private business into the tax net, with a view to introducing a presumptive tax in 2003. As regards personal income taxation, while the monthly exemption threshold will be maintained at Mdl 210, the taxable income brackets will be raised in line with inflation. A 10 percent tax will be levied on annual income up to Mdl 12,180, a 15 percent tax will be levied on annual income between Mdl 12,180 and Mdl 16,200, and a 28 percent tax will be levied on annual income greater than Mdl 16,200. Corporate income tax rates are budgeted to remain unchanged in 2001. An excise of Mdl 1200 per MT will continue to be levied on gasoline imports and an excise of Mdl 500 per MT will be levied on diesel imports. Excises on alcohol will be adjusted annually in line with inflation. Excise rates on tobacco products, which are low by international standards, will be increased gradually up to the levels prevailing in other transition countries with comparable economic conditions. Cigarette excise stamps will be required as of April 1, 2001. The excise tax on exported non-fermented tobacco has been eliminated in the 2001 budget. To avoid the corrosion of non-tax revenues such as user charges and fees by inflation, a number of those that generate the most revenues will be raised in nominal terms (including fees on patents, land improvement, licenses and fines applied by the State Tax Inspectorate). Measures will also be taken to tax enterprises that are currently outside the tax net. We intend to discuss our tax policy during the mid-term review to assess the possibility of lowering tax and excise rates if the fiscal position permits.

13. In the area of **tax administration**, the following measures will be implemented:

With the assistance of USAID, we have been working on introducing a modern tax administration system that conforms to best international practices and should significantly improve tax compliance. Parliament has already approved Title 4 (excise chapter) and Title 6 (local property tax chapter). By end March 2001, we expect it to approve Title 5 (tax administration chapter), a structural benchmark, and, by end-2001, we expect it to approve the chapter on local taxes and fees as well as the law on valuation of real estate property and the property valuation method.

The large taxpayer unit (LTU) will be reorganized in order to make it a full fledged unit in line with technical assistance advise provided by the IMF. A pilot project on the LTU has been established in the Chisinau municipality as a first step towards the implementation of a fully-fledged LTU for all regions (prior action). A decree for this purpose was issued on July 24, 2000 and the pilot LTU became operational on December 1, 2000.

We will develop a comprehensive collection enforcement program and a reporting system for the State Tax Inspectorate (STI) to monitor the collection of arrears at all levels of the tax administration. We will also develop an audit strategy for the STI that includes improved coverage of taxpayers, automation and audit selection techniques, as well as more comprehensive audit methods.

We will amend the tax code to incorporate all VAT measures that are in force and avoid annual VAT legislation changes through the budget laws and we will increase the VAT registration threshold to Mdl 100,000 in 2002 in order to reduce the number of small tax payers and improve the administration of VAT.

14. We will also improve **customs administration**. In this regard,

> a new customs code was approved by parliament which was developed with the assistance of the EU and US Customs Service. The new code, based on EU standards, will provide the basis for improved revenue collection, better service to the trading sector, and more effective enforcement; and
>
> a pre-shipment inspection (PSI) program, in line with Fund technical assistance recommendations, is being implemented, while resources are being redeployed to vulnerable areas that were not strengthened by the PSI.

15. As regards **expenditures**, public sector salaries, which had been kept unchanged in nominal terms from 1995 through 1999, are budgeted to increase by Mdl 83 million in 2001 (after increasing by 30 percent in 2000) as a result of the increase in the minimum wage to Mdl 100 per month, from Mdl 65 in 2000. This has been made possible in part by the large cuts in public sector employment which fell from 309,000 in 1999 to nearly 285,000 in 2000. Further reorganization of the public administration is expected in 2001 and beyond in line with the World Bank's Public Sector Reform project. We will refrain from securitizing the outstanding stock of wage and pension arrears.

16. **Spending on health and education** is budgeted to increase in real terms in 2001. But, at the same time, we recognize the need to streamline and rationalize expenditure on social outlays. In education, the key measures include raising the student-teacher ratio closer to international norms, reducing the teaching week to five days in schools and other educational institutions, reducing the number of non-teaching staff, and introducing partial user charges for meals and accommodation. Expenditure on health are also being rationalized, without a loss of essential

services, by eliminating underutilized hospital beds, improving the calculation method for allocating budget funds, improving medical services to provide a minimum standard of basic services, and continuing the partial hiring freeze. This much needed rationalization of education and health follows recommendations made by a Fund technical assistance mission in mid-1998 as well as efforts under the World Bank Public Sector Reform project and Education and Health Reform projects.

