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Republic of Moldova: Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion—Staff Report; Staff Supplement; and Press Release

In the context of the fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for a waiver of nonobservance of performance criterion, the following documents have been released and are included in this package:

- The staff report for the Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on May 21, 2008, with the officials of the Republic of Moldova on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 30, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement of July 9, 2008 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board.

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

Letter of Intent sent to the IMF by the authorities of the
Republic of Moldova*
Memorandum of Economic and Financial Policies by the authorities of the
Republic of Moldova*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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REPUBLIC OF MOLDOVA

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion

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

Approved by Lorenzo Giorgianni and Anthony R. Boote

June 30, 2008

Executive Summary

- **Performance under the review has been satisfactory overall, despite slippages**. The requested waiver is due to an administrative delay in adopting State Tax Inspectorate (STI) legislation, which has now been overcome.

- **Growth is set to rebound**. Agriculture is expected to recover strongly following last year's drought. Investors have been attracted by Moldova's low costs, and export prospects have improved with the resumption of wine exports to Russia and a new trade agreement with EU.

- **Inflation is the main concern**. While rising inflation partly reflects regional trends in food and energy prices, strong demand has been adding to inflation pressures.

- **The authorities' response has been appropriate**. Monetary policy has recently been tightened, and the fiscal stance strengthened despite election pressures.

- **Structural reforms have been accelerated**, with an ambitious privatization program that targets the remaining large state-owned companies.

List of Acronyms

ANRE	National Agency for Energy Regulation
ATP	Autonomous Trade Preferences
BEM	Banca de Economii
CIT	Corporate income tax
DSA	Debt sustainability analysis
EBRD	European Bank for Reconstruction and Development
EGPRSP	Economic Growth and Poverty Reduction Strategy Paper
EIB	European Investment Bank
FAD	IMF Fiscal Affairs Department
FSAP	Financial Sector Assessment Program
IT	Inflation Targeting
LOI	Letter of Intent
MFA	EU Macro-Financial Assistance
MEFP	Memorandum on Economic and Financial Policies
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NBM	National Bank of Moldova
NDS	National Development Strategy
PA	Prior Action
PC	Performance Criterion
PER	Public expenditure review
PIT	Personal income tax
PRSC	World Bank Poverty Reduction Support Credit
PSIA	Poverty and Social Impact Analysis
REER	Real Effective Exchange Rate
SB	Structural Benchmark
SIDA	Swedish International Development Agency
STI	State Tax Inspectorate
TA	Technical Assistance
tcm	thousand cubic meters

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I. Introduction

1. **With the growth outlook positive, inflation is the main challenge**. The economy has shown resilience in the face of successive shocks, including a Russian ban on imports of Moldovan wine and a sharp increase in the price of imported natural gas in 2006, and last year's drought. Growth is expected to recover strongly in 2008, with good prospects for the harvest and strong FDI inflows. Macroeconomic stabilization remains the key concern, with inflation under pressure from higher food and energy prices globally, but also from strong demand growth on the back of a recent surge in capital inflows reminiscent of that seen earlier in EU accession states. Demand pressures have also contributed to a widening of the current account deficit to 17 percent of GDP in 2007. The deficit nonetheless remains more than financed by long-term capital, in part reflecting a welcome structural shift from remittances to foreign investment as Moldova evolves into a transition economy. The deficit should gradually unwind, helped by a new trade agreement with the EU, and a resumption of wine exports to Russia.

2. **Performance under the program has been satisfactory**. All end-March quantitative PCs and indicative targets were observed, and all structural PCs were implemented, with the exception of a PC on adopting legislation on the STI, which was implemented with a small delay in June 2008. Given the temporary nature of the deviation, staff supports the authorities' request for a waiver of non-observance of this PC.

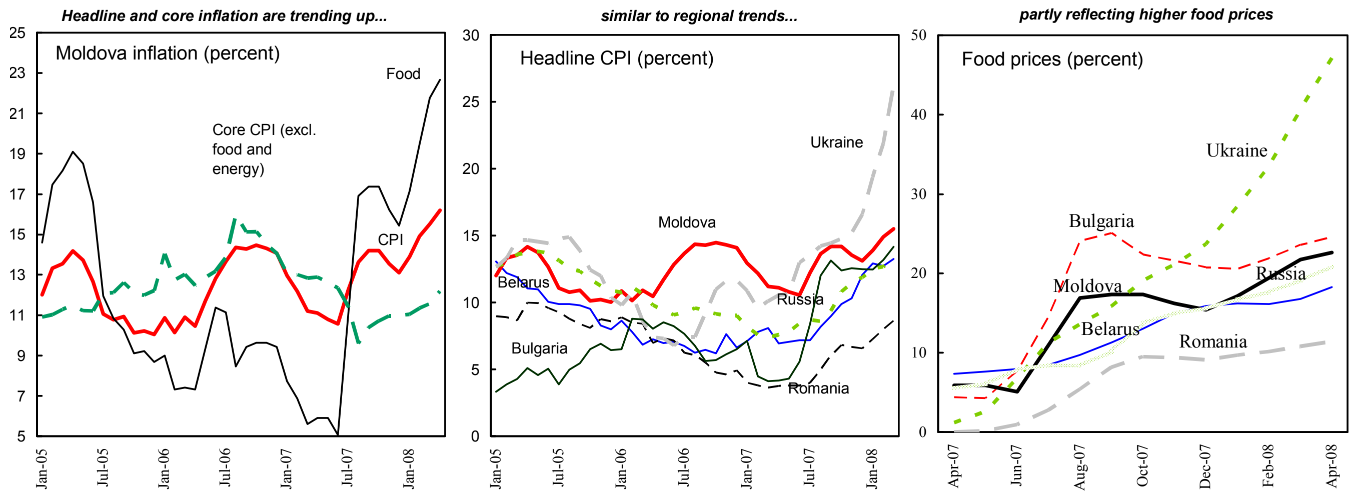
3. **Political pressures have started to build in the run-up to national elections early next year, but so far remain contained**. The authorities' strong commitment to the PRGF arrangement and prospects of growing financial assistance from the EU and international donors has so far supported reform. However, calls to raise spending have strengthened. In the meantime, Prime Minister Tarlev and his cabinet resigned on March 19, to make way for a new government headed by former deputy prime minister Ms. Greceanii, who has been a strong supporter of reform.

II. Recent Developments

4. **Growth in 2007 was slightly weaker than expected due to the drought**. Growth in 2007 is now estimated at 4 percent based on preliminary numbers. Nonagricultural GDP growth, however, remained strong at 9 percent. Early data for 2008 suggest continuing strong investment-driven demand, with investor interest in Moldova boosted by low labor costs and an acceleration of the privatization program.

5. **But inflation is rising.** Rapid growth in food prices, due to the drought and global price trends, was compounded by NBM's slow response to rising inflationary pressures. Inflation reached 16 percent in April, up from 13 percent at end-2007, eroding the real interest rates. Core inflation (non-food, non-energy CPI) also rose to 12 percent in April, compared with 11 percent at end 2007, suggesting strong second-round effects from the drought and mounting demand pressures. At the same time, there are few signs of price

pressures in real estate and assets markets as seen elsewhere in the region, and wage growth, at 8 percent in real terms, remains moderate given productivity gains.



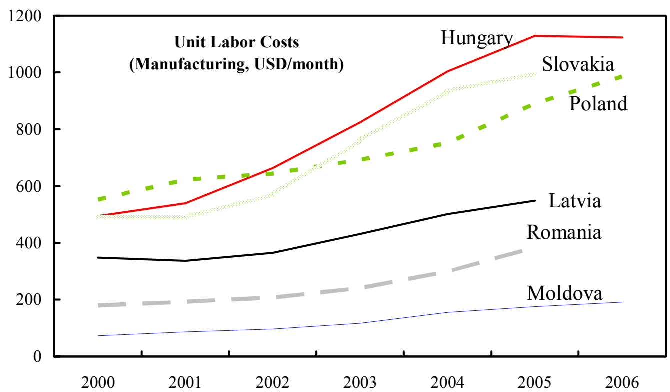
Source: Moldovan authorities; IFS; and Fund staff calculations.

6. **The current account deficit widened in 2007, but remains more than covered by FDI and long-term debt flows**. The recently released preliminary balance of payments data show the current account deficit at 17 percent of GDP, compared to 9 percent previously estimated (Box 1). Strong FDI-driven domestic demand and the impact of the drought on net agricultural imports have undoubtedly played a role. But the main driver was a shift from remittances (which appear in the current account) to foreign investment (capital account) as discussed in Country Report No.08/139.[1] Other capital flows also grew sharply, reflecting in part transfers from parent banks abroad to local subsidiaries to help meet increased reserve requirements, but also higher trade credits. At the same time, large errors and omissions (4 percent of GDP) make analysis of the preliminary balance of payments data difficult as part of these flows may be eventually reclassified into remittances as in the past.

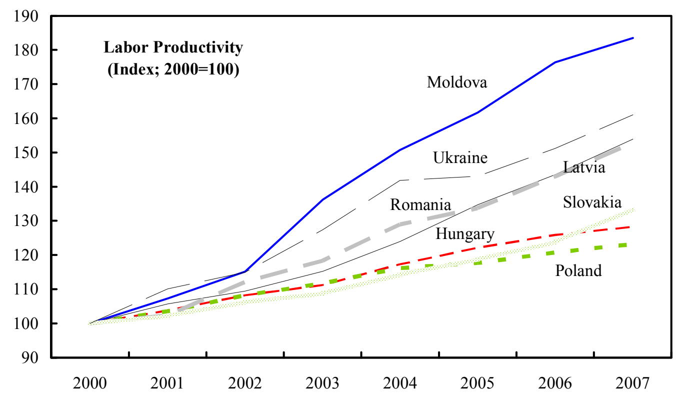
[1] Total investments are estimated to have increased from 28 percent of GDP in 2006 to 33 percent in 2007.

Box 1. Competitiveness in Moldova

Competitiveness in Moldova remains adequate as described in Country Report No. 08/139. Despite demand pressures, the wider trade deficit in 2007 largely reflects the impact of the drought, and FDI-related imports. The real effective exchange rate is broadly in line with fundamentals, and remains only modestly above its level in 2001, in contrast to regional competitors. At the same time, labor productivity has been growing quickly.



Sources: ILO; Moldovan authorities; and Fund staff estimates



Sources: WEO; and Fund staff estimates

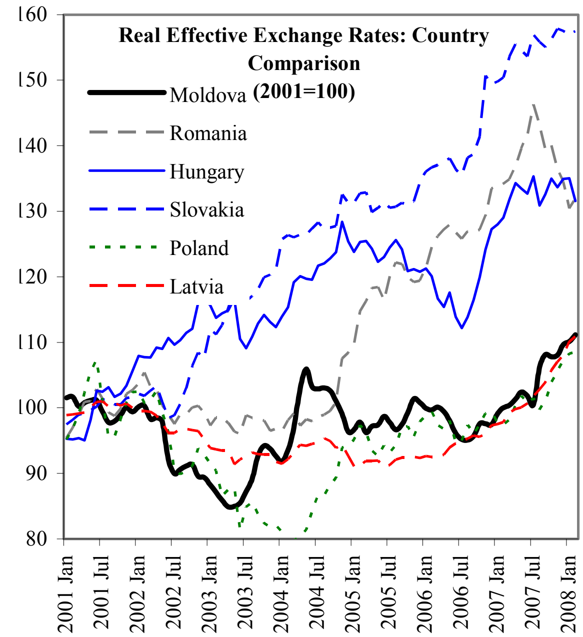
Moldova also remains competitive in lower value-added industries, such as textiles. The following table lists textile export rank, textile exports, USD earnings per month, and UDS GDP per capita. Also included is the 2008 Doing Business Rankings. It shows that compared to what are considered its main competitors for lower value-added business, Moldovan labor costs are low, although the business environment has room for improvement.

Textile Export Competitiveness

Country	Textile Rank	Value (US$ m)	Earn./Month	GDP/capita	Business Rank
Bosnia & Herz.	82	20	569	3,105	105
Botswana	81	14	174	6,757	51
Macedonia	71	45	277	3,102	75
Moldova	78	28	129	991	92
Ukraine	52	244	206	2,291	139

7. **The policy response in early 2008 was mixed**. Monetary policy was slow to react to higher inflation, while weak spending controls in the first two months of the year required a sharp fiscal correction in March.

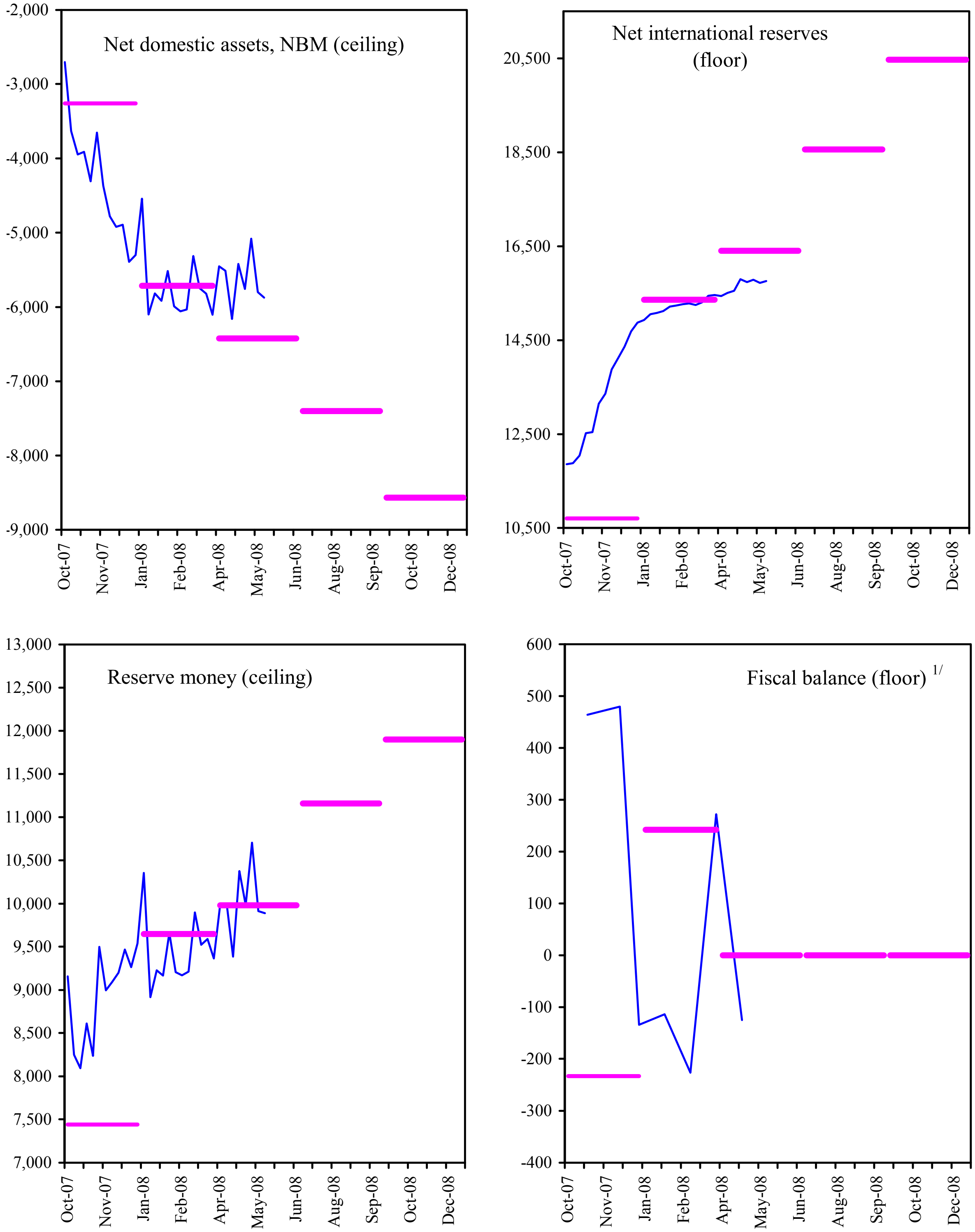
8. **The monetary authorities have continued to play catch-up in responding to higher inflation**. While the NBM gradually increased the sterilization interest rate from 13.5 percent in November to 17 percent in March, the real rate has been gradually eroded. The reserve requirement was raised, but only marginally. More positively, the NBM slowed the build-up of reserves in the first quarter of the year, allowing the currency to appreciate against the dollar, although there was little movement against the euro. Despite these measures, excess liquidity remains and credit growth is strong, adding to demand pressures.