17. **To improve the effectiveness of public spending, we remain committed to limiting subsidies in the budget**. Direct subsidies to the agricultural sector in 2001 will be limited to the spending amount allocated in the 2000 budget for the Agricultural Support Fund (ASF). Funds available within the spending limit will be targeted to rural entrepreneurs and farmers through a matching grant credit fund developed in agreement with the World Bank. In addition, we have already taken measures to better target energy compensations. In 2000, parliament and the president passed legislation eliminating various privileges and introducing targeted benefits that will cost Mdl 225 million in 2001. For the current winter season, if grant funds become available, resources additional to those committed by the Law on Nominal Compensations will be allocated for heating compensations to a new category of pensioners: those whose pensions do not exceed Mdl 150 per month. Any remaining funds will be used to increase the discount, for the current heating season, for the categories already covered under the Law on Nominal Compensations.

18. We recognize that the structural imbalances of the payments made through the **Social Fund** remain large, and further work is needed to improve the efficiency of its operations. We are working with the World Bank to rationalize targeting of social spending (including on social assistance expenditure) and to design adequate social safety net measures. The administrative costs of the National Insurance House will also be reduced and there will be no increase in social security contributions (employer or employee) in 2001. The minimum contribution rate applied in the case of the self-employed and farmers will be increased in real terms while maintaining the existing system based on plot size for the latter. In the event of significantly higher-than-expected revenue collection from the Social Fund become available, we will decide, in consultation with Fund staff, on its allocation for social purposes.

19. The **Laws on Public and Private Pensions** are being actively implemented with a view to strengthening the financial position of the Social Fund and improving the actuarial balance of the National Pension Fund. We are continuing to work with the World Bank to implement these changes and to improve the targeting and efficiency of social protection services under the Social Protection Management and the Public Sector Reform Credits. Since 1997, all cash collection operations of the Social Fund have been undertaken by the State Tax Inspectorate of the Ministry of Finance. This has materially improved compliance and cash revenue performance. As of the adoption of the 2001 budget, in-kind payments to the Social Fund are accepted only for clearance of historic debts incurred before January 1, 2000, up to a maximum of 50 percent. These in-kind receipts will be sold at market prices. The Social Fund will not accept real estate as in-kind collection in 2001 for the purpose of debt settlement, except in connection with the restructuring of agricultural enterprises until end-June 2001 in accordance with the Law on Bankruptcy; in-kind collections will be restricted to agricultural products, foodstuffs, and communal services. We are also cognizant of the need to improve transparency in Social Fund operations. To this end, monthly cash flow reports will be issued in 2001 and the Social Fund will explicitly include the arrears of the State budget.

20. We are also continuing our program to **improve the management of public finances**. All existing extra-budgetary funds will be consolidated for presentational purposes for Fund use

beginning in 2001 and we will study further possible ways to improve fiscal transparency and to provide a comprehensive assessment of fiscal policy. In 2000, we extended the coverage of the treasury system to local government revenues. In 2001, we will extend the treasury system to cover all local government spending as well, starting with 2 regions by end-March 2001 and all remaining regions by end-July 2001 (structural benchmark). Also in 2001, to improve the forecasting of cash flows and operational cash management and with technical assistance from the World Bank, we will establish a Cash Management Unit in the Treasury. Furthermore, we will continue to strengthen public expenditure management and control with technical assistance from the World Bank by registering all expenditure commitments (including contracts for the supply of goods and services) and by establishing cash spending ceilings for the spending units. These ceilings will be reviewed and adjusted as necessary.

21. The Administrative and Territorial Reform Law has been implemented. The number of local administrations have been reduced from 38 to 12 and the number of public sector employees has been cut by almost 10,000. Savings are also being utilized in non-wage expenditures as the new structures are progressively being put in place. We remain firmly committed to refrain from directing credits through the NBM or commercial banks, or instruct banks to extend credits on non-commercial terms, including to local administrations and the Social Fund. The STI management of debtors has also been strengthened and we are implementing a strategy to recover funds from defaulters on government guarantees and firms with large arrears to the state through bankruptcy and restructuring procedures (see below).

### C. Monetary Policies and financial sector reforms

22. **Monetary policy of the NBM will continue to be directed at achieving low inflation.** Monetary policy will be aimed at limiting inflation to about 20 percent in 2000 (year-end) and a further reduction in inflation to 10 percent by end-2001. Within the context of a floating exchange rate regime, the NBM has adopted reserve money as its intermediate policy target for the conduct of monetary policy. The NBM's monetary program aims at limiting reserve money growth to 31 percent in 2000 and to 17 percent in 2001. The monetary program furthermore aims at maintaining a level of gross international reserves equivalent to over 2½ months of imports by end-2000 and to increase reserves to over 3 months of import coverage by end-2001. The program for 2001 envisages a modest increase in (net) central bank credit to the government by Mdl 50 million, and is consistent with an increase in real credit to the economy.

23. **The NBM will further increase its use of market based instruments in the conduct of monetary policy.** The NBM intends to gradually reduce reserve requirements if and when price and monetary developments permit, in close consultation with Fund staff. The NBM also intends to conduct a more active interest rate policy to signal its policy intentions. In this context, the Lombard facility will be adjusted to provide very-short-term credit only, with rates at a sufficiently high penalty level. To facilitate a greater use of open market operations in treasury bills, the stock of central bank credits to the government that has not yet been converted into treasury bills will be steadily converted. In 2001, an additional Mdl 39.3 million of government credits will be converted into treasury bills. The NBM will continue to refrain from extending direct or directed credits to enterprises.

24. **The government is aware of the danger of decapitalizing the NBM through excessive profit transfers** and the 2001 Budget Law provides for the continuation of an ex-post profit transfer mechanism. In particular, interim profit transfers will be made at most once per quarter and will be based on a conservative calculation of realized net profits of the NBM. Thus, quarterly profit transfers for the first three quarters of a year will be limited to 90 percent of net

realized profits, that is, after deduction of operational expenses, reserve fund and loan provisioning and unrealized losses due to movements in exchange rates and prices of securities. The profit transfer for the fourth quarter will be limited to 50 percent of realized net profits, and a final profit transfer for the year will be made only after the completion of an external audit of the NBM's books and in accordance with the NBM law. External audits by a reputable international accounting firm will continue to be conducted annually.

25. The NBM will continue to support the **consolidation of the banking system**, which is expected as consequence of the further increase in the minimal capital requirement effective December 31, 2000. The NBM will also continue to strengthen banking supervision and enforcement of prudential regulations, including removal of management, bank license withdrawals, and the encouragement of mergers of banks not in compliance with minimum capital requirements. In this regard, we have revoked the license of 8 insolvent banks since 1996. The commercial bank(s) that will deal with all treasury operations of the state (including local governments) will continue to be chosen in a competitive, transparent way and in accordance with the law on the National Bank of Moldova.

26. The situation at the Savings Bank is under careful continuous review following the government's take-over of the bank and the installation of new management in March 1999. The rehabilitation plan is being actively implemented and the bank has achieved a positive net worth. It is expected that the bank can be largely recapitalized by a further recovery of assets and efficiency gains in 2001 without any government capital injections. The government will prepare a plan for the privatization of the Savings Bank.

27. While a properly financed and structured **deposit insurance scheme** can build confidence in the banking system, we believe that the present environment is not conducive to the introduction of deposit insurance and we will not introduce such a scheme in the near future until a sufficient degree of bank consolidation in the sector and higher capitalization has been achieved, and after consulting with Fund staff.

### D. Structural reforms and privatization

28. **The structural reform agenda under the program will focus on measures that will contribute to the restoration of growth, an important prerequisite for poverty alleviation**. In addition to public sector, agriculture, and energy sector reforms that will be implemented with the assistance of the World Bank under its prospective lending operations (PPSAC and PSRC), our structural reform agenda in the context of the PRGF supported program will focus on the following:

29. **Privatization program**. The privatization bill on five wineries and the tobacco sector was approved by Parliament in October 2000 (prior action). In the coming period, and according to a strategy to be agreed to with the World Bank, we will prepare the privatization of these wineries and tobacco companies. We expect to be able to announce a sales tender for at least two wineries by May 1, 2001. We also plan to proceed with the privatization of **Moldtelecom**, in consultation with the World Bank. In this regard, Parliament has already approved an independent regulatory agency for the telecommunication sector, appointed a board of directors and physically established the agency. Moldtelecom has not contracted any external debt since May 1999 and will not be permitted to contract debt pending its privatization, except for making necessary pre-privatization investments in agreement with the World Bank. We will launch a tender for selecting a financial advisor for the privatization of Moldtelecom by February 1, 2001 (structural benchmark).

30. **Bankruptcy/reorganization procedures** against 24 loss-making firms with arrears to the State and/or Social Fund budgets exceeding Mdl 3 million have already been initiated (prior action) (Table 2). Creditors have filed legal proceedings against these companies. We intend to put increased pressure on these and other enterprises undergoing reorganization through the creditor council's authority under the Law on Bankruptcy. However, the Law on Bankruptcy will need to be amended to accelerate the reorganization/liquidation process. We will submit an amended law to parliament by February 15, 2001 (structural benchmark) and expect its approval by May 1, 2001. This should contribute to financial discipline (i.e., through a demonstration effect), a reduction of tax arrears, and the promotion of efficiency and growth.