Source: WEO; Fund staff calculations

9. **Fiscal policy has slipped, although the end-March PC on the consolidated budget was met**. While revenue growth remained robust in January and February, lack of expenditure controls caused spending to surge 11 percent in real terms compared with 2007. With the wage bill contained, most of the excess spending was on current expenditure on goods and services, as well as increased transfers to farmers for seeds and fertilizers in response to cash shortages following the drought. Moreover, project spending lagged behind projections because of capacity constraints, accentuating the shift toward current expenditures. However, despite these slippages the end-March programmed surplus of 0.4 percent of GDP was achieved, as the government cut back spending sharply in March, delaying expenditures to April, and import-related revenues continue to overperform.

Figure 1. PRGF Performance, 2007–08
(In millions of lei, unless indicated otherwise)



1/ In accordance with the TMU, the deficit target for Q1 2008 was adjusted by the amount of shortfalls in foreign loan disbursements.
Sources: Moldovan authorities; and Fund staff calculations.

10. **Potential domestic payment arrears are building up, as difficulties in maintaining cost-recovery tariffs for heating continue**. The municipality of Chisinau, in breach of the Civil Code, introduced a retroactive tariff of lei 456 for the period of December 4 to April 14, from the tariff of lei 540 introduced at the time of the last review. As a result, Termocom, the heating producer, is seeking compensation equivalent to lei 200 million that puts further pressure on the consolidated budget. These arrears were in breach of the indicative target on non-accumulation of domestic arrear.

11. **Debt is broadly sustainable.** The March Article IV and Third Review DSA suggests presently-envisaged borrowing can be accommodated. The debt-sustaining non-interest current account deficit is estimated at 20 percent of GDP. Given the positive growth outlook, implementation capacity is likely to be more of a constraint than debt sustainability, with loan disbursements consistently running behind projections.

III. Outlook and Policy Discussions

A. Macroeconomic Stability under Pressure

12. **Growth prospects remain positive, with risks on the upside.** Growth is projected at least 6-7 percent in 2008. Demand is projected to remain strong, even with the expected tightening of policies, on the back of an upsurge in FDI inflows. Robust growth in nonagricultural GDP continues, and agriculture is expected to bounce back from last year's 35 percent drop.[2] However, while a good harvest may help to ease inflation, especially for food, the end-year target of single-digit inflation now appears beyond reach. As a result, the medium-term disinflation path has been revised up by 2.5 percentage points in 2008 and 2009, and by 1 percentage point in 2010. Inflation is now targeted to be reduced below 12 percent by end-2008, with some upside risk, and to single digits in 2009.

Medium-Term Outlook, 2005–10

	2005	2006	2007	2008	2009	2010
			Est.	Proj.	Proj.	Proj.
	(Percent change, unless oterwise indicated)					
Real GDP	7.5	4.8	4.0	6.5	7.5	7.5
Inflation (end of period, y-o-y)	10.0	14.1	13.1	11.5	9.5	7.0
	(In percent of GDP, unless otherwise noted)					
Current account balance	-10.3	-11.8	-17.0	-16.5	-15.7	-15.1
Private investments	18.4	20.7	25.7	25.9	25.3	25.3
GDP, billions of lei	37.7	44.8	53.4	62.8	74.3	84.6

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

[2] The share of agriculture in GDP dropped from 14 percent in 2006 to 10 percent in 2007.

13. **The current account deficit is projected to recover only marginally in 2008**. The resumption of wine exports to Russia is expected to be somewhat slower than previously expected. Nevertheless, non-wine export growth in 2008 is expected to remain strong. While remittances are likely to be affected by the global slowdown, the impact is likely to be moderate as past experience in Moldova suggests that remittance growth tends to be countercyclical, as workers abroad cushion shocks within the country. Higher official international transfers for farmers for seeds and fertilizers will also help the current account position. The current account is projected to remain fully covered with long-term capital inflows, boosted by accelerated privatization.

14. **In the medium-term, demand pressures are projected to wind down only slowly**. The larger-than-expected impact of the drought will unwind quickly, and wine exports gradually recover their full potential. However, investment-driven demand for imports will continue to sustain substantial current account deficits in the near term. This is to be expected given that Moldova is at the start of the transition. Despite appreciation pressures, there is no immediate concern that Moldova will lose its competitive edge as it continues to enjoy low labor costs and rapid productivity growth. However, in the longer term, to ensure that the current account eventually unwinds smoothly, it will be essential to strengthen competitiveness by boosting structural reforms, including ongoing improvements to the business environment.

Sources of Financing of Domestic Demand
(in percent of GDP)

	2006	2007	2008 Proj.
Financial sector	**11.3**	**15.1**	**9.0**
Change in net foreign liabilities	-0.8	5.2	1.9
Change in deposits	14.0	11.7	9.6
Change in claims on NBM	-1.9	-1.8	-2.5
External nonfinancial sector	**8.4**	**13.8**	**14.6**
FDI	6.5	10.2	11.1
Long-term borrowing	1.7	3.6	3.5
Short-term borrowing	0.2	0.0	0.0
Fiscal Primary Balance	**-1.2**	**-0.9**	**-1.2**

Sources: Moldovan authorities, and Fund staff calculations.

B. Strengthening the Program to Face Macroeconomic Strains

15. **The review addressed three main policy challenges:**

- How to arrest rising inflation and resume disinflation;
- How to ensure the budget provides stronger support for disinflation, while preserving overall development and social objectives;
- How to avoid a continuing build-up of quasi-fiscal arrears in the energy sector.

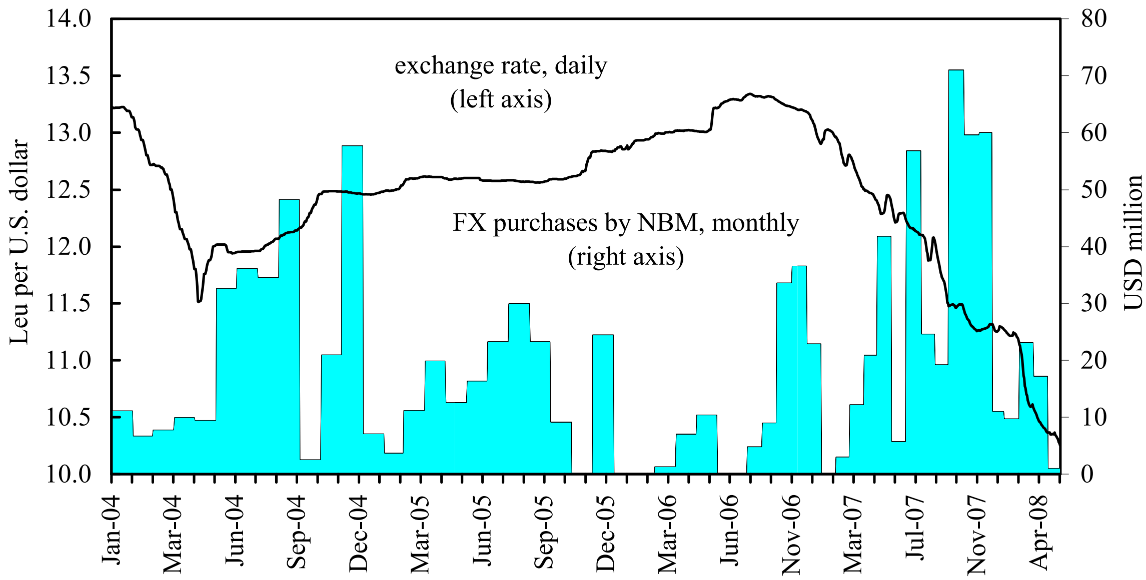
Reestablishing disinflation

16. **In light of the up-tick in inflation, the NBM is to move more aggressively to contain demand pressures**. Specifically:

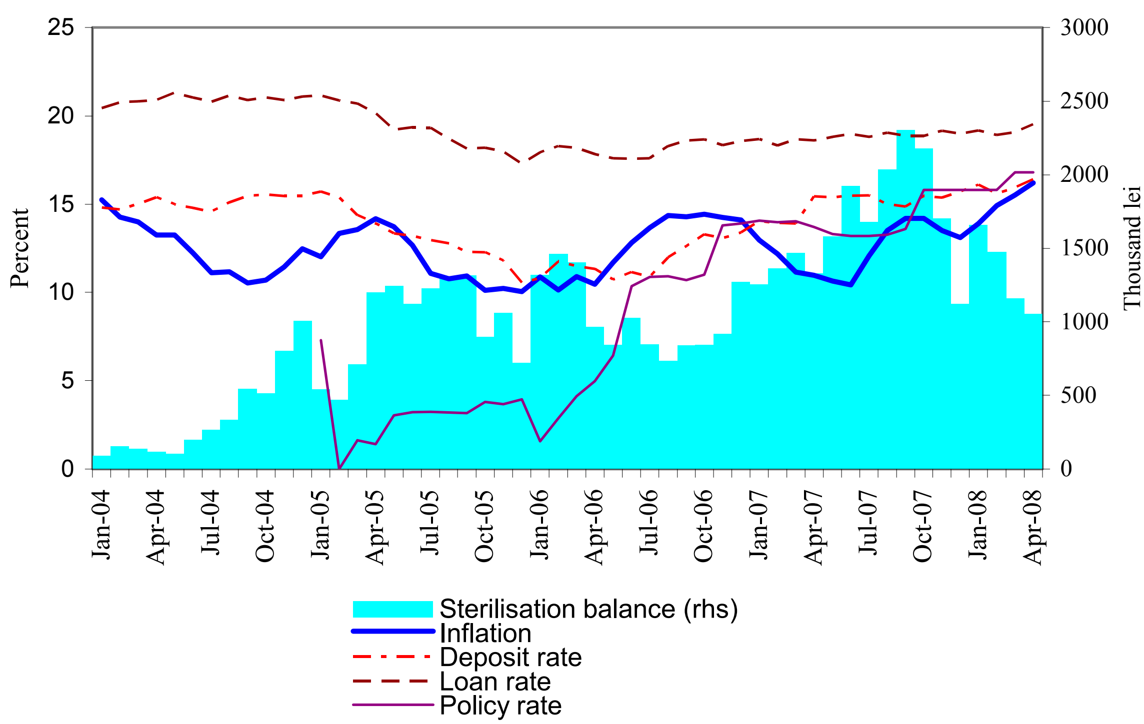
- **Monetary policy has been tightened in the second quarter of 2008**. Given the rising trend in inflation, the NBM raised interest rates on sterilization operations by 2 percentage points to 18.5 percent from May 30 (or to 2½ percent in real terms). Moreover, it has indicated its readiness for further rate hikes to ensure that its main policy rate remains positive in real terms until disinflation is firmly reestablished.
- **Surplus liquidity has been curtailed, to help improve monetary transmission and moderate credit growth**. For that purpose, on May 23, the NBM raised reserve requirements from 16 to 22 percent to become effective from July. Correspondingly, the nominal reserve money path has been adjusted to reflect this change. Excluding the effect of higher reserve requirement, real reserve money growth is programmed to slow to about 6½ percent compared with 10 percent previously. This implies noticeable monetary tightening, consistent with the disinflation objective.
- **The NBM will strengthen its focus on inflation and move away from pursuing multiple objectives.** Costs of sterilization and valuation losses due to appreciation are a matter of concern, but the NBM has committed not to sacrifice the disinflation objective for exchange rate or other considerations. The exchange rate is evolving broadly in line with fundamentals. Although the leu has strengthened against the dollar, appreciation against the euro has been less pronounced. The NBM will continue to allow the exchange rate to be determined by the market, and intervene only to avoid excessive fluctuations. By end-2008, foreign exchange reserves are projected to exceed USD 1.7 billion, which is equivalent to 3.1 months of prospective imports, and to 1.8 times foreign currency deposits.

Figure 2. Liquidity Conditions

Leu/U.S. Dollar Exchange Rate and Foreign Exchange Purchases by the Central Bank, 2004–08



Interest Rates and Central Bank Sterilisation Operations



Source: Moldovan authorities.

- **NBM should step up its effort to strengthen operational capacity and its communication strategy**. As pointed out by the October FSAP update, markets and the public appear confused about NBM's true objectives and the consistency of policy measures. The authorities will benefit from a long-term advisor, who has been provided by the Fund to enhance the NBM's analytical framework.

Fiscal policy is to lend greater support to disinflation:

- **The main challenge is to balance the disinflation objective with large development and social needs**. With revenue overperformance compared to the budget and higher privatization proceeds, the spending appetite has risen in the pre-election period. However, given mounting demand pressures, the authorities have given priority to disinflation. Parliament approved a rectified budget in June targeting a balanced budget for 2008, compared to a deficit of ½ percent of GDP previously programmed. The tightening comes from saving revenue overperformance with a switch in expenditures from goods and services to the new social assistance scheme from October 1, 2008 as well as priority public investments. The authorities and staff agreed that any further budget rectification will be discussed in the context of the fifth review, and will take into account how successful policies have been in resuming disinflation.

- **Steps have been taken to avoid a repeat of the spending overruns in early 2008**. The treasury will tighten spending controls by accelerating the introduction of zero-balance accounts for spending units, and capital budgeting is to be strengthened.

- **The authorities have established an investment fund, which will accumulate privatization receipts**. The fund will be integrated fully into the general government budget and be used to finance major infrastructure projects and other priority investments, such as a pension reform, and possibly costs of reintegration with Transnistria in the future.

Quasi-fiscal arrears in the heating sector are being addressed

17. **Outstanding heating arrears have started to be cleared.** The Chisinau administration agreed to start repaying arrears, accumulated from unpaid heating subsidies, before the next heating season begins in October. The illegal decision by the Chisinau municipality to introduce a retroactive tariff of lei 456 was challenged in the courts by Termocom, and is expected to be cancelled in the near future.

18. **The authorities are taking steps to avoid a repeat of the heating tariff dispute**. According to Termocom, the cost-recovery price this winter will increase to lei 700 from the

current lei 540 owing to higher prices for gas and electricity. Chisinau is not willing to pay the implied additional subsidy of about 0.4 percent of GDP, and may dispute again the reliability of cost-recovery estimates by Termocom. To avoid a repeat of the earlier situation, the government will facilitate the establishment of a mediator between Chisinau and Termocom that will have binding authority in disputes on heating tariffs. A lifeline tariff is to be introduced for low income households.

C. Other Structural Issues

Financial sector

19. **The privatization of the majority state-owned Banca de Economii (BEM) is progressing well**. Following the announced tender for choosing the privatization advisor on March 28, the authorities have already received a number of bids. The contract with the chosen winner will be signed by end-September, as planned.

20. **The banking sector has proved resilient to external shocks, and the recent global liquidity squeeze had virtually no impact on Moldovan banks**. Although foreign liabilities of the banking system noticeably increased, there appear to be no signs of carry trade or any financial difficulties. Growing external borrowing is accounted for by increased use of credit lines from IFIs as well as by capital injections in the form of loans in three foreign-owned banks from their parent banks. NFA of banks is projected to continue to decline slowly in dollar terms, though the balance sheet impact is weaker due to the envisaged offsetting effect of leu appreciation.

Other reforms

21. **The public sector reform is on track**. Developed in collaboration with the World Bank, the reform focuses on reducing the size of public employment, especially in education, and improving the pay structure to better align pay with skills. By end-September 2008, the government will approve the draft law, which will consolidate all forms of remuneration for civil servants into a new wage grid, and by end-December public sector employment will be reduced by 3000 people.

22. **The authorities are considering accelerating the privatization agenda for Moldtelecom**. This includes possibly launching the privatization tender for a strategic investor earlier than had previously been planned.

Prior Actions, Performance Criteria and Structural Benchmarks

Measure	Due	Status	Note
Proposed prior actions			
Rectify the general government budget, to achieve a zero deficit in 2008, as agreed in MEFP Table 3.			Budget rectifications were passed in first reading on June 30, 2008. Second reading is scheduled for July 4.
The decision by Chisinau municipality, which reintroduced a tariff for heating of 456 lei for the period of December 4 to April 14, will be contested in courts.		Observed	
Termocom will propose a mediator to the Chisinau council as described in the MEFP.		Observed	The formal proposal by Termocom was sent on June 13, 2008.
Performance criteria			
Neither government nor the NBM will provide preferential treatment to Banca de Economii (whether the tax treatment, access to general government deposits, or prudential forbearance).	Continuous	Observed	
Announce tender for privatization advisor to Banca de Economii.	31-Mar-08	Observed	The tender was announced in the FT on March 28, 2008.
Adoption of legislation to (i) give the STI the right to write-off uncollectible tax arrears and (ii) shift all tax audit, assessment, and collection powers to STI.	31-Mar-08	Not observed (implemented with delay)	The legislation was passed on June 27, 2008.
Adopt a new Licensing Law to exclude all entities licensed, regulated and supervised by the NBM and/or the NCFM from its provisions.	31-Mar-08	Observed	The Licensing Law was passed on March 14, 2008.
Sign the contract with the privatization advisor for Banca de Economii with a six-month time frame for bringing the bank to market.	30-Sep-08		
Structural benchmarks			
Heat tariffs received by utilities remain at cost recovery. A lower tariff than provided by ANRE methodology would imply new domestic expenditure arrears under the program.	Continuous	Observed	
Outstanding stock of NBM claims on government fully securitized.	31-Mar-08	Observed	
Introduction of a system whereby the State Treasury ensures that the balances in commercial banks of the social insurance budget (BASS) and the mandatory health insurance fund are zero-ed out on a daily basis.	30-Jun-08		
Remove quantitative restrictions on imports of meat and dairy products.	30-Jun-08	Observed	Import restrictions were lifted on May 23, 2008.
Introduce the targeted social assistance system throughout Moldova.	30-Sep-08		
The government approval of a draft law, which will consolidate all forms of remuneration in base pay for civil servants, with a view to implementing it in the 2009 budget year.	30-Sep-08		
Selection of an advisor through an open tender to assess the modalities for the possible privatization of Moldtelecom.	30-Sep-08		
Reduce public employment by 3000 people.	31-Dec-08		

IV. Staff Appraisal

23. **Moldova's outlook is positive**. Growth is set to recover strongly, agriculture is expected to rebound in 2008, and foreign direct investment is picking up and replacing remittances as the main driver of the economy.

24. **Progress has not come without strains**. Transition is bringing strong FDI-driven domestic demand, appreciation pressures, and a widening trade deficit.

25. **These pressures have complicated disinflation**. Driven mainly by higher food and energy prices, inflation rose to 16 percent in April. Core inflation has also been edging up and the original program objective of achieving single digit inflation by end 2008 is not likely to be reached.

26. **The authorities have reacted appropriately, although with a delay:**

- **Monetary policy has to play the major role**. The NBM has to focus on the inflation objective. It was slow to raise interest rates and tighten reserve requirements, but its commitment to raise rates further if warranted by inflationary pressures is encouraging. The banking system appears well capitalized and sufficiently liquid to tolerate monetary tightening.

- **The exchange rate should be market determined**. The NBM should limit foreign exchange interventions to smoothing out excessive fluctuations. The staff assessment raises no concerns concerning external stability, with some room for further appreciation.

- **Fiscal policy is providing support**. The willingness of the authorities to tighten the fiscal stance in the run up to the elections is commendable. The revised budget does a reasonable job in balancing development needs with disinflation.

27. **The heating sector continues to be a source of arrears**. The decision to facilitate a mediator between Chisinau and the heating company is a welcome step as it should avoid a repeat of earlier tariff disputes, which end up burdening the budget and complicating fiscal management.

28. **The current account deficit reflects recent shocks as well as the changing structure of the economy** and should gradually unwind as the shocks dissipate, although FDI-driven demand pressures will take longer to play out.

29. **The staff recommends completion of the fourth review and granting of a waiver of nonobservance of a performance criterion**. Performance under the program has been satisfactory and the policies for 2008 are appropriately ambitious.

Table 1. Moldova: Selected Indicators, 2005–10 1/

	2005	2006	2007		2008		2009		2010	
			CR. No 08/139	Est.	CR. No 08/139	Proj.	CR. No 08/139	Proj.	CR. No 08/139	Proj.
I. Real sector indicators	(Percent change; unless otherwise indicated)									
Gross domestic product										
Real growth rate	7.5	4.8	5.0	4.0	7.0	6.5	8.0	7.5	7.5	7.5
Nominal GDP (billions of lei)	37.7	44.8	51.3	53.4	58.8	62.8	68.2	74.3	76.0	84.6
Nominal GDP (billions of U.S. dollars)	3.0	3.4	4.2	4.4	5.3	6.1	6.5	7.6	7.4	8.9
Consumer Price Index (average)	11.9	12.7	12.6	12.4	11.4	13.0	7.9	10.0	6.5	8.1
Consumer Price Index (end of period)	10.1	14.1	13.4	13.1	9.0	11.5	7.0	9.5	6.0	7.0
GDP deflator	9.3	13.4	10.9	14.6	7.1	10.6	7.4	10.1	3.7	5.8
Average monthly wage (lei)	1,320	1695	2063	2063	...	...	...	...	...	...
Average monthly wage (U.S. dollars)	105	129	170	170	...	...	...	...	...	...
Saving-investment balance	(In percent of GDP)									
Foreign saving	10.3	11.8	9.7	17.0	10.3	16.4	10.6	15.7	11.3	15.1
National saving	14.3	16.5	20.3	16.3	20.0	17.5	19.7	17.9	19.1	18.6
Private	6.8	8.6	13.1	9.0	13.0	9.4	12.7	10.2	12.1	10.7
Public	7.5	7.9	7.2	7.3	7.0	8.1	7.1	7.7	7.0	7.9
Gross investment	24.6	28.4	30.0	33.3	30.3	33.9	30.4	33.5	30.4	33.7
Private	18.4	20.7	22.3	25.7	22.9	25.8	22.9	25.3	22.8	25.3
Public	6.2	7.7	7.7	7.6	7.5	8.1	7.5	8.2	7.5	8.4
II. Fiscal Indicators (general government)	(In percent of GDP)									
Primary balance (cash)	2.6	1.2	0.9	0.9	0.7	1.2	0.4	0.4	0.2	0.2
Overall balance (cash)	1.3	0.2	-0.3	-0.2	-0.5	0.0	-0.5	-0.5	-0.5	-0.5
Overall balance (commitments)	1.3	0.3	-0.6	-0.3	-0.5	0.0	-0.5	-0.5	-0.5	-0.5
Overall balance (commitments), excluding foreign-financed projects	2.2	1.1	1.0	0.7	0.7	1.1	0.5	0.4	0.4	0.4
Stock of general government debt	38.0	34.0	29.2	28.0	22.3	19.9	18.6	16.3	16.3	14.1
III. Financial indicators	(Percent change; unless otherwise indicated)									
Broad money (M3)	35.0	23.6	39.8	39.8	21.5	25.4	...	...	...	...
Velocity (GDP/end-period M3; ratio)	2.4	2.3	1.9	1.9	1.8	1.8	...	...	...	...
Reserve money	31.8	-7.0	46.4	46.4	20.0	27.4	...	...	...	...
Credit to the economy	35.0	37.8	51.7	51.7	22.0	22.5	...	...	...	...
IV. External sector indicators	(In millions of U.S. dollars, unless otherwise indicated)									
Current account balance	-307	-404	-410	-747	-552	-995	-691	-1194	-838	-1337
Current account balance (percent of GDP)	-10.3	-11.8	-9.7	-17.0	-10.3	-16.4	-10.6	-15.7	-11.3	-15.1
Remittances and compensation of employees (net)	869	1,119	1,548	1,419	2,008	1,838	2,329	1,968	2,441	2,082
Gross official reserves 2/	597	775	1,334	1,334	1,743	1,792	2,193	2,089	2,640	2,368
Gross official reserves (months of imports)	2.2	2.2	3.0	2.8	3.2	3.2	3.6	3.3	4.0	3.4
Exchange rate (MDL/$) period average	12.6	13.1	12.1	12.1	...	...	...	...	...	...
Exchange rate (MDL/$) end of period	12.8	13.1	11.3	11.3	...	...	...	...	...	...
Real effective exchange rate, change (percent)	-1.3	0.0	11.0	10.8	...	...	...	...	...	...
External debt/GDP (percent) 3/	56.2	56.5	58.8	60.0	55.1	57.8	53.6	57.3	53.3	58.6
Debt service/exports of goods and services (percent)	16.5	18.7	8.8	11.6	11.2	10.5	12.7	9.9	15.1	10.7
Social indicators, reference year										
Per capita GNI, U.S. dollars: 880 (2005)										
Life expectancy, male, years: 64.9 (2005)										

Sources: Moldovan authorities; and Fund staff estimates.

1/ Data exclude Transnistria.

2/ For 2005, includes the positive effect of reclassification of $43 million.

3/ Includes private and public debt.

Table 2. Moldova: Balance of Payments, 2006–12
(In millions of U.S. dollars; unless otherwise indicated)

	2006	2007		2008		2009		2010		2011		2012	
		CR. No 08/139	Est.	CR. No 08/139	Proj.	CR. No 08/139	Proj.	CR. No 08/139	Proj.	CR. No 08/139	Proj.	CR. No 08/139	Proj.
Current account	-404	-410	-747	-552	-995	-698	-1,194	-842	-1,337	-932	-1,471	-997	-1,585
Merchandise trade balance	-1,591	-2,213	-2,316	-2,895	-2,983	-3,367	-3,410	-3,724	-3,710	-3,812	-3,884	-4,025	-4,067
Exports of goods	1,053	1,367	1,361	1,873	1,920	2,514	2,601	2,896	3,038	3,334	3,524	3,667	3,876
of which: wine and alcohol	187	171	136	223	205	286	284	329	365	379	468	417	602
Imports of goods	-2,644	-3,580	-3,677	-4,768	-4,903	-5,881	-6,011	-6,621	-6,748	-7,146	-7,408	-7,693	-7,944
of which: energy	-545	-650	-645	-820	-992	-894	-1,076	-960	-1,093	-1,033	-1,131	-1,090	-1,165
non-energy	-2,099	-2,930	-3,032	-3,949	-3,911	-4,987	-4,935	-5,660	-5,655	-6,113	-6,277	-6,602	-6,779
Balance of services	-6	41	20	107	87	134	109	203	195	285	292	329	339
Exports of services	482	598	646	742	801	801	873	923	1,020	1,062	1,183	1,168	1,302
Imports of services	-488	-557	-626	-635	-714	-667	-764	-720	-825	-777	-891	-840	-963
Income (net)	400	635	423	784	533	897	569	904	565	896	533	894	543
Compensation of employees	523	723	593	938	768	1,088	822	1,140	870	1,164	888	1,187	909
Income on direct and portfolio investment	-109	-85	-174	-107	-208	-130	-229	-149	-266	-168	-306	-185	-305
Income on other investment	-14	-4	4	-46	-27	-60	-24	-85	-38	-100	-49	-109	-61
Current transfers (net), *of which:*	794	1,127	1,126	1,452	1,368	1,639	1,538	1,776	1,613	1,700	1,589	1,806	1,600
Remittances, net	596	825	826	1,070	1,070	1,241	1,146	1,301	1,213	1,328	1,238	1,355	1,267
Official transfers, *of which:*	59	140	140	194	113	194	190	179	202	158	139	141	124
Budget grants	24	63	63	107	107	110	124	92	132	66	66	58	58
Capital and financial account	272	827	943	949	1,411	1,131	1,473	1,298	1,624	1,401	1,737	1,500	1,859
Capital account	-23	-16	-8	-16	-8	-16	-8	-16	-8	-16	-8	-16	-8
Financial account	294	843	951	965	1,419	1,147	1,481	1,314	1,632	1,417	1,745	1,526	1,867
Direct investment	223	521	447	627	671	768	792	880	923	945	994	1,013	1,083
Portfolio investment (net)	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5
Other investments	76	327	508	342	753	383	694	438	714	477	755	518	788
Loans	26	182	266	187	384	220	394	254	414	293	455	321	488
Government, net	-30	27	27	34	39	50	50	27	37	39	39	43	43
Private net	56	155	239	152	345	169	344	227	377	254	416	278	445
Other capital flows	50	145	243	155	369	155	300	180	300	180	300	180	300
Errors and omissions	117	130	166	0	0	0	0	0	0	0	0	0	0
Overall balance	-15	547	362	396	416	433	279	456	287	470	266	513	274
Financing	15	-547	-362	-396	-416	-433	-279	-456	-287	-470	-266	-513	-274
Use of Fund credit 1/	41	11	11	13	14	16	17	-8	-9	-6	-6	-19	-17
Change of gross official reserves (increase -)	-141	-558	-529	-409	-430	-449	-297	-448	-279	-464	-260	-494	-257
Exceptional financing:	115	0	156	0	0	0	0	0	0	0	0	0	0
Operations with PPG debt	27	0	0	0	0	0	0	0	0	0	0	0	0
Accumulation of arrears on public debt	26	0	32	0	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:													
Gross official reserves 2/	775	1,334	1,334	1,743	1,792	2,193	2,089	2,640	2,368	3,104	2,628	3,598	2,885
in months of imports of goods and services	2.2	3.0	2.8	3.2	3.2	3.6	3.3	4.0	3.4	4.4	3.5	4.7	3.6
Nominal GDP	3,408	4,227	4,395	5,343	6,055	6,485	7,630	7,436	8,881	8,360	10,185	9,206	11,284
Current account balance (percent of GDP)	-12	-10	-17	-10	-16	-11	-16	-11	-15	-11	-14	-11	-14
G&S trade balance (percent of GDP)	-47	-51	-52	-52	-48	-50	-43	-47	-40	-42	-35	-40	-33
Exports G&S (percent of GDP)	45	46	46	49	45	51	46	51	46	53	46	53	46
Exports G&S growth (percent)	1	28	31	33	36	27	28	15	17	15	16	10	10
Imports G&S (percent of GDP)	-92	-98	-98	-101	-93	-101	-89	-99	-85	-95	-81	-93	-79
Imports G&S growth (percent)	14	32	37	31	31	21	21	12	12	8	10	8	7
Remittances and compensation of employees (net)	1,119	1,548	1,419	2,008	1,838	2,329	1,968	2,441	2,082	2,491	2,125	2,551	2,177
Total debt service/exports G&S (percent)	19	9	12	11	10	13	10	15	11	17	11	19	13
External debt stock (percent of GDP) 3/	57	59	60	55	58	53	57	53	59	52	59	51	58
Natural gas import price, $/1000 m3	120	170	170	193	230	213	244	221	241	228	250	0	0
External energy arrears	321	321	321	321	321	321	321	321	321	321	321	321	321
External PPG arrears	0	0	0	0	0	0	0	0	0	0	0	0	0

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

1/ Includes prospective disbursements.

2/ Includes revaluation changes, which are not captured by changes of gross official reserves in the BoP.

3/ Including energy arrears.