31. **Strengthening legal and regulatory framework**. We are continuing our efforts to establish a firm legal framework for a market economy, a key component to providing a business friendly environment and to improving transparency and good governance. In this regard, the first reading of the **civil code**--which is indispensable to regulate contractual relations--was approved by parliament in October; we expect the civil code to be approved by end-June 2001. We recognize that the liquidation of insolvent banks, after their license has been revoked, has placed a heavy burden on the NBM, absorbing a large number of staff and hampering the supervision of other banks. The NBM will submit by end-March 2001 amendments to the Law on Financial Institutions and other related laws to parliament to transfer the responsibility for appointing bank liquidators and monitoring progress of the liquidation process to the courts (structural benchmark). Moreover, the government will also submit an amended law on collateral and to parliament by end-March 2001, to allow for an easier enforcement of property rights and contractual obligations. In the area of improving governance and transparency, we intend to submit, with assistance from the Fund, a draft law on financial disclosure to parliament by end-June 2001 (structural benchmark), requiring regular reporting by senior elected and appointed government officials.

32. Moldova is an agricultural economy which exports much of its output unprocessed. In order to generate an increased level of exports, we think it is important to reduce the shadow economy, improve the business environment, and take all possible measures to foster foreign and domestic investment in agriculture and, in particular, agro-processing. Accordingly, we will work with the World Bank to reduce barriers to economic activity, and to identify technical assistance for the development of a strategy for foreign direct investment and export promotion.

## E. External sector issues

33. Given Moldova's vulnerability to external shocks, we recognize that it is in the country's best interest to maintain a floating exchange rate regime. Interventions by the NBM in the foreign exchange market will continue to be limited to smoothing out short-term fluctuations and to meeting reserve targets. In addition, we will continue our liberal and transparent trade and exchange policies and maintain a relatively low level of tariff protection. In this context, we have eliminated the ban on the export of cereals that had been prompted by the drought earlier this year (prior action). We hope to complete the negotiations on WTO accessions in the coming months. Furthermore, we will not impose or intensify any exchange restrictions, introduce any multiple currency practices, or conclude any bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, or introduce or intensify any import restrictions for balance of payment purposes. In this regard, we will refrain from raising the average import tariff from the 1999 level and from introducing an import surcharge, and we will maintain the maximum import tariff rate at 15 percent (structural benchmark).

34. Moldova's external debt has risen sharply since the start of the transition process and debt service obligations have been very high in recent years and will remain so in the period ahead. Moldova has gone at great length, however, to remain current on its obligations (although there have been a few instances of (temporary) payment arrears) and to regularize our relations with our creditors, and we will continue to do so. In addition, we will continue to work with our creditors on the possibilities for rescheduling of our debts. In this context, we have requested the assistance of the Dutch government to organize, in cooperation with the World Bank, a Consultative Group meeting to be held in early 2001, to mobilize additional donor support. To prevent a further increase in our debt burden, the government and the NBM will refrain from contracting non-concessional debt and also refrain from issuing guarantees on non-concessional terms for commercial ventures, whether state-owned or private.

35. Privatization of the energy sector has resulted in a large stock of unresolved (external) debts, some of which may ultimately need to be assumed by the Republic of Moldova. We intend to address this problem in a systematic manner, using market-based mechanisms, and taking into account comparability of treatment principles. The energy debts will be audited by a reputable international accounting firm. To this end, we are requesting technical assistance from the Fund and the World Bank to help us define the problem and develop a strategy to solve it. In the meantime, the government and the NBM will not take upon themselves any debts of Moldovagas, Moldtranslectro, or any other commercial venture, whether state-owned or private.

## F. Prior Actions

36. As noted above, we will take the following prior actions before the IMF Executive Board considers our request for an arrangement under the PRGF:

- A budget for 2001 will be adopted that is consistent with IMF recommendations.
- The draft chapters of the new Tax Code on excises and local property taxes will be promulgated into law.
- We will establish a pilot project for a full-fledged Large Taxpayer Unit for the Chisinau region.
- We will eliminate restrictions on grain exports.
- Legislation will be adopted that allows the effective privatization of five strategic wineries through an open tender process.
- We will initiate bankruptcy or reorganization procedures against at least 24 enterprises with arrears to the budget of more than Mdl 3 million.