Table 3. Moldova: General Government Budget, 2006–10
(In millions of lei; unless otherwise indicated)

	2006	2007		2008		2009		2010	
		CR. No 08/139	Actual	CR. No 08/139	Proj.	CR. No 08/139	Proj.	CR. No 08/139	Proj.
Revenues and grants	17,845	20,886	22,292	24,163	24,552	27,646	28,106	30,398	31,753
Revenues	16,044	18,338	19,798	21,470	21,968	24,959	25,128	27,958	28,414
Tax revenues	14,889	16,928	18,171	20,020	20,597	23,291	23,483	26,104	26,718
Profit tax	1,079	1,143	1,388	418	674	500	94	600	112
Personal income tax	1,128	1,243	1,329	1,294	1,534	1,569	1,710	1,749	1,945
VAT	6,194	7,122	7,587	8,885	8,892	10,130	10,453	11,265	11,905
Excises	1,071	1,246	1,392	1,501	1,547	1,764	1,777	1,962	1,965
Foreign trade taxes	828	856	900	1,050	1,018	1,237	1,171	1,376	1,285
Other taxes	342	373	368	441	419	494	473	549	523
Social Fund contributions	3,691	4,204	4,366	5,257	5,299	6,046	6,349	6,773	7,309
Health Fund contributions	558	743	841	1,175	1,214	1,551	1,455	1,830	1,675
Non-tax revenues	1,154	1,410	1,628	1,450	1,371	1,668	1,645	1,854	1,697
NBM profit transfers	163	313	314	0	0	0	0	0	0
Grants	315	1,046	970	1,175	1,101	1,161	1,204	940	1,301
Budget support grants	62	687	5	779	647	688	661	637	714
Foreign financed projects grants	253	359	965	396	454	473	543	303	587
Revenues of special funds	1,486	1,501	1,524	1,518	1,483	1,526	1,773	1,500	2,037
Expenditure and net lending	17,739	21,119	22,416	24,447	24,552	27,987	28,487	30,777	32,147
Current expenditure	14,312	17,717	18,467	20,126	19,531	22,924	22,433	25,101	25,122
Wages	4,123	4,966	4,876	5,517	5,517	6,245	6,467	6,769	7,283
Goods and services	3,703	4,851	4,782	5,357	5,293	6,145	6,006	6,769	6,761
of which: Health Fund	1,485	1,938	1,895	2,646	2,685	3,143	3,060	3,695	3,519
Interest payments	455	645	619	692	740	616	665	551	585
Domestic	224	471	410	524	582	389	465	345	406
Foreign	231	174	200	168	159	226	200	190	179
Transfers	6,032	7,234	8,191	8,510	7,981	9,844	9,295	10,936	10,494
Transfers to economy	1,293	1,242	1,640	1,613	1,131	1,877	1,342	2,010	1,416
Transfers to households	4,739	5,992	6,551	6,897	6,850	7,967	7,953	8,926	9,078
of which: Social Fund	4,383	5,088	5,232	6,276	6,315	7,217	7,262	8,026	7,988
Other current expenditure	0	22	0	50	0	75	0	76	0
Net lending	-61	-63	-83	-66	-66	-55	-55	-61	-61
Capital expenditure	3,488	3,465	4,031	4,387	5,087	5,117	6,108	5,737	7,086
Statistical discrepancy	-4	...	0	...	...	...	...	...	...
Overall balance (cash)	101	-233	-124	-284	0	-341	-381	-380	-394
Primary balance (cash)	556	412	486	409	740	275	284	171	191
Change in arrears (+, increase)	-13	0	14	0	0	0	0	0	0
Overall balance (commitments)	114	-233	-138	-284	0	-341	-381	-380	-394
Financing	-101	233	124	284	0	341	381	380	394
Budget financing	-502	-346	-356	-416	-698	-364	-272	-336	-368
Central government	-726	-457	-280	-476	-838	-414	-322	-386	-413
Net domestic	-253	-268	-156	-245	-745	-110	-50	-43	-92
Net foreign (excl. project loans)	-641	-343	-324	-321	-292	-403	-372	-443	-411
Privatization	168	155	200	90	200	100	100	100	90
Financing gap	0	0	0	0	0	0	0	0	0
Local governments	267	40	-21	41	140	50	50	50	45
of which: privatization	227	80	207	41	140	0	0	0	0
Social Fund	30	120	87	20	0	0	0	0	0
Health Fund	-74	-50	-142	0	0	0	0	0	0
Project loans	401	579	480	699	699	705	653	716	762
Memorandum items:									
GDP (billions of lei)	44.8	49.7	53.4	58.8	62.8	68.2	74.3	76.0	84.6
Augmented deficit 1/	-149	...	...	...	...	...	...	...	...
General government debt (billions of lei)	15.2	15.5	15.0	13.1	12.5	12.7	12.1	12.4	11.9
of which: external debt	11.4	11.6	11.2	9.6	9.0	9.1	8.5	8.7	8.2

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

1/ Includes lei 250 mln of NBM recapitalization in 2006.

Table 3 (continued). Moldova: General Government Budget, 2006–10
(In percent of GDP; unless otherwise indicated)

	2006	2007		2008		2009		2010	
		CR. No 08/139	Actual	CR. No 08/139	Proj.	CR. No 08/139	Proj.	CR. No 08/139	Proj.
Revenues and grants	39.9	42.0	41.8	41.1	39.1	40.5	37.8	40.0	37.5
Revenues	35.8	36.9	37.1	36.5	35.0	36.6	33.8	36.8	33.6
Tax revenues	33.3	34.1	34.1	34.0	32.8	34.1	31.6	34.3	31.6
Profit tax	2.4	2.3	2.6	0.7	1.1	0.7	0.1	0.8	0.1
Personal income tax	2.5	2.5	2.5	2.2	2.4	2.3	2.3	2.3	2.3
VAT	13.8	14.3	14.2	15.1	14.2	14.9	14.1	14.8	14.1
Excises	2.4	2.5	2.6	2.6	2.5	2.6	2.4	2.6	2.3
Foreign trade taxes	1.9	1.7	1.7	1.8	1.6	1.8	1.6	1.8	1.5
Other taxes	0.8	0.8	0.7	0.8	0.7	0.7	0.6	0.7	0.6
Social Fund contributions	8.2	8.5	8.2	8.9	8.4	8.9	8.5	8.9	8.6
Health Fund contributions	1.2	1.5	1.6	2.0	1.9	2.3	2.0	2.4	2.0
Non-tax revenues	2.6	2.8	3.1	2.5	2.2	2.4	2.2	2.4	2.0
NBM profit transfers	0.4	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.7	2.1	1.8	2.0	1.8	1.7	1.6	1.2	1.5
Budget support grants	0.1	1.4	0.0	1.3	1.0	1.0	0.9	0.8	0.8
Foreign financed projects grants	0.6	0.7	1.8	0.7	0.7	0.7	0.7	0.4	0.7
Revenues of special funds	3.3	3.0	2.9	2.6	2.4	2.2	2.4	2.0	2.4
Expenditure and net lending	39.6	42.5	42.0	41.6	39.1	41.0	38.3	40.5	38.0
Current expenditure	32.0	35.6	34.6	34.2	31.1	33.6	30.2	33.0	29.7
Wages	9.2	10.0	9.1	9.4	8.8	9.2	8.7	8.9	8.6
Goods and services	8.3	9.8	9.0	9.1	8.4	9.0	8.1	8.9	8.0
Interest payments	1.0	1.3	1.2	1.2	1.2	0.9	0.9	0.7	0.7
Transfers	13.5	14.6	15.4	14.5	12.7	14.4	12.5	14.4	12.4
Other current expenditure	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Net lending	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capital expenditure	7.8	7.0	7.6	7.5	8.1	7.5	8.2	7.5	8.4
Statistical discrepancy	0.0	...	0.0	...	...	...	...	...	...
Overall balance (cash)	0.2	-0.5	-0.2	-0.5	0.0	-0.5	-0.5	-0.5	-0.5
Primary balance (cash)	1.2	0.8	0.9	0.7	1.2	0.4	0.4	0.2	0.2
Change in arrears (+, increase)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitments)	0.3	-0.5	-0.3	-0.5	0.0	-0.5	-0.5	-0.5	-0.5
Financing	-0.2	0.5	0.2	0.5	0.0	0.5	0.5	0.5	0.5
Budget financing	-1.1	-0.7	-0.7	-0.7	-1.1	-0.5	-0.4	-0.4	-0.4
Central government	-1.6	-0.9	-0.5	-0.8	-1.3	-0.6	-0.4	-0.5	-0.5
Net domestic	-0.6	-0.5	-0.3	-0.4	-1.2	-0.2	-0.1	-0.1	-0.1
Net foreign (excl. project loans)	-1.4	-0.7	-0.6	-0.5	-0.5	-0.6	-0.5	-0.6	-0.5
Privatization	0.4	0.3	0.4	0.2	0.3	0.1	0.1	0.1	0.1
Local governments	0.6	0.1	0.0	0.1	0.2	0.1	0.1	0.1	0.1
of which: privatization	0.5	0.2	0.4	0.1	0.2	...	...	...	...
Social Fund	0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Health Fund	-0.2	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	0.9	1.2	0.9	1.2	1.1	1.0	0.9	0.9	0.9
Memorandum items:									
Augmented deficit 1/	-0.3	...	...	...	...	...	...	...	...
General government debt	34.0	31.1	28.0	22.3	19.9	18.6	16.3	16.3	14.1
of which: external debt	25.6	23.3	21.0	16.3	14.3	13.3	11.5	11.4	9.7
GDP (billions of lei)	44.8	49.7	53.4	58.8	62.8	68.2	74.3	76.0	84.6

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

1/ Includes lei 250 mln of NBM recapitalization in 2006.

Table 3a. Moldova: General Government Budget, 2007–08 1/
(In millions of lei)

	2007	2008							
		Q1		Q2		Q3		Q4	
		CR. No 08/139	Actual	CR. No 08/139	Proj.	CR. No 08/139	Proj.	CR. No 08/139	Proj.
Revenues and grants	22,220	5,167	5,466	10,836	11,430	16,774	17,596	24,164	24,552
Revenues	19,781	4,692	5,012	9,763	10,299	14,992	15,883	21,471	21,968
Tax revenues	18,154	4,492	4,754	9,265	9,709	14,194	15,016	20,021	20,597
Profit tax	1,388	278	482	378	587	398	630	418	674
Personal income tax	1,329	320	332	621	713	922	1,073	1,294	1,534
VAT	7,587	1,899	1,904	3,986	4,071	6,242	6,543	8,885	8,892
Excises	1,392	280	325	623	696	1,048	1,094	1,501	1,547
Foreign trade taxes	899	261	234	501	464	712	734	1,050	1,018
Other taxes	369	64	60	177	154	282	288	441	419
Social Fund contributions	4,350	1,120	1,148	2,419	2,457	3,744	3,793	5,257	5,299
Health Fund contributions	841	270	269	559	568	844	862	1,175	1,214
Non-tax revenues	1,627	200	258	498	590	798	866	1,450	1,371
NBM transfers	313	0	0	0	0	0	0	0	0
Grants	919	212	122	491	371	688	557	1,175	1,101
Budget support grants	571	112	22	292	183	392	259	779	647
Foreign financed projects grants	348	100	101	199	189	297	298	396	454
Revenues of special funds	1,520	263	332	583	759	1,094	1,156	1,518	1,483
Expenditures and net lending (cash)	22,354	5,017	5,190	10,836	11,430	16,874	17,596	24,448	24,552
National Economy	3,698	530	546	1,160	1,321	1,963	2,190	2,763	3,119
Social sphere	6,911	1,694	1,745	3,509	3,986	5,287	5,595	7,371	7,609
Education	4,248	1,088	1,087	2,331	2,330	3,613	3,574	4,927	5,055
Health care	744	145	147	284	300	415	461	658	691
Other	1,919	461	512	894	1,356	1,259	1,560	1,786	1,863
Interest payments	610	203	200	354	376	526	596	693	740
Other expenditures	4,082	613	860	1,694	1,765	2,325	2,886	4,250	4,150
Social Fund expenditures	5,216	1,411	1,330	2,955	2,874	4,697	4,512	6,276	6,315
Health Fund expenditures	1,895	585	529	1,200	1,144	1,927	1,871	2,646	2,685
Net lending	-61	-19	-20	-35	-35	-51	-54	-66	-66
Unidentified expenditure	0	0	0	0	0	200	0	515	0
Statistical discrepancy	0	0	-1	0	0	0	0	0	0
Overall balance (cash)	-134	150	277	0	0	-100	0	-284	0
(excl. project loan spending)	345	320	355	355	349	381	481	413	698
Primary balance (cash)	476	353	477	354	375	426	596	409	740
Overall balance (commitments)	-240	150	77	0	-200	-100	-100	-284	0
Financing	134	-150	-277	0	0	100	0	284	0
Budget financing	-345	-320	-355	-350	-349	-382	-481	-415	-698
Central government	-271	-330	58	-370	34	-412	-128	-475	-838
Net domestic	-148	-290	6	-218	105	-308	-113	-243	-745
Net foreign (excl. project loans)	-324	-80	-70	-223	-203	-184	-167	-322	-293
Privatization	200	40	122	70	132	80	152	90	200
Local governments	-20	10	-277	20	-247	30	-217	41	140
of which: privatization	207	10	62	20	92	30	122	41	140
Social Fund	87	0	-26	0	-26	0	-26	20	0
Health Fund	-142	0	-109	0	-109	0	-109	0	0
Project loans	480	170	78	350	350	482	482	699	699

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

1/ Cumulative from beginning of the year.

Table 4. Moldova: Accounts of the National Bank of Moldova and Monetary Survey, 2006–08
(In millions of lei; unless otherwise indicated)

	2006	2007	2008							
			Q1		Q2		Q3 1/		Q4	
			CR. No 08/139	Actual	CR. No 08/139	Proj.	CR. No 08/139	Proj.	CR. No 08/139	Proj.
National Bank of Moldova										
Net foreign assets	8,140	13,254	13,474	13,218	14,207	13,545	15,305	14,908	17,007	16,056
NFA (convertible)	8,159	13,280	13,474	13,241	14,207	13,545	15,305	14,908	17,007	16,056
NFA (convertible) in program exchange rates	8,260	14,882	15,359	15,495	16,403	16,282	17,918	18,410	20,160	20,278
Gross reserves	10,005	14,869	15,286	15,105	15,987	15,175	17,154	16,586	18,828	17,695
Reserve liabilities	-1,846	-1,816	-1,811	-1,864	-1,780	-1,630	-1,849	-1,678	-1,821	-1,639
Net domestic assets	-1,628	-3,717	-3,828	-3,854	-4,226	-3,373	-4,750	-3,473	-5,564	-3,906
Net domestic assets in program exchange rates	-1,728	-5,301	-5,713	-6,130	-6,422	-6,110	-7,363	-6,975	-8,717	-8,129
Net claims on general government	1,683	-92	-417	-577	-396	-120	-507	-120	-479	-120
Credit to banks	-2,031	-3,014	-2,864	-3,118	-3,340	-3,564	-3,740	-3,917	-4,440	-4,615
o.w. sterilization balance	-1,280	-1,123	...	-1,159	...	-1,200	...	-650	...	-1,250
Other items (net)	-1,280	-610	-547	-159	-489	310	-503	564	-645	829
Reserve money	6,512	9,537	9,646	9,364	9,981	10,172	10,555	11,435	11,443	12,149
Currency in circulation	5,146	6,665	6,849	6,367	7,086	6,957	7,494	7,033	8,125	7,569
Banks' reserves	1,366	2,872	2,797	2,995	2,894	3,214	3,061	4,403	3,319	4,580
Required reserves	936	1,998	2,378	2,042	2,505	2,334	2,647	3,561	2,905	3,726
Excess reserves	430	874	419	953	389	881	414	842	414	854
Monetary Survey										
Net foreign assets	9,466	11,705	11,896	11,454	12,641	11,652	13,743	12,162	15,458	13,237
NFA (convertible)	9,511	11,855	12,096	11,600	12,841	11,799	13,943	12,309	15,658	13,383
of which: commercial banks	1,352	-1,425	-1,378	-1,641	-1,366	-1,746	-1,362	-2,599	-1,349	-2,672
Foreign assets of commercial banks	3,157	2,370	2,418	2,192	2,474	1,881	2,512	991	2,564	933
Foreign liabilities of commercial banks	-1,805	-3,796	-3,797	-3,833	-3,839	-3,627	-3,874	-3,590	-3,913	-3,606
NFA (non-convertible)	-45	-150	-200	-147	-200	-147	-200	-147	-200	-147
Net domestic assets	10,092	15,639	15,796	17,023	16,288	19,075	16,826	20,812	17,768	21,045
Net claims on general government	1,273	578	289	164	361	224	270	244	353	-167
Credit to economy	13,768	20,884	21,834	22,742	22,834	23,842	24,034	24,842	25,481	25,584
Other items (net)	-4,949	-5,823	-6,327	-5,883	-6,907	-4,990	-7,478	-4,273	-8,065	-4,372
Broad Money (M3)	19,558	27,344	27,692	28,476	28,929	30,727	30,569	32,975	33,226	34,282
Broad Money (M2: excluding FCD)	12,485	18,397	18,562	19,115	19,427	21,101	20,531	22,857	22,433	24,131
Currency in circulation	5,146	6,665	6,849	6,367	7,086	6,957	7,494	7,033	8,125	7,569
Total deposits	14,412	20,679	20,843	22,109	21,842	23,770	23,075	25,942	25,102	26,713
Domestic currency deposits	7,324	11,714	11,714	12,741	12,341	14,143	13,037	15,825	14,308	16,562
Foreign currency deposits (FCD)	7,073	8,947	9,129	9,362	9,501	9,627	10,038	10,117	10,794	10,151
Memorandum items:										
Reserve money growth (percent change; quarterly)	5.0	4.2	1.1	-1.8	3.5	8.6	5.8	12.4	8.4	6.2
Reserve money growth (percent change; annual)	-7.0	46.4	48.5	44.1	44.4	47.2	15.3	24.9	20.0	27.4
Broad money growth (percent change; quarterly)	9.7	10.4	1.3	4.1	4.5	7.9	5.7	7.3	8.7	4.0
Broad money growth (percent change; annual)	23.6	39.8	38.8	42.8	30.8	39.0	23.4	33.1	21.5	25.4
Credit to economy, (percent change, annual)	37.8	51.7	47.3	53.4	38.6	44.7	29.5	33.9	22.0	22.5
Net credit to government, (percent change, annual)	-26.6	-105.5	-126.8	-137.1	-124.0	-107.3	-133.2	-107.8	418.8	29.8
Gross international reserves (millions of U.S. dollars)	775.3	1,334	1,377	1,424	1,454	1,485	1,576	1,653	1,743	1,792
Net international reserves (millions of U.S. dollars)	632.2	1,173	1,214	1,249	1,292	1,326	1,406	1,486	1,575	1,626
Velocity (M3; end of period)	2.3	2.0	1.85	1.91	1.81	1.84	1.78	1.79	1.77	1.83
Broad money multiplier	3.0	2.9	2.9	3.0	2.9	3.0	2.9	2.9	2.9	2.8
Share of foreign currency deposits in all deposits	49.1	43.3	43.8	42.3	43.5	40.5	43.5	39.0	43.0	38.0

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

1/ Reserve requirements on attracted funds were raised from 16 to 22 percent.

Table 5: Financial Sector Indicators, 2001–07
(End-of-period; in percent, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007
Size							
Number of banks	19	16	16	16	16	15	15
Total assets of the banking system (in percent of GDP)	31.4	35.1	37.7	41.5	47.6	50.8	59.9
Credit to nongovernment sector (in percent of GDP)	16.3	18.9	22.2	23.1	26.5	30.8	39.1
Capital adequacy							
Capital adequacy ratio 1/	43.1	36.4	31.6	31.4	27.2	27.9	29.6
Liquidity							
Liquidity ratio 2/	60.2	55.8	48.1	51.0	48.0	44.2	40.1
Asset quality							
Nonperforming loans as a share of total loans	10.4	7.6	6.4	6.9	5.3	4.4	3.7
Profitability							
Return on equity	14.3	16.7	19.7	17.8	15.4	20.5	24.2
Return on assets	4.3	4.3	4.4	3.7	3.2	3.4	3.9
Interest rates							
Domestic currency average lending rate	26.2	19.3	19.4	21.1	17.3	18.6	18.9
Domestic currency average deposit rate	17.8	12.6	14.2	15.5	10.6	13.4	15.7
Interest rate spread, domestic currency	8.4	6.7	5.0	5.6	6.8	5.2	3.2
Foreign currency average lending rate	11.9	11.9	11.2	11.4	10.6	11.0	10.8
Foreign currency average deposit rate	3.1	3.4	4.2	5.3	5.2	5.6	6.5
Interest rate spread, foreign currency	8.8	8.6	7.0	6.1	5.5	5.4	4.3
Foreign currency deposits							
Share of foreign currency deposits in broad money	27.6	30.6	33.9	30.6	29.7	36.0	32.7
Share of foreign currency deposits in all deposits	44.8	47.2	50.1	44.7	41.8	49.0	43.3

Source: National Bank of Moldova.

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

2/ Liquid assets over total deposits.

Table 6: Moldova: Localized Millennium Development Goals (EGPRSP)

	2002	2003	2004	2005	2006	Targets 2010	Targets 2015
Goal: Reduce extreme poverty and hunger							
▪ Population with consumption below $4.3 (PPP) a day (percent) 1/					34.5	29.0	23.0
▪ Proportion of people under the absolute poverty line 1/	40.4	29.0	26.5	29.1	30.2	25.0	20.0
▪ Proportion of people under the extreme poverty line 1/	26.2	15.0	14.7	16.1	4.5	4.0	3.5
Goal. Achieve universal access to general secondary education							
▪ Gross enrollment ratio in general secondary education (percent)	94.1	94.7	93.2	93.5	92.4	95.0	98.0
▪ Literacy rate for the 15-24 year-old population 1/					99.5	99.5	99.5
▪ enrollment rate for pre-school programs for 3-6 year-old children	41.3	43.1	45.8	49.2	53.0	75.0	78.0
▪ enrollment rate for pre-school programs for 6-7 year-old children	66.5	78.8	69.1	75.6	81.7	95.0	98.0
Goal: Reduce child mortality							
▪ Infant mortality rate (per 1,000 live births) 1/					18.5	16.3	13.2
▪ Under-five mortality rate (per 1,000) 1/					20.7	18.6	15.3
▪ Immunization , measles (percent of children under 2 years old)	98.6	98.6	...	98.2	94.0	>96%	>96%
Goal: Improve maternal health protection							
▪ Maternal mortality ratio (per 100,000 births)	28.0	21.9	23.5	18.6	16.0	15.5	13.3
▪ Births attended by skilled health personnel (percent)	99.0	...	98.2	...	...	99.0	99.0
Goal: Combat HIV/AIDS, tuberculosis and other diseases							
▪ HIV/AIDS incidence (per 100,000 people)	5.5	4.7	6.2	8.5	10.0	9.6	8.0
▪ HIV incidence among 15-24 year-olds	9.7	6.1	9.7	11.7	13.3	11.2	11.0
▪ Mortality rate associated with tuberculosis (deaths per 100,000 people)	**15.9**	16.4	16.8	18.9	18.6	15.0	10.0
Goal: Ensure environmental sustainability							
▪ Proportion of land areas covered by forest (percent)	**10.3**	10.5	10.6	10.7	...	12.1	13.2
▪ Ratio of area protected to maintain biological diversity (percent)	**1.96**	1.96	1.96	1.96	4.65	4.65	4.65
▪ Share of population with access to improved water sources (percent)	**38.5**	39.7	44.5	45.0	46.0	59.0	65.0
▪ the share of population with access to sewage	**31.3**	31.7	32.8	43.8	44.0	50.3	65.0

1/ The methodology was changed from 2006.

Sources: Economic Growth and Poverty Reduction Strategy Paper (EGPRSP) 2004-06, EGPRSP Monitoring Unit

Table 7. Moldova: External Financing Requirements and Sources, 2004–10

(In millions of U.S. dollars)

	Actual				IMF Staff Projection			
	2004	2005	2006	2007	2008	2009	2010	2011
1. Gross financing requirements	447.2	636.9	844.8	1604.3	1676.2	1723.7	1768.3	1723.4
External current account deficit (exc. official transfers)	110.6	352.5	462.2	887.1	1107.6	1384.4	1538.4	1609.8
Debt amortization	112.0	133.5	147.8	134.3	116.1	24.2	-57.6	-152.6
Medium and long-term debt	112.0	133.5	147.8	134.3	116.1	24.2	-57.6	-152.6
Public sector	41.8	40.7	61.1	36.9	39.1	32.4	43.2	44.4
Multilateral 1/	40.5	24.6	18.7	16.9	20.1	20.9	21.9	23.1
Bonds and notes								
Other	1.3	16.1	42.4	20.0	19.0	11.5	21.3	21.3
Commercial banks								
Corporate private sector	70.2	92.8	86.7	97.4	76.9	-8.2	-100.8	-197.0
Short-term debt 2/								
Repayment of arrears	54.9	0.8	70.0	32.1	0.0	0.0	0.0	0.0
Gross reserves accumulation	148.0	128.6	140.8	528.9	429.7	296.6	278.8	260.0
IMF repurchases and repayments	21.6	21.4	24.1	22.0	22.9	18.6	8.7	6.2
2. Available financing	447.2	636.9	844.8	1604.3	1676.2	1723.7	1768.3	1723.4
Foreign direct investment (net)	82.4	225.5	223.0	447.3	670.9	791.8	922.6	994.0
Debt financing from private creditors	114.2	129.9	170.6	36.9	-278.9	-331.2	-381.4	-360.8
Medium and long-term financing	114.2	129.9	170.6	36.9	-278.9	-331.2	-381.4	-360.8
To public sector								
of which: balance of payments financing 3/								
To commercial banks								
To corporate private sector	114.2	129.9	170.6	36.9	-278.9	-331.2	-381.4	-360.8
Short-term financing								
of which: balance of payments financing 3/								
Official creditors 4/	74.9	69.2	155.2	237.2	211.2	308.8	281.7	229.3
Multilateral 1/	72.3	68.2	128.4	170.4	102.9	168.2	129.9	143.3
of which: balance of payments financing 3/								
Bilateral	2.6	1.0	26.7	66.8	108.3	140.6	151.9	85.9
To public sector	2.6	1.0	26.7	66.8	108.3	140.6	151.9	85.9
of which: balance of payments financing 3/								
prospective grants				0.0	0.0	0.0	0.0	0.0
To private sector								
Accumulation of arrears (exceptional)	42.4	26.1	60.1	0.0	0.0	0.0	0.0	0.0
Financing gap	...	...	0.0	0.0	0.0	0.0	0.0	0.0
Other flows 5/	133.3	186.2	235.9	882.9	1073.1	954.4	945.3	860.9
Memorandum item:								
Total balance of payments financing 3/	...	...	65.3	33.2	36.6	36.0	0.0	0.0
Prospective IMF augmentation	...	...	...	...	...	...	...	...

Sources: Moldovan authorities; and Fund staff estimates.

1/ Excluding the IMF.
2/ Original maturity of less than 1 year. Stock at the end of the previous period.
3/ Includes those transactions that are undertaken for the purpose of financing a balance of payments deficit or an increase in reserves.
4/ Includes both loans and grants.
5/ Includes all other net financial flows, and errors and omissions.

Table 8. Moldova: Indicators of Capacity to Repay the Fund, 2006-15 1/

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Projections							
Fund obligations based on existing credit										
(in millions of SDRs)										
Principal	16.4	14.5	7.9	11.8	5.5	3.9	10.5	14.2	15.3	15.3
Charges and interest	1.7	1.4	0.7	0.6	0.4	0.4	0.4	0.3	0.2	0.2
Fund obligations based on existing and prospective credit										
(in millions of SDRs)										
Principal	16.4	14.5	7.9	11.8	5.5	3.9	10.5	14.2	21.0	22.2
Charges and interest	1.7	1.4	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.3
Total obligations based on existing and prospective credit										
In millions of SDRs	18.1	16.0	8.6	12.5	6.1	4.5	11.1	14.7	21.4	22.5
In millions of US$	26.7	24.3	13.3	19.3	9.5	7.0	16.9	22.3	32.6	34.2
In percent of exports of goods and services	1.7	1.2	0.5	0.6	0.2	0.1	0.3	0.4	0.6	0.5
In percent of debt service 2/	31.4	31.4	15.9	29.8	13.8	10.6	21.9	27.3	39.7	47.4
In percent of GDP	0.8	0.6	0.2	0.3	0.1	0.1	0.1	0.2	0.3	0.3
In percent of Gross International Reserves	3.4	1.8	0.8	0.9	0.4	0.3	0.6	0.7	1.0	1.0
In percent of quota	14.7	13.0	7.0	10.1	5.0	3.6	9.0	11.9	17.4	18.2
Outstanding Fund credit										
In millions of SDRs	93.8	101.0	121.4	121.0	115.5	111.6	101.1	86.9	65.9	43.7
In millions of US$	138	153	187	187	179	174	154	132	100	67
In percent of exports of goods and services	9	8	7	5	4	4	3	2	2	1
In percent of debt service 2/	162	199	224	288	259	263	200	162	122	92
In percent of GDP	4	3	3	2	2	2	1	1	1	0
In percent of Gross International Reserves	18	12	11	9	8	7	5	4	3	2
In percent of quota	112	125	152	151	145	141	125	107	81	54
Net use of Fund credit (millions of SDRs)	27.0	18.6	15.0	-0.4	-5.5	-3.9	-10.5	-14.2	-21.0	-22.2
Disbursements	43.4	33.2	22.9	11.4	-	-	-	-	-	-
Repayments and Repurchases	16.4	14.5	7.9	11.8	5.5	3.9	10.5	14.2	21.0	22.2
Memorandum items:										
Exports of goods and services (in millions of US$)	1,536	2,007	2,721	3,474	4,058	4,707	5,178	5,709	5,896	6,291
Debt service (in millions of US$) 2/	84.9	77.2	83.3	64.7	68.9	66.0	77.2	81.8	82.1	72.1
Nominal GDP (in millions of US$)	3,408	4,395	6,049	7,630	8,881	10,185	11,284	12,243	12,746	13,600
Gross International Reserves (in millions of US$)	775	1,334	1,766	2,083	2,371	2,631	2,888	3,134	3,263	3,481
Average exchange rate: SDR/US$	0.68	0.66	0.65	0.65	0.65	0.64	0.66	0.66	0.66	0.66
Quota (millions of SDRs)	123.2	123.2	123.2	123.2	123.2	123.2	123.2	123.2	123.2	123.2

Sources: IMF staff estimates and projections.

1/ Assumes prospective PRGF disbursements of SDR 22.9 in 2008 and 11.4 million in 2009.

2/ Total debt service includes IMF repurchases and repayments.

Table 9. Moldova: Quantitative Performance Criteria and Indicative Targets, December 31, 2007–March 31, 2009 1/ 2/

	31-Dec-07	31-Mar-08		30-Jun-08 Indicative		30-Sep-08		31-Dec-08 Indicative		31-Mar-09 Indicative
	Actual	CR. No 08/139	Actual	CR. No 08/139	Rev.	CR. No 08/139	Rev.	CR. No 08/139	Rev.	Proposed
1. Quantitative performance criteria										
				(In millions of lei unless noted otherwise)						
Floor for general government fiscal balance	-134	150	...	0	0	-100	0	-284	0	0
Adjusted floor for general government fiscal balance 3/	-485	242	277	...	...	...	...	...	...	...
Ceiling on net domestic assets of the NBM (level)	-5,301	-5,713	-6,130	-6,422	-6,110	-7,363	-6,975	-8,717	-8,129	-8,717
Floor on net international reserves of the NBM (level)	14,882	15,359	15,495	16,403	16,282	17,917	18,410	20,160	20,278	21,292
Ceiling on contracting or guaranteeing of non-concessional external debt of the general government (Euro million)	60	9	9	9	9	9	9	9	9	...
EBRD/EIB road project	60	0	0	0	0	0	0	0	0	...
CEB health loan	0	0	9	9	9	9	9	9	9	...
Other	0	9	0	0	0	0	0	0	0	...
2. Continuous performance criteria										
Ceiling on accumulation of external payment arrears	0	0	0	0	0	0	0	0	0	0
				(In millions of lei)						
3. Indicative targets										
Ceiling on reserve money (level)	9,537	9,646	9,364	9,981	10,172	10,555	11,435	11,443	12,149	12,575
Ceiling on change in domestic expenditure arrears of the general government	150	0	200	0	150	0	100	0	0	0
Ceiling on the general government wage bill	4,876	1,286	1,229	2,714	2,658	4,138	4,138	5,517	5,517	1,617
				(In millions of lei, unless noted otherwise)						
4. Baseline assumptions										
Concessional external debt financing	603	170	78	350	350	591	583	808	800	63
in millions of dollars	53	15	7	31	33	53	55	73	77	6
Privatization receipts	407	50	184	90	224	110	274	131	340	110

Sources: Moldovan authorities; and Fund staff estimates.