## G. Program monitoring and reporting requirements

37. **Program monitoring** will be carried out on the basis of quarterly quantitative performance criteria and structural benchmarks established for the period October 1, 2000-September 30, 2001, with semi-annual reviews based on performance as of end-March 2001 and end-September 2001. Quantitative performance criteria have been set for December 31, 2000 and March 31, 2001 and indicative targets for the remainder of the first year program; performance criteria for the remainder of the first year program will be set in the context of the first review. The quantitative performance criteria include (i) a floor on the net international reserves (NIR) of the NBM; (ii) a ceiling on reserve money of the NBM; (iii) a ceiling on net credit to the general government from the NBM; (iv) a ceiling on the contracting or guaranteeing by the government, the NBM or any other agency acting on behalf of the government of new non-concessional medium- and long-term external debt with original maturities longer than 1 year, with a sub-ceiling on the contracting or guaranteeing of new non-concessional external debt in the maturity

range of 1-5 years; (v) a ceiling on the net disbursement of short-term external public and publicly guaranteed debt, with the exception of normal import-related credits; (vi) a ceiling on the cash deficit of the general government; and (vii) a ceiling on the stock of overall domestic expenditure arrears of the general government. In addition, there is also a continuous performance criterion on the non-accumulation of external payment arrears by the government and the NBM. Indicative targets have been set for: (i) the net domestic assets of the NBM; (ii) gross international reserves of the NBM; and (iii) general government arrears on wages and pensions. Details on the levels, definition, monitoring (and adjustors) of quantitative performance criteria and indicative targets are set in the Technical Memorandum of Understanding (attachment I to this Memorandum). The structural benchmarks under the program are summarized in Table 1. All data necessary for the effective monitoring of the program will be reported in a timely manner to the Fund by the Ministry of Finance and the NBM.

/s/

Andrei Cucu
First Deputy Prime Minister
Minister of Economy and Reforms
Republic of Moldova

/s/

Leonid Talmaci
Governor
National Bank of Moldova

/s/

Mihai Manoli
Minister of Finance
Republic of Moldova

**Table 1. Structural Benchmarks**

**Continuous**

? Refrain from raising the unweighted average import tariff from its 1999 level, and do not increase the maximum tariff rate from its current level of 15 percent.

**End-February 2001**

? Launch a tender for selecting a financial advisor for the privatization of Moldtelecom (February 1, 2001).
? Submit to parliament an amendment to the Law on Bankruptcy that would enable an acceleration of the bankruptcy and restructuring process (February 15, 2001).
? Submit to parliament legislation that will restrict free economic zones (FEZs) to export-oriented production and transshipment, limit privileges and establishes a time-frame for the elimination of FEZs.

**End-March 2001**

? Approval by parliament of the draft chapter of the new Tax Code on tax administration.
? Extend Treasury operations to include all local government transactions in at least two regions.
? Submit to parliament an amendment to the Law on Financial Institutions, shifting responsibility for the liquidation of banks from the NBM to the courts.

**End-June 2001**

? Submit to parliament a draft Law on Financial Disclosure, requiring regular reporting by senior elected and appointed officials.

**End-July 2001**

? Extend Treasury operations to include all local government transactions in all regions.

**Table 2. Enterprises subject to bankruptcy/reorganization procedures**

| No. | I. Name of the economic agent |
|---|---|
| 1. | S. A. "Aproma", Edine |
| 2. | S. A. "Combinatul de carne din Floreti" |
| 3. | S. A. "Fabrica de unt din Froreti" |
| 4. | S. A. "Alimentarma", Chiinu |
| 5. | S. A. "Serele Moldovei" |
| 6. | S. A. "Livada", Chiinu, str. Voluntarilor, 15 |
| 7. | S. A. "Agroprepar", Chiinu |
| 8. | S. A. "Combinatul de vinificaie Cojuna" |
| 9. | S. A. "Carind", Briceni |
| 10. | S. A. "Micron", Chisinu |
| 11. | S. A. "Agrotehnica-Invest", Chiinu |
| 12. | S. A. "Combinatul de producere din Lipcani", or. Lipcani |
| 13. | S. A. "Fabrica de conserve, Speia" |
| 14. | S. A. "Fabrica de conserve, Nisporeni" |
| 15. | S. A. "Fabrica de zahr din Ghindeti", jud. Soroca or. Ghindeti |
| 16. | S. A. "Celreale-Cupcini", Edine |
| 17. | S. A. "Mezon", Chiinu |
| 18. | S. A. "Perfuzon", Chiinu |
| 19. | S. A. "Metal", Chiinu |
| 20. | S. A. "Sigma", Chiinu |
| 21. | S. A. "Cristal-Flor", Floreti |
| 22. | S. A. "Melisa", Drochia |
| 23. | S. A. "CIPS", Bli |
| 24. | S. A. "Ambalaj-Polimer", jud. Soroca or. Drochia, str. Lermtov, 8 |
| | |
| Source: Ministry of Finance | |

**REPUBLIC OF MOLDOVA**

**Technical Memorandum of Understanding**

**Table 1. Floors on the Stock of Net International Reserves (NIR) and Gross Reserves in Convertible Currencies of the NBM**

(In millions of U.S. dollars)

| | Minimum Levels | |
|---|---|---|
| Position on | Net international reserves (performance criterion) | Gross international reserves (indicative target) |
| September 30, 2000 | 44 | 189 |
| December 31, 2000 | 52 | 206 |
| March 31, 2001 | 67 | 229 |
| June 30, 2001 (indicative) | 59 | 229 |
| September 30, 2001 (indicative) | 83 | 262 |

**Definitions and adjustors**

Net international reserves of the NBM in convertible currencies are defined as gross reserves minus reserve liabilities in convertible currencies. For program monitoring purposes, gross reserves of the NBM are defined as monetary gold, holdings of SDRs, reserve position in the Fund, and holdings of foreign exchange in convertible currencies that are readily available, including holdings of securities denominated in convertible currencies issues by governments or central banks of OECD member states. Excluded from reserve assets are capital subscriptions to foreign financial institutions, long-term nonfinancial assets, funds disbursed by the World Bank assigned for onlending and project implementation, assets in nonconvertible currencies, foreign assets pledged as collateral or otherwise encumbered, and interest accrued on reserve liabilities. Reserve liabilities in convertible currencies are defined as use of Fund credit, and convertible currency liabilities of the NBM to nonresidents with an original maturity of up to and including one year. Excluded from reserve liabilities are liabilities with original maturities longer than one year.

For program monitoring purposes, U.S. dollar denominated components of the NBM balance sheet will be valued at the program exchange rate. The program exchange rate of the Moldova leu to the U.S. dollar has been set at Mdl. 12.2584/$ and the exchange rate of the U.S. dollar against the SDR dollar has been set at $1.29789/SDR (being the prevailing exchange rates at September 29, 2000). Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the cross rates prevailing at September 29, 2000.

The program assumes disbursement of the second tranche of US$ 20 million under the World Bank's SAC to the budget and a grant of $10 million from the government of The Netherlands to the budget, each by end-December 2000; Euro 7.5 million from the European Union to the budget by end-March 2001; and $30 million from the World Bank under the PPSAC by end-September 2001. The net international reserves and gross reserves targets will be raised, pari-passu, by the equivalent of any external (budgetary) financing over these amounts and lowered for shortfalls resulting from temporary delays in any disbursements beyond the assumed dates, respectively.

The targets will be monitored from the accounts of the NBM. Data in the agreed format will be reported to the Fund within seven days of the end of each month by the NBM.

**Table 2. Ceilings on the Net Domestic Assets (NDA) and Reserve Money of the NBM**

(In millions of Lei)

| Position on | NDA (Indicative target) | Reserve Money (Performance criterion) |
|---|---|---|
| September 30, 2000 | 1,232 | 1,766 |
| December 31, 2000 | 1,327 | 1,969 |
| March 31, 2001 | 1,226 | 2,051 |
| June 30, 2001 (indicative) | 1,394 | 2,119 |
| September 30, 2001 (indicative) | 1,187 | 2,212 |

**Definitions and adjustors**

Net domestic assets of the NBM are defined as the difference between reserve money (defined as the sum of currency issued, total required and excess reserves of banks, and non-bank non-government deposits) and net foreign assets of the NBM, (net international reserves of the NBM as defined in Table 1 plus the net position of the NBM correspondent accounts with the central banks of the Baltics, Russia, and other countries of the former Soviet Union (BRO), all expressed in Moldovan Lei). Net international reserves shall be valued as noted in Table 1.

The NDA targets assume disbursement to the budget of the second tranche of US$ 20 million under the World Bank SAC by end-December 2000 and $30 million under the PPSAC by end-September 2001; and Euro 7.5 million from the European Union to the budget by end-March 2001. The targets will be adjusted upwards by 100 percent of the equivalent of these amounts, expressed in Moldovan lei for temporary delays in any of these disbursements. The NDA targets also assume disbursement of a grant of $10 million from the government of The Netherlands in December 2000 of which Mdl. 50 million is assumed to be used in December 2000. The target for end-December 2000 will be adjusted upward by Mdl. 74 million in case this grant will not be received. The targets will be lowered by the full amount for the receipt of any amounts, expressed in Moldovan lei, of external budgetary financing (not including grants, but including rescheduling and restructuring of official debt) above the assumed disbursements. The use of such additional funds will be determined in consultation with Fund staff in the context of the review or the discussions on the second year program.