1/ Numbers for 2008 refer to cumulative flows from end-2007, unless noted otherwise. Quantitative targets are based on the accounting exchange rate of MDL 13.2911/US$.
2/ All variables are stocks, except general government fiscal balance and concessional external debt borrowing, which are flows.
3/ Adjuster applies to March 31, 2008 whereby if disbursements of external debt exceed the program assumptions, the limits on the overall cash deficit of the general government will be increased by the corresponding amount up to a cumulative cap of MDL 200 million. In the case of shortfalls, the limits will be decreased by the full amount.

ATTACHMENT I

June 30, 2008

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

Dear Mr. Strauss-Kahn:

1. The attached Memorandum is an update to the previous Memorandum of Economic and Financial Policies (MEFP) for 2008. It lays out policies and measures that we deem necessary to implement in the remainder of this year to achieve core objectives of the program, which are consistent with our National Development Strategy (NDS) as well as our prior engagements with the European Union. We request the support of the International Monetary Fund under the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF).

2. The overarching objective of the government and the National Bank is to improve well-being of population by promoting sustainable growth and reducing poverty. To this end, the policies set forth in the attached memorandum aim at ensuring macroeconomic stability and financial sector development, improving the business environment, including through reduction of the footprint of the state in the economy, and strengthening the social safety net. In addition, in consultation with the Fund, we will take additional measures that may become appropriate for reaching these objectives.

3. We hereby request completion of the fourth review under the PRGF arrangement and a waiver for non-observance of the end-March performance criterion on adopting legislation on the State Tax Inspectorate, which has been approved by the new Government on its first meeting of the Cabinet on April 2 and approved by Parliament on June 27, 2008. All other performance criteria as well as prior actions for this review have been met.

4. We will communicate to the IMF the information needed to monitor progress in implementing the program, and will conduct discussions with the Fund for the fifth review under

the PRGF arrangement. We anticipate that the fifth review will be conducted based on end-September 2008 data and be completed no later than end-January 2009. The Sixth and the final review under the PRGF arrangement will be based on end-March 2009 data, to be completed by end-June 2009. Before that we will hold intensive consultations internally as well as with the Fund regarding a possible successor arrangement.

5. We are committed to transparency, and thus we authorize the IMF to disseminate the MEFP and the associated Technical Memorandum of Understanding, as well as staff report that will be examined by the IMF Executive Board.

Sincerely yours,

/s/
Zinaida Greceanii
Prime Minister
Government of the Republic of Moldova

/s/
Mariana Durlesteanu
Minister
Ministry of Finance

/s/
Leonid Talmaci
Governor
National Bank of Moldova

Attachments: Update to Memorandum of Economic and Financial Policies for 2008
Technical Memorandum of Understanding

ATTACHMENT II

UPDATE TO MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2008

June 30, 2008

A. Introduction

1. The present document updates the Memorandum of Economic and Financial Policies (MEFP) drafted by the authorities of the Republic of Moldova on February 19, 2008, to account for recent macroeconomic developments. We remain committed to meet our obligations assumed previously under the program.

B. Recent Developments

2. Despite relatively good performance in the face of the successive shocks suffered during 2006-07, macroeconomic stabilization and growth recovery remain major challenges for 2008. Growth prospects remain positive, although the global slowdown is expected to moderate the recovery with real GDP growth estimated at no less than 6 ½ percent in 2008. Demand, driven by strong investor interest in Moldova, has been stronger than expected. The current account deficit is estimated to have widened to 17 percent of GDP in 2007, but remains more than covered by long-term capital. Inflationary pressures are also stronger than expected, with annual inflation reaching 16.2 percent in May 2008. While this partly reflects food and energy price inflation in the region, with a strong imported component, core inflation has also edged up, compromising the objective of achieving single digit inflation by end-2008. Strong inflows of foreign exchange and the global weakening of the US dollar continue to put pressure on the leu, which has appreciated by 4.5 percent against the Euro since the beginning of the year.

C. Performance under the Program

3. The Government and the NBM have implemented the measures under the MEFP of February 19, 2008. With only one exception, all end-March quantitative performance criteria and indicative targets have been observed, some with a margin. Chisinau municipality failed to pay heating subsidies to the utilities resulting in a build-up of about 0.3 percent of GDP in payment arrears, inconsistent with the indicative target on non-accumulation of domestic arrears.

4. On structural reforms, the following actions have been completed by end-March:

   a. Exclusion of all licensed entities regulated or supervised by NBM and/or NCFM from the provisions of Law #235 on the key principles of regulating entrepreneurial activity was achieved by making changes to the Law in article 1 with the sentence reading as follows: "This law does not apply to the entrepreneurial activity in the financial domain (banking and non-banking)." The law containing the aforementioned amendments was voted by Parliament and published on 14 March, 2008 (Law #279);

b. With a view to subsequently privatize the state-owned Banca de Economii JSC, the Government of the Republic of Moldova announced a tender in Financial Times for a privatization advisor on March 28, 2008;

c. On 2 April 2008, during the first sitting in its new composition, the Government approved two draft legislative acts on (i) granting to the Main State Tax Inspectorate the right to write off uncollectible tax arrears and (ii) transfer of all functions of tax control, tax assessment and tax collection to MSTI; the drafts were accordingly reviewed and approved by the legislative on June 27, 2008;

d. The law on licensing was amended on March 14, to exclude explicitly financial institutions currently licensed by the NBM and the NCFM.

e. In view of enhancing the capacity of carrying out analysis and research of monetary policy promoted by NBM, the NBM's Department of Monetary Policy and Research was restructured by 1 January 2008;

f. The monetary policy of the NBM for 2008 envisages that the base rate shall be approved by the Administrative Council of the NBM as a reference base and shall serve as the maximum rate for liquidity sterilization operations and, accordingly, as a minimum rate for banks' refinancing operations. During its sitting of 31 January 2008 the Administrative Council of the NBM decided that the base rate shall apply to the main operations making part of short-term monetary policy.

g. The quantitative restrictions on meat and dairy products were removed as of May 23, 2008.

h. The outstanding stock of NBM claims on the government has been fully securitized and converted into tradable papers.

D. Objectives under the Program

5. Our overall objectives—wellbeing of population and progress of society—remain as outlined in the Government's Action Plan. We believe that the Action Plan—together with the NDS—form a firm foundation for our future integration with the European Union. Macroeconomic stability and enhancing efficiency of public service are the paramount conditions for the successful implementation of these objectives.

6. For successful implementation of the program, we believe that four main issues need to be addressed:

- Strengthening monetary policy implementation to dampen growing demand pressures and resume disinflation;
- Ensuring that fiscal policy provides strong support for disinflation, while preserving the overall development objectives set out in the 2008 budget;
- Establishing a firm mechanism to maintain heating tariffs at cost recovery in the face of higher imported energy costs, and to put the sector on a sound financial footing, including settlement of outstanding arrears.
- Implementing a targeted social assistance system to protect the most vulnerable, facing higher food and energy prices.

E. Resuming Disinflation

7. **The main burden for disinflation remains on the National Bank of Moldova (NBM)**. With demand pressures stronger than expected in the face of strong capital inflows, the NBM is taking the following actions to reestablish disinflation:

- **Tighten the monetary policy stance through the NBM's sterilization operations**. For this purpose, the interest rate on sterilization operations was raised to ensure that the policy rate is kept substantially positive in real terms until disinflation is well-entrenched. Moreover, the NBM stands ready to further increase interest rates should this prove insufficient to reverse the trend inflation.
- **Improve monetary transmission through an increase in reserve requirements**. In order to reduce excess liquidity, on May 23, 2008 the NBM took a decision to increase reserve requirements to 22 percent.
- **Maintain a flexible exchange rate regime**. If inflows of foreign exchange persist, the NBM will only intervene to smooth excessive fluctuations in the leu, while allowing markets to determine the appropriate exchange rate.
- **The NBM will strengthen its operational capacity and communications strategy to better manage inflationary expectations**. In this process we hope to benefit from the long-term resident advisor that has recently been appointed by the Fund.

8. **In light of higher food and energy prices, the reserve money path has been adjusted to achieve a target of reducing inflation below 12 percent by end 2008, and single digits in 2009**. Consistent with this program, we expect foreign exchange reserves to reach USD 1.7 billion or at least 3.1 months of prospective imports by the end of 2008.

9. **Fiscal policy will remain tight in 2008 to support disinflation and build confidence in the program**. The budget has been rectified to tighten the fiscal position through revenue overperformance to achieve a balanced budget for 2008, while raising spending to allow implementation of the new social assistance scheme starting October 1, 2008, and provide room for higher investment. Any future budget rectification will be discussed in the framework of the fifth review. Our priority is to channel overperformance to investments, which have a minimal inflationary impact. With privatization proceeds projected to be substantially higher than expected in 2008, the government is planning the establishment of an investment fund that will be fully integrated into the fiscal framework. To help avoid a repeat of the spending overruns in early 2008, we will strengthen capital budgeting and bring forward the introduction of zero-balancing for spending units to improve treasury controls.

F. Restoring the Finances of the Heating Sector

10. **Heating tariffs continue to be under pressure from rising costs.** In breach of earlier commitments, and the Civil Code, the municipality of Chisinau introduced a retroactive tariff of 456 lei for the period of December 4 to April 14, while setting a cost tariff of 540 lei from April 14. This decision is being contested in court. Being concerned that the situation may endanger the whole energy system of the country, the government will take measures through the creditors' committee to encourage Termocom to propose an independent mediator to Chisinau council who will assist the parties in obtaining a mutually acceptable and sustainable solution to the tariff dispute.

Table 1. Prior Actions, Performance Criteria and Structural Benchmarks

Measure	Due	Status	Note
Proposed prior actions			
Rectify the general government budget, to achieve a zero deficit in 2008, as agreed in MEFP Table 3.			Budget rectifications were passed in first reading on June 30, 2008. Second reading is scheduled for July 4.
The decision by Chisinau municipality, which reintroduced a tariff for heating of 456 lei for the period of December 4 to April 14, will be contested in courts.		Observed	
Termocom will propose a mediator to the Chisinau council as described in the MEFP.		Observed	The formal proposal by Termocom was sent on June 13, 2008.
Performance criteria			
Neither government nor the NBM will provide preferential treatment to Banca de Economii (whether the tax treatment, access to general government deposits, or prudential forbearance).	Continuous	Observed	
Announce tender for privatization advisor to Banca de Economii.	31-Mar-08	Observed	The tender was announced in the FT on March 28, 2008.
Adoption of legislation to (i) give the STI the right to write-off uncollectible tax arrears and (ii) shift all tax audit, assessment, and collection powers to STI.	31-Mar-08	Not observed (implemented with delay)	The legislation was passed on June 27, 2008.
Adopt a new Licensing Law to exclude all entities licensed, regulated and supervised by the NBM and/or the NCFM from its provisions.	31-Mar-08	Observed	The Licensing Law was passed on March 14, 2008.
Sign the contract with the privatization advisor for Banca de Economii with a six-month time frame for bringing the bank to market.	30-Sep-08		
Structural benchmarks			
Heat tariffs received by utilities remain at cost recovery. A lower tariff than provided by ANRE methodology would imply new domestic expenditure arrears under the program.	Continuous	Observed	
Outstanding stock of NBM claims on government fully securitized.	31-Mar-08	Observed	
Introduction of a system whereby the State Treasury ensures that the balances in commercial banks of the social insurance budget (BASS) and the mandatory health insurance fund are zero-ed out on a daily basis.	30-Jun-08		
Remove quantitative restrictions on imports of meat and dairy products.	30-Jun-08	Observed	Import restrictions were lifted on May 23, 2008.
Introduce the targeted social assistance system throughout Moldova.	30-Sep-08		
The government approval of a draft law, which will consolidate all forms of remuneration in base pay for civil servants, with a view to implementing it in the 2009 budget year.	30-Sep-08		
Selection of an advisor through an open tender to assess the modalities for the possible privatization of Moldtelecom.	30-Sep-08		
Reduce public employment by 3000 people.	31-Dec-08		

Table 2. Moldova: Quantitative Performance Criteria and Indicative Targets, December 31, 2007–March 31, 2009 1/ 2/

	31-Dec-07	31-Mar-08		30-Jun-08 Indicative		30-Sep-08		31-Dec-08 Indicative		31-Mar-09 Indicative
	Actual	CR. No 08/139	Actual	CR. No 08/139	Rev.	CR. No 08/139	Rev.	CR. No 08/139	Rev.	Proposed
1. Quantitative performance criteria										
	(In millions of lei unless noted otherwise)									
Floor for general government fiscal balance	-134	150	...	0	0	-100	0	-284	0	0
Adjusted floor for general government fiscal balance 3/	-485	242	277	...	...	...	...	...	...	...
Ceiling on net domestic assets of the NBM (level)	-5,301	-5,713	-6,130	-6,422	-6,110	-7,363	-6,975	-8,717	-8,129	-8,717
Floor on net international reserves of the NBM (level)	14,882	15,359	15,495	16,403	16,282	17,917	18,410	20,160	20,278	21,292
Ceiling on contracting or guaranteeing of non-concessional external debt of the general government (Euro million)	60	9	9	9	9	9	9	9	9	...
EBRD/EIB road project	60	0	0	0	0	0	0	0	0	...
CEB health loan	0	0	9	9	9	9	9	9	9	...
Other	0	9	0	0	0	0	0	0	0	...
2. Continuous performance criteria										
Ceiling on accumulation of external payment arrears	0	0	0	0	0	0	0	0	0	0
	(In millions of lei)									
3. Indicative targets										
Ceiling on reserve money (level)	9,537	9,646	9,364	9,981	10,172	10,555	11,435	11,443	12,149	12,575
Ceiling on change in domestic expenditure arrears of the general government	150	0	200	0	150	0	100	0	0	0
Ceiling on the general government wage bill	4,876	1,286	1,229	2,714	2,658	4,138	4,138	5,517	5,517	1,617
	(In millions of lei, unless noted otherwise)									
4. Baseline assumptions										
Concessional external debt financing	603	170	78	350	350	591	583	808	800	63
in millions of dollars	53	15	7	31	33	53	55	73	77	6
Privatization receipts	407	50	184	90	224	110	274	131	340	110

Sources: Moldovan authorities; and Fund staff estimates.

1/ Numbers for 2008 refer to cumulative flows from end-2007, unless noted otherwise. Quantitative targets are based on the accounting exchange rate of MDL 13.2911/US$.
2/ All variables are stocks, except general government fiscal balance and concessional external debt borrowing, which are flows.
3/ Adjuster applies to March 31, 2008 whereby if disbursements of external debt exceed the program assumptions, the limits on the overall cash deficit of the general government will be increased by the corresponding amount up to a cumulative cap of MDL 200 million. In the case of shortfalls, the limits will be decreased by the full amount.