The targets for reserve money are based on a programmed reserve requirement ratio of 13 percent of total deposits subject to reserve requirements and will be adjusted for any deviation of the actual reserve requirement ratio from the programmed ratio, based on the following formula: (actual ratio - programmed ratio) * reservable base. The reservable base includes all commercial bank liabilities subject to reserve requirements.

The targets for the net domestic assets of the NBM and reserve money will be monitored from the accounts of the NBM. Data in the agreed format will be reported to the Fund within 7 days of the end of each month by the NBM.

**Table 3. Limits on Net Credit to General Government from the NBM**

(In millions of lei)

| Position on | (Performance criterion) |
|---|---|
| September 30, 2000 | 1,433 |
| December 31, 2000 | 1,540 |
| March 31, 2001 | 1,419 |
| June 30, 2001 (indicative) | 1,560 |
| September 30, 2001 (indicative) | 1,328 |

**Definitions and adjustors**

The general government is defined as comprising the consolidated budget (the republican and local government budgets) and the Social Fund. Any new extra budgetary funds created will be included in the general government. Net credit to general government is defined as outstanding claims of the NBM on the general government, including overdrafts, direct credit and holdings of government securities, less deposits of the general government.

The targets assume disbursement to the budget of the second tranche of US$ 20 million under World Bank SAC by end-December 2000 and $30 million under the PPSAC by end-September 2001; and Euro 7.5 million from the European Union to the budget by end-March 2001. The targets will be adjusted upwards by 100 percent of the equivalent of these amounts expressed in Moldovan lei for temporary delays in any of these disbursement. The targets also assume disbursement of a grant of $10 million from the government of The Netherlands in December 2000 of which Mdl. 50 million is assumed to be used in December 2000. The target for end-December 2000 will be adjusted upward by Mdl. 74 million in case this grant will not be disbursed. The targets will be lowered by the full amount for the receipt of any amounts, expressed in Moldovan lei, of external budgetary financing (not including grants, but including rescheduling and restructuring of official debt) above the assumed disbursements. The use of such additional funds will be determined in consultation with Fund staff in the context of the review or the discussions on the second year program.

The limits will be monitored from the accounts of the NBM. Data in the agreed format will be reported to the Fund within 10 days of the end of each month by the NBM.

**Table 4. Limits on the Overall Cash Deficit of the General Government**

(In millions of lei)

| | Cash Deficit (Performance criterion) |
|---|---|
| Cumulative change from September 30, 2000 | |
| December 31, 2000 | 230 |
| March 31, 2001 | 345 |
| June 30, 2001 (indicative) | 464 |
| September 30, 2001 (indicative) | 571 |

**Definitions and adjustors**

The general government is defined as comprising the consolidated budget (the republican and local government budgets) and the Social Fund. Any new extra budgetary funds created will be included in the general government.

The quarterly limits are cumulative and will be monitored from the financing side as the sum of net credit of the banking system to the general government, the general government's net placement of securities outside the domestic banking system, other net credit from the domestic nonbanking sector to the general government, the general government's receipt of disbursements from external debt[2] for direct budgetary support (i.e., excluding disbursements from external loans for specific projects) minus amortization paid, and privatization proceeds stemming from the sale of the general government's assets, after deduction of the costs directly associated with the sale of these assets. The program assumes Mdl. 271 million in privatization receipts during October 1, 2000 - September 30, 2001. In the context of the privatization of the energy sector and Moldtelecom, inter alia, large privatization receipts may occur in 2000-01, which in the event they exceed the program assumptions would trigger consultations with Fund staff to agree on their use. The excess privatization proceeds will be used to reduce the stock of domestic budgetary arrears, external and internal government debt, including credit from the NBM, in proportions to be agreed in consultation with the Fund staff. The cash deficit limits would be adjusted accordingly. Similarly, the use of any amounts, expressed in Moldovan lei, of external budgetary financing (not including grants but including rescheduling and restructuring of official debt) above the assumed disbursements (the second tranche of US$ 20 million under the World Bank SAC by end-December 2000 and $30 million under the PPSAC by end-September 2001; and Euro 7.5 million from the European Union by end-March 2001) will be determined in consultation with Fund staff in the context of the review or the discussions on the second year program.

Government securities in the form of zero-coupon obligations sold at a discount to face value will be treated as financing items in the fiscal accounts, in the amount actually received from buyers. At the time of redemption, the sales value will be recorded as amortization, and the difference between amortization so defined and the face value will be recorded as domestic interest payments.