Table 3. Moldova: General Government Budget, 2008
(In millions of lei; unless otherwise indicated)

	2008
	Proj.
Revenues and grants	24,552
Revenues	21,968
Tax revenues	20,597
Profit tax	674
Personal income tax	1,534
VAT	8,892
Excises	1,547
Foreign trade taxes	1,018
Other taxes	419
Social Fund contributions	5,299
Health Fund contributions	1,214
Non-tax revenues	1,371
NBM profit transfers	0
Grants	1,101
Budget support grants	647
Foreign financed projects grants	454
Revenues of special funds	1,483
Expenditure and net lending	24,552
Current expenditure	19,531
Wages	5,517
Goods and services	5,293
of which: Health Fund	2,685
Interest payments	740
Domestic	582
Foreign	159
Transfers	7,981
Transfers to economy	1,131
Transfers to households	6,850
of which: Social Fund	6,315
Other current expenditure	0
Net lending	-66
Capital expenditure	5,087
Statistical discrepancy	...
Overall balance (cash)	0
Primary balance (cash)	740
Change in arrears (+, increase)	0
Overall balance (commitments)	0
Financing	0
Budget financing	-698
Central government	-838
Net domestic	-745
Net foreign (excl. project loans)	-292
Privatization	200
Financing gap	0
Local governments	140
of which: privatization	140
Social Fund	0
Health Fund	0
Project loans	699
Memorandum items:	
GDP (billions of lei)	62.8
Augmented deficit 1/	...
General government debt (billions of lei)	12.5
of which: external debt	9.0

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

1/ Includes lei 250 mln of NBM recapitalization in 2006.

ATTACHMENT III

TECHNICAL MEMORANDUM OF UNDERSTANDING

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

I. PROGRAM ASSUMPTIONS

2008

2. 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 Moldovan leu (MDL) to the U.S. dollar has been set at MDL 13.2911/US$. Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the cross rates USD/€=1.2660, USD/£=1.8702, SDR/USD=0.6773.

II. Reporting Requirements

3. Macroeconomic data necessary to assess performance criteria and indicative benchmarks to measure performance will be provided to Fund staff with including, but not limited to data as specified in Table 2. The authorities will transmit promptly to Fund staff any data revisions.

III. PROGRAM TARGETS AND DEFINITIONS

Floor on the Stock of Net International Reserves (NIR)
(In millions of lei)

Position on	Minimum Levels Net international reserves
March 31, 2008	15,602 (actual)
June 30, 2008	16,282 (indicative target)
September 30, 2008	18,410 (performance criterion)
December 31, 2008	20,278 (indicative target)
March 31, 2009	21,292 (indicative target)

4. **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 and controlled by the NBM, including holdings of securities denominated in convertible currencies that are freely usable for settlement of international transactions, calculated using program assumptions on bilateral exchange rates. Excluded from reserve assets are capital subscriptions to foreign financial institutions, long-term non-financial assets, funds disbursed by the World Bank or other international institutions assigned for on-lending and project implementation, assets in nonconvertible currencies, and foreign assets pledged as collateral or otherwise encumbered, including claims in foreign exchange arising from transactions in derivative assets (futures, forwards, swaps, and options). Reserve liabilities in convertible currencies are defined as use of Fund credit, 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.

Ceilings on Reserve Money and the Net Domestic Assets (NDA) of the NBM
(In millions of lei)

Position on	Maximum level NDA	Maximum level Reserve Money (Indicative target)
March 31, 2008	-6,238 (actual)	9,364 (actual)
June 30, 2008	-6,110 (indicative target)	10,172
September 30, 2008	-6,975 (performance criterion)	11,435
December 31, 2008	-8,129 (indicative target)	12,149
March 31, 2009	-8,717 (indicative target)	12,575

5. **Reserve money** is defined as currency in circulation (outside banks), vault cash of banks, total required reserves, and balances on correspondent accounts of banks in the NBM in lei.

6. **Net domestic assets of the NBM** is defined as the difference between reserve money (defined in paragraph 8) and net foreign assets of the NBM.

7. **Net foreign assets of the NBM** are defined as gross reserves in convertible currencies (defined in paragraph 4) plus foreign assets in nonconvertible currencies, funds disbursed by the World Bank or other international institutions assigned for on-lending and project implementation, and foreign assets pledged as collateral or otherwise encumbered, including claims in foreign exchange arising from transactions in derivative assets, and net other foreign assets, minus foreign exchange liabilities of the NBM to nonresidents.

Floor on the Overall Cash Balance of the General Government
(In millions of lei)

	Cash balance
Cumulative change from December 31, 2007	
March 31, 2008 (actual)	276
June 30, 2008 (indicative target)	0
September 30, 2008 (performance criterion)	0
December 31, 2008 (indicative target)	0
March 31, 2009 (indicative target)	0

8. The **general government** is defined as comprising the central and local government budgets. The central government includes also the Social Insurance Fund, the Health Insurance Fund, the Investment Fund, special and extrabudgetary funds, and foreign-financed investment projects. The local government includes also special and extrabudgetary funds. The authorities will inform the Fund staff of any new special or extrabudgetary funds that may be created during the program period to carry out operations of a fiscal nature and will ensure that these will be included in the general government. Excluded are any government-owned entities with a separate legal status. Net credit of the banking system to general government is defined as outstanding claims of the banking system on the general government (exclusive of the claims associated with accrued interest, tax and social contribution payments by commercial banks, and foreign financed on-lending by banks), including overdrafts, direct credit and holdings of government securities, less deposits of the general government (excluding accrued interest on government deposits, and including the accounts for foreign-financed investment projects).[3] The Ministry of Finance will provide data on the holdings of government securities and foreign-financed investment projects.

9. The **quarterly limits on the overall cash deficit of the general government** are cumulative and will be monitored **from the financing side** as the sum of net credit of the banking system to the general government (excluding the change in the stock of government securities issued to recapitalize the central bank), the general government's net placement of securities outside the domestic banking system, other net credit from the domestic non-banking sector to the general government, the general government's receipt of disbursements from external debt[4] for direct budgetary support and for specific projects minus amortization paid, and privatization proceeds stemming from the sale of the general government's assets, after deduction of the costs directly associated with the sale of these assets.

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

[4] Debt is defined as in footnote 5 in the section on limits on external debt.

10. The **quarterly limits on the general government wage bill** are cumulative and measured as the sum of total salaries, bonus payments and other types of remuneration, social security contributions to the National Social Insurance House, and contributions to the National Health Insurance Company paid to all employees in the general government sector as defined in paragraph 11, excluding wages paid to employees of the National Social Insurance House and the National Health Insurance Company. For 2007, the general government wage bill based on such a definition amounted to 4,970 million lei.[5]

Ceiling on the General Government Wage Bill
(In millions of lei)

	Indicative Target
Cumulative change from December 31, 2007	
March 31, 2008 (actual)	1,229
June 30, 2008	2,714
September 30, 2008	4,138
December 31, 2008	5,517
March 31, 2009	1,617

11. **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.

12. **External-debt limits** apply to the contracting or guaranteeing of (i) short-term non-concessional external debt (with an original maturity of up to and including one year) and (ii) non-concessional medium- and long-term debt with original maturities of more than one year. The limit is zero with the exception of the health project financed by €9 million from the Council of Europe Development Bank (CEB). In 2007, the ceiling was raised for a road project to be partly financed by €30 million from the European Investment Bank (EIB) and by €30 million from the European Bank for Reconstruction and Development (EBRD). The first phases of the EBRD and EIB road project (in the amount of €12.5 million each) will not have grant co-financing, but the second phases (in the amount of €17.5 million each) are expected to include grant co-financing sufficient to bring the overall level of concessionality on the second phases of the project to at least the target level of 35 percent. Short-term debt includes all short term obligations, excluding import trade credits. Short-

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

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 disbursement. Medium- and long-term debt denominated in currencies other than the U.S. dollar shall be valued in U.S. dollars at actual cross-exchange rates.

Ceilings on Contracting or Guaranteeing of Non-concessional External Debt of the General Government
(In millions of Euro)

	CEB Health Project	Other
Cumulative change from December 31, 2007		
March 31, 2008 (actual)	0	0
June 30, 2008 (indicative target)	9	0
September 30, 2008 (performance criterion)	9	0
December 31, 2008 (indicative target)	9	0

13. The term debt has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), adopted August 24, 2000).[6] 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.

14. 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.

15. **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 assess the concessionality of loans with original maturities of less than 15 years. To both the ten-year and six-month averages, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–30 years; and 1.25 percent for over 30 years. Under this definition, only loans with a grant element

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

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.

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

17. Expenditure arrears are defined as the difference between payment obligations due, and actual payments made. They can arise on any expenditure item, including transfers, debt service, wages, pensions, energy payments and goods and services. Expenditure arrears for goods and services to suppliers are defined as obligations to suppliers, which are due but not paid for more than 30 days and are non-disputed. Arrears between the state budget, local government, social and health funds, and all extrabudgetary funds are not counted towards the expenditure arrears' ceiling on the general government.

IV. ADJUSTERS

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

Table 2. Moldova: Data to be Reported to the IMF

Item	Periodicity
Fiscal data (to be provided by the MoF) General budget operations for revenues, expenditure and financing (functional and economic)	Monthly, within three weeks of the end of each month
General government wage bill	Monthly, within three weeks of the end of each month
Domestic debt	Monthly, within two weeks of the end of each month
Domestic arrears	Monthly, within three weeks of the end of each month
Privatization receipts received by the budget (in lei and foreign exchange, net of divestiture transactions costs)	Monthly within three weeks of the end of each month
Monetary data (to be provided by the NBM)	Weekly within one week of the end of each week
Monetary survey of the NBM Monetary survey for the whole banking system	Weekly within two weeks of the end of each week
Net claims on general government (NBM and commercial banks)	Weekly within two weeks of the end of each week
Financial indicators of commercial banks (from NBM's Banking Supervision)	Monthly within four weeks of the end of each month
Foreign exchange cash flows	Monthly, within two weeks of the end of each month
Foreign exchange operations (NBM data)	Monthly, within two weeks of the end of each month
Foreign exchange market data (volume of trades, interventions, exchange rates)	Daily within 12 hours of the end of each day
NBM's sterilization operations	Weekly within one week of the end of each week
Interbank transactions (volumes, average rates)	Weekly within one week of the end of each week
Balance of Payments (to be provided by the NBM)	
Current and capital account data.	Quarterly within six weeks of the end of each quarter
Transfers/remittances through the banking system	Monthly within six weeks of the end of each month
External debt data (to be provided by MoF) Information on all new external loans contracted by the government or government guarantee.	Monthly within three weeks of the end of each month

Item	Periodicity
Total debt service due by creditor, and debt service paid.	Monthly within three weeks of the end of each month
Disbursements of grants and loans by creditor	Monthly, within three weeks of the end of each month
Other data (to be provided by NBS)	
Overall consumer price index.	Monthly within two weeks of the end of each month.
National accounts by sector of production, in nominal and real terms.	Quarterly within three months of the end of each quarter.
Export and import data on value, volume, and unit values, by major categories and countries.	Monthly within two months of the end of each month.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criterion—Informational Annexes

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

June 30, 2008

Mission dates	May 7–21, 2008
Team	G. Justice (head), N. Gigineishvili, S. Hida, M. Alvesson (all EUR), I. Asmundson (PDR) and J. Mathisen (resident representative).
PRGF	The three-year PRGF arrangement was approved with the conclusion of the 2006 Article IV consultation on May 5, 2006. Cumulative access was SDR 80.08 million (65 percent of quota). Owing to external shocks faced by Moldova, and in light of the authorities' adjustment efforts, cumulative access was increased to SDR 110.88 million (90 percent of quota) at the first review on December 15, 2006. SDR 31.97 million was disbursed at that time, and SDR 21.7 million following completion of the second review on July 13, 2007. SDR 11.44 million was disbursed following completion of the third review on March 12, 2008, with an equal amount available upon completion of the fourth review.
Exchange system	Moldova has accepted the obligations of Article VIII, Sections 2, 3 and 4, of the Fund's Articles of Agreement. Its exchange system remains free of restrictions on payments and transfers for current international transactions (Annex I).
Donor coordination	The mission liaised with the World Bank (Annex II), the EBRD (Annex III), the UNDP and other donors, particularly the European Commission.
Data	National Bureau of Statistics (http://www.statistica.md/), National Bank of Moldova (http://www.bnm.org/english/index_en.html), Ministry of Finance (www.moldova.md). Despite some weaknesses, data provision is adequate for surveillance, and Moldova subscribes to the SDDS (Annex IV).
Outreach and publication	The mission met with members of parliament, trade unions, industry, the financial sector, NGOs, and the academic community. A press briefing was held at the end of the mission. The authorities have agreed to publication of the staff report and all program documents.

Contents

ANNEX I: MOLDOVA—FUND RELATIONS
(As of May 31, 2008)

I. **Membership Status**: Joined August 12, 1992; Article VIII

II. **General Resources Account**:	**SDR million**	**Percent of Quota**
Quota	123.20	100.00
Fund holdings of currency	133.62	108.46
Reserve tranche position	0.01	0.00

III. **SDR Department**:	**SDR million**	**Percent of Allocation**
Holdings	0.64	N/A

IV. **Outstanding Purchases and Loans**:	**SDR million**	**Percent of Quota**
Extended arrangements	10.42	8.46
PRGF arrangements	95.96	77.89

V. **Latest Financial Arrangements**:

Type	**Approval date**	**Expiration date**	**Amount approved (SDR million)**	**Amount drawn (SDR million)**
PRGF	5/5/2006	5/4/2009	110.88	76.56
PRGF	12/21/2000	12/20/2003	110.88	27.72
EFF	05/20/1996	05/19/2000	135.00	87.50

VI. **Projected Obligations to Fund[1]:** (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal	7.86	11.79	5.54	3.92	10.53
Charges/Interest	0.63	0.55	0.42	0.39	0.37
Total	8.49	12.35	5.96	4.31	10.90

[1] Disbursements made after November 28, 2000—with the exception of disbursements of emergency assistance and loans from the Poverty Reduction and Growth Facility—are expected to be repaid on the expectations schedule. Countries may request the IMF Executive Board to make repayments according to the obligations schedule if their external payments position is not strong enough to meet the repayment expectations without undue hardship or risk. Please note: Repayments under the Supplemental Reserve Facility are scheduled to be repaid on the expectations schedule.

VII. **Safeguards Assessments**:

Under the Fund's safeguards assessment policy, the National Bank of Moldova (NBM) is subject to an assessment with respect to the PRGF arrangement approved on May 5, 2006 and its subsequent augmentation requested in November 2006. The assessment was completed on October 13, 2006 and concluded that safeguards in place at the NBM appear adequate, however, certain vulnerabilities were identified in the governance and control system. Recommendations made to address these vulnerabilities have been implemented according to information received from the authorities.

VIII. **Exchange Arrangement**:

Moldova has accepted the obligations of Article VIII, Sections 2, 3 and 4, of the Fund's Articles of Agreement. Its exchange system remains free of restrictions on payments and transfers for current international transactions.

Moldova's exchange rate regime was reclassified from a de facto peg (to the U.S. dollar) to a managed float in April 2006.

Prior to the introduction of the Moldovan leu on November 29, 1993, the Russian ruble (supplemented by NBM-issued ruble denominated coupons) was the legal tender in Moldova. The government introduced the leu at a conversion rate of one leu equal to 1,000 Moldovan rubles and an exchange rate of one dollar equal to lei 3.85. The leu remained broadly stable around MDL 4.75/$ until mid-October 1998. It has since depreciated against the dollar and traded at MDL 11.32=$1 on December 31, 2007.

Foreign exchange was initially traded on the Chişinău Interbank Foreign Currency Exchange (CIFCE). Operations of the CIFCE started at the beginning of 1993, and daily auctions commenced in early February 1995. An active foreign exchange cash market exists within authorized banks and foreign exchange bureaus. From November 16, 1993 through end-October 1998, the U.S. dollar exchange rate established in the CIFCE was the official exchange rate quoted by the NBM. Since November 2, 1998, the official rate as announced by the NBM is determined as the weighted average of all daily market transactions. The NBM quotes exchange rates of the leu for other currencies on the basis of the leu-U.S. dollar rate and the cross-rate relationships between the U.S. dollar and the currencies concerned in the international market.