Commodity loans will be treated as financing items in the fiscal accounts, at the value of the loan in foreign exchange converted into Moldovan lei at market exchange rates the date of the receipt of the loan. The amounts on-lent to domestic enterprises minus domestic counterparts received from these enterprises will be recorded in net lending. Interest payments by the government on these loans to external creditors will be recorded as interest payments on foreign debt and interest paid by domestic enterprises to the government on these loans will be recorded in non-tax revenues. Repayments of principal from domestic borrowers to the government will be treated as negative net lending and repayments of principal by the government to foreign creditors will be recorded as amortization. The government will abstain from guaranteeing any commercial borrowing, including that funded by international financial institutions.

For monitoring these limits, data in the agreed format will be reported to the Fund within 30 days of the end of each quarter by the Ministry of Finance of Moldova.

**Table 5. Limits on the Contracting and Guaranteeing of Nonconcessional External Debt with Original Maturities Indicated Below by the Government of Moldova, the NBM or any other Agency Acting on Behalf of the Government, and on the Accumulation of External Arrears**

(In millions of U.S. dollars)

| | Maximum Limits (Performance criteria) Maturity Subceiling | | |
|---|---|---|---|
| | 1 year or less | Over 1 year - under 5 years | Over 5 years |
| Cumulative change from September 30, 2000 | | | |
| December 31, 2000 | 0 | 0 | 14 |
| March 31, 2001 | 0 | 0 | 14 |
| June 30, 2001 (indicative) | 0 | 0 | 14 |
| September 30, 2001 (indicative) | 0 | 0 | 14 |

**Definitions**

The term debt will has the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000. In this regard, debt is understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contract where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the program, the debt under item (iii) is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the arrangement excluding those payments that cover the operation, repair or maintenance of the property. Under the definition of debt above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition will not give rise to debt.

This performance criterion applies not only to debt as defined above, but also to commitments contracted or guaranteed for which value has not been received.

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

Government is defined as the Republic of Moldova and the NBM, but does not include any government-owned entity with separate legal personality other than the NBM.

Concessionality will be calculated using currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs). The ten-year average of CIRRs will be used as the discount rate to assess the concessionality of loans of an original maturity of at least 15 years, and a six-month average of CIRRs will be used to asses the concessionality of loans with original maturities of less than 15 years. To both the ten-year and six-month averages, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15-19 years; 1.15 percent for 20-30 years; and 1.25 percent for over 30 years. Under this definition, only loans with a grant element equivalent to 35 percent or more will be excluded from the borrowing limits. The debt limits will not apply to loans classified as international reserve liabilities of the NBM.

External-debt limits apply to the net disbursement of short term external debt (with an original maturity of up to and including one year) and contracting or guaranteeing of nonconcessional medium- and long-term debt with original maturities of more than one year, with sublimits on the contracting or guaranteeing of such debt with original maturities of up to and including five years. Short term debt includes all short term obligations, excluding reserve liabilities of the NBM and import trade credits. Short term debt denominated in currencies other than the U.S. dollar shall be valued in U.S. dollar at the exchange rate prevailing at the time of disbursement. Medium and long term debt denominated in currencies other than the U.S. dollar shall be valued in U.S. dollars at the exchange rate prevailing at the time of contracting or guaranteeing. The limits allow for the disbursement of an already agreed upon 10 year Euro 15 million loan from the European Union in late 2000 or early 2001.

The government undertakes not to accumulate payment arrears on external debt with original maturity of more than one year contracted or guaranteed by the government (including debt converted into government debt). Payment arrears are payments due (following the expiration of any applicable grace period) but unpaid.

**Table 6. Ceilings on Domestic Expenditure Arrears of the Government**

(In millions of lei)

| | Maximum Levels | |
|---|---|---|
| Position on | General government (Performance criterion) | Wages and pensions (Indicative target) |
| September 30, 2000 | 966 | 283 |
| December 31, 2000 | 913 | 240 |
| March 31, 2001 | 888 | 220 |
| June 30, 2001 (indicative) | 863 | 200 |
| September 30, 2001 (indicative) | 838 | 180 |

**Definitions and adjustors**

The general government is defined as comprising the consolidated budget (the republican and local budgets) and the Social Fund. Any new extra budgetary funds created will be included in the general government.

Expenditure arrears are defined as the difference between payments the general government is legally committed to make and actual payments made. Commitments include, but are not limited to, wage, pension, and energy payments. Arrears between the republican budget, local governments and all extra budgetary funds are not counted toward the ceiling.

For monitoring these limits, data in the agreed format will be reported to the Fund within 30 days of the end of each month by the Ministry of Finance of Moldova.

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[1] The consolidated government budget includes both local and state budget, and Social Fund. The fiscal data presented in this memorandum exclude project loan disbursements (both in the financing of the budget and the corresponding expenditures above the line). The fiscal data presented here do include, however, the debt service associated with these loans as well as the counterpart funds provided by the government.

[2] Debt will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000.