IX. **Article IV Consultation**:

The last Article IV consultation was concluded on March 12, 2008 Country Report Nos. 08/139 and 08/132.

X. **FSAP Participation**:

Moldova received an FSAP mission in May 2004; the FSSA was presented to the Board at the time of the 2004 Article IV discussions. An FSAP update mission visited in October 2007; the FSSA update is presented to the Board with the current Article IV Consultations report.

XI. **Use of Fund Resources**:

On February 4, 1993, Moldova purchased Fund resources totaling SDR 13.5 million, equivalent to 15 percent of quota under the Compensatory and Contingency Financing Facilities (CCFF). This was followed by a first drawing under the Systemic Transformation Facility (STF) of SDR 22.5 million, equivalent to 25 percent of quota, which was approved by the Board on September 16, 1993. On December 17, 1993, the Board approved a purchase of Fund resources under a stand-by arrangement (SBA) in the amount of SDR 51.75 million and the drawing of the second tranche of the STF totaling SDR 22.5 million. On December 19, 1994, Moldova made a second purchase under the CCFF totaling SDR 12.2 million, equivalent to 13.5 percent of quota, in conjunction with the second review of the SBA that expired at end-March 1995. The Board approved a successor SBA for Moldova in an amount totaling SDR 58.50 million (equivalent to 65 percent of quota) on March 22, 1995. Three purchases, totaling SDR 32.4 million (equivalent to 36 percent of quota), were made under the arrangement. An Extended Arrangement amounting to SDR 135 million (equivalent to 150 percent of old quota) was approved by the Executive Board on May 20, 1996. At the time of the third review, the program was extended by one year to May 19, 2000. While the fourth review was completed, the program expired on May 19, 2000 without the completion of the scheduled last review because parliament rejected twice an important program condition. Five purchases totaling SDR 87.5 million (equivalent to 97 percent of old quota) were made under the EFF arrangement. A PRGF arrangement was approved on December 21, 2000 in the amount of SDR 110.88 million (equivalent to 90 percent of quota). SDR 9.24 million was disbursed on December 29, 2000, followed by SDR 9.24 million on February 23, 2001, and SDR 9.24 million on July 26, 2002. The arrangement expired in December 2003 with only one review completed. A new PRGF arrangement was approved on May 5, 2006 in the amount of SDR 80.08 million (equivalent to 65 percent of quota). SDR 11.44 million was disbursed on May 10, 2006. An augmented arrangement was approved on December 15, 2006 in the amount of SDR 110.88 million (equivalent to 90 percent of quota). SDR 31.97 million was disbursed on December 21, 2006, SDR 21.71 million was disbursed on July 30, 2007, following completion of the second review on July 13, 2007, and SDR 11.44 million was disbursed following completion of the third review on March 12, 2008, with an equal amount available upon completion of the fourth review.

XII. **Resident Representative**:

Mr. Mathisen began his assignment in December 2005.

XIII. **Resident Advisors**:

An FAD resident advisor, Mr. Agarwal, completed a posting to support the development of the treasury in June 1998. Peripatetic return visits were conducted through 1999. During 1998, Mr. and Mrs. Faulk were assigned as resident advisors on banking supervision at the NBM. During 1999, they paid various follow- up visits as external experts. In July 1999, an FAD resident tax administration advisor, Mr. Vandenberghe, was extended for a third six month period to support the development of a large taxpayer unit. His contract ended in mid-2000. A MCM resident advisor on monetary policy implementation and liquidity management supported the NBM between January and June 2007. A new MCM resident advisor to assist the NBM in capacity building in preparation for inflation targeting is expected to take up post in the nearest future.

XIV. **Short-Term Assistance**:

Mr. Antao conducted regular visits to assist the Ministry of Finance on macroeconomic analysis since mid-1997. From April 1996 to July 1998, Mr. Richards paid regular visits as a regional balance of payments statistics advisor to Moldova, Armenia, and Georgia. Mr. Van Sluys and Dr. Peeraer visited Chişinău on several occasions in 1998/99 to assist in the area of supervision of commercial bank's foreign exchange activities. Mr. Thompson has been advising the NBM on accounting issues since 1999 and visited Moldova regularly during the past three and a half years, including for preparation of the NBM international audits. Mr. Ponomarenko visited Moldova several times in 2002–04 to assist the Department of Statistics and Sociology (DSS) in the area of national accounts. Mr. Astin has been visiting Moldova regularly to help the DSS reform the methodology for the CPI and PPI. Mr. Tandberg, the Regional Public Finance Management Advisor for the Countries of Southeastern Europe, has been advising the Ministry of Finance on public finance management since 2006.

XV. **Technical Assistance**:

The following table summarizes the technical assistance missions provided by the Fund to Moldova since January 2002.[2]

Moldova: Technical Assistance Provided by the Fund, 2002–07

Department	Subject/Identified Need	Timing	Counterpart
MAE	Payments system; liquidity projection and monetary policy framework; central bank accounting and internal audit; and bank supervision.	May 2002	NBM
MFD	Payments system	Missions 2003 and 2004	NBM
STA	National accounts	March 2002, Dec. 2002, March 2003, Apr. 2004	DSS
STA	Price statistics	Nov. 2003, Sept 2004, Nov. 2005, July 2006	DSS
STA	Money and banking statistics	April 2004	NBM
MFD/LEG	Anti-money laundering	April 2004, Aug. 2006	MDA Gov. NBM
FAD	Modernization of the LTU and VAT	May 2004	MOF
MFD	Foreign exchange regulation and banking supervision	December 2004	NBM
STA	Money and banking statistics	May 2005	NBM, DSS
MFD	Internal audit (National Bank)	June 2005	NBM
STA	SDDS	November 2005	NBM, DSS , MOF
MFD	Central bank independence, monetary policy, and monetary operations	December 2005	NBM
FAD	Public finance management	March 2006, Oct. 2006	MOF
FAD	Tax administration	July 2006	MOF
MCM	Central bank recapitalization and normalizing relations between the central bank and ministry of finance	August 2006	NBM, MOF
MCM	Improving monetary policy operations, creating preconditions for an inflation targeting framework and analyzing financial sector stability	September 2006	NBM
MCM	Development of the foreign exchange system	September 2006	NBM
FAD	Public finance management	October 2006	MOF

[2] For technical assistance before 2002, see previous reports.

FAD	Tax policy reform; follow-up on tax reform implementation	March-April 2007	MOF
LEG	AML/CFT law for Moldova	June 2007	MOE, NBM
FAD	Public finance management	June 2007	MOF
FAD	Tax administration	September 2007	MOF
MCM	Monetary Policy Framework	September 2007	NBM
STA	Monetary and financial statistics	April 2008	NBM, NCFM

Note: MoF: Ministry of Finance; NBM: National Bank of Moldova; MoE: Ministry of Economy; DSS: Department of State Statistics, NCFM: National Commission on Financial Markets.

ANNEX II: MOLDOVA—IMF-WORLD BANK RELATIONS
(As of June 10, 2008)

Lead Country Officer Mr. Sergiy Kulyk Telephone: (202) 458 4068

A. Partnership in Moldova's Development Strategy

1. Moldova's development agenda for 2008 to 2011 had been set out in its National Development Strategy (NDS. The 2008 Joint IDA-IMF Staff Advisory Note (JSAN), which was discussed by the respective Executive Boards in March 2008, provides the government with advice on future implementation of the NDS.

2. The World Bank has taken the lead in the policy dialogue on a number of structural issues relevant to economic growth and poverty reduction, including private sector development, infrastructure, health, education, social protection, and agricultural sector reforms.

3. On May 13, 2008 the Bank Executive Board approved a US$10.0 million *Second Poverty Reduction Support Credit (PRSC2).* The credit, the second in a planned annual series, aimed to support the Government's efforts to accelerate economic growth and improve the efficiency of its social programs and public administration. It directly supported implementation of Moldova's NDS, as well as the EU-Moldova Action Plan. The PRSC program supports selected areas of the Government reform agenda with the objective of: (i) improving the investment climate; (ii) improving the efficiency and management of public resources; and (iii) strengthening pension and social assistance systems.

4. Recent analytical work of the Bank includes an *Investment Climate Assessment*, a *Country Procurement Assessment Review,* a *Country Financial Accountability Assessment, a Trade Diagnostic Study,* the second *Poverty Assessment,* an *Education Policy Note,* a *Health Policy Note, an Agricultural Note,* a *Country Economic Memorandum and a Public Expenditure Review.* Bank is also providing technical assistance to the government in the areas of *poverty monitoring*, *public administration* and *civil service reform and governance*, and *social protection*.

5. In a number of areas—social sectors, environment, infrastructure—the Bank takes the lead in the dialogue. The Bank is also leading in the areas of support for the private sector development and agricultural sector reform. Bank analysis serves as input into the Fund program. In other areas—trade and customs reform, financial sector policies, public sector management—both institutions work together. Finally, in areas like fiscal, monetary, and exchange rate policies, and tax administration, the IMF takes the lead.

B. IMF-World Bank Collaboration in Specific Areas

Areas in which the World Bank leads

6. Areas in which the Bank leads the policy dialogue are social sectors, infrastructure, and environment. In the **social sphere**, the Bank has carried out *Poverty Assessments* to monitor and evaluate progress in alleviating poverty. A *Health and Social Assistance Project* supports the implementation of comprehensive reform of the public pension system and the introduction of a regulatory framework for private pension funds. The project also supports the implementation of the new organizational structure for social insurance. The Bank has also supported two *Social Investment Fund (SIF) Projects* to assist in the building of local community and municipal capacity and skills through the rehabilitation of social infrastructure. The SIF also focuses on improving the delivery of social services, creating short-term employment and opportunities in rural areas by financing small-scale public works and supporting micro-business development.

7. In **health**, the *Health and Social Assistance Project* is focused on improving the health status of the Moldovan population and increasing the quality and efficiency of public health services by improving access to essential services by the poor. The recently closed *Moldova AIDS Control Project* aimed at improving Moldova's health status and assisted in achieving the health-related Millennium Development Goals by reducing mortality, morbidity, and transmission of HIV/AIDS. An additional operation to help Moldova combat *Avian Influenza* is under implementation.

8. In **education,** the *Quality Education in Rural Areas Project* supports the Government's education program to enhance the quality of teaching and learning, increase access and equity, improve the efficiency in public spending for education, and strengthen education planning and monitoring.

9. With regards to **infrastructure** development, the Bank is concentrating on upgrading basic utility services impacting the population at large and the poor in particular. The *Energy II Project* has two main components: (i) power system infrastructure—investments to upgrade and rehabilitate metering, dispatch and communications, selected priority rehabilitation of the electricity of the electricity transmission network, and institutional development and regulation of the electricity market; and (ii) heating supply and consumption—investments in improving heating supply and energy efficiency in selected public buildings. A *National Water Supply and Sanitation Project* (May 2008) is aimed at (i) to improving the coverage, quality, efficiency, and sustainability of water and sanitation services in selected urban and rural communities; and (ii) enhancing the capacity of Ministry for Construction and Territorial Development (MCTD) to prepare and supervise the implementation of investment program and to provide technical assistance to the operating Apa Canals. The *Moldova Road Sector Program Support Project* (March 2007) is aimed at reducing road transport costs for road users in Moldova by improving the condition and quality of its road network and the way it is managed. The Bank team has recently conducted a brief *assessment of the information and communication technologies* (ICT) sector of

Moldova. A more detailed telecommunications sector diagnostic note that identifies challenges facing the sector will be prepared in FY 09.

10. The Bank has supported a number of **environmental** projects. The *Agriculture Pollution Control Project* focuses on significantly increasing the use of environmentally friendly agricultural practices by farmers and agro-industry thereby reducing nutrient discharge from agricultural sources into the Danube River and Black Sea. A number of technical assistance activities are also under implementation. A *Biodiversity Strategy Development* is assisting the government in implementing Articles 6 and 8 of the Convention on Biological Diversity. The *Environmental Infrastructure Project* was approved by the Board in FY07. The objectives of the project are to improve the quality of sanitary services in Northern Moldova and reduce the discharge of pollutants, including nutrients into the Nistru River and demonstrate and disseminate cost-effective nutrient reduction strategies and technologies for municipal wastewater sources.

11. In the area of **rural and agricultural development**, the Bank's recently closed *First Cadastre Project.* The project helped establish a system of clear and enforceable ownership rights so as to promote the privatization of land the development of real markets in Moldova. The two *Rural Investment and Services Projects (RISP1* and *RISP2)* increase rural incomes and living standards by promoting rural entrepreneurship, agricultural production, economic diversification, and trade in the rural areas. The projects also provided investment and working capital at commercial terms to support a broad range of agribusiness. *Additional financing to RISP2 project* (May 2008) will extend support to irrigation, especially in the wake of the devastating 2007 drought.

12. While the Bank has taken the lead in the areas of the structural reform described above, the IMF has a strong interest in these areas since many of them are critical to achieving macroeconomic stabilization and enhancing growth prospects. Accordingly, there is a high degree of consultation and coordination between the two institutions on these matters.

Areas of shared responsibility

13. The Bank and Fund are working jointly in a number of areas:

14. **Private Sector Development.** While substantial progress in improving Moldova's business environment has been made, a challenging reform agenda remains. Both the Bank and the Fund have focused on this agenda in their assistance programs, including SAC III, PRSC program, and PRGF arrangement and the surveillance exercise. The Bank has undertaken a number of studies, including the *Investment Climate Assessment*, the *Business Environment and Enterprise Performance Survey* (together with EBRD), a *Diagnostic Review of the Environment for Foreign Investment*, and a number of *Costs of Doing Business Surveys*, *Building the Microeconomic Foundations for Private Sector Competitiveness* (Technical Note) to gauge ongoing developments in this area and determine the most important impediments to private sector development and its competitiveness. The Bank's *Private Sector Development II (PSD II) Project* strengthened the competitiveness of private

and public enterprises in Moldova through the hands-on training of local managers abroad (human capital investment) and creation of a Competitiveness Center (market information and benchmarking). The *Competitiveness Enhancement Project* builds upon successes of the *PSD II* credit by providing support for the business environment improvement and modernization of the standardization and metrology system. The IFC has promoted financial sector development by extending credit lines to a number of private banks for on-lending to private sector. A number of technical assistance missions have been undertaken to improve banking legislation and banking supervision, including the joint WB IMF *Financial Sector Assessment Program (FSAP)* and its *Update* (recently completed).

15. In the area of **Public Sector Management**, the Bank's *Public Economic Management Review, Country Procurement Assessment Review* and *Country Financial Accountability Assessment* examine fiscal adjustment and reform efforts in the social sectors and suggest policy measures to strengthen public expenditure management and actions needed to build capacity for increased government effectiveness. The *Country Economic Memorandum* entitled *Moldova: Opportunities for Accelerated Growth* contains recommendations for improving the macroeconomic environment, enhancing the opportunities presented by the large inflow of remittances, creating a more dynamic and diversified private sector. The recently closed Bank project *Trade and Transportation Facilitation in Southeast Europe* (part of the Stability Pact initiative), aimed to strengthen and modernize the Customs Administration and other border control agencies with the objective reducing non-tariff costs to trade and transport and preventing smuggling and corruption at border crossings. The *Public Finance Management Project* is helping the Moldovan Authorities to develop a budget planning and execution system by institutionalizing the medium-term expenditure planning and modernizing budget classification, and is assisting in upgrading the internal control and audit system in the central government bodies. In preparation for the mid-term review of this project, a Public Expenditure and Financial Accountability Assessment (PEFA) was recently completed and all donors, including the Fund, were consulted. The Fund has also provided technical assistance to improve tax and customs administration, government financial statistics, and public expenditure policies.

C. The World Bank Group Strategy

16. Bank is now in the process of consultations on the new Country Partnership Strategy (CPS) for Moldova for FY09-12. It will be submitted to the Executive Board in the fall of 2008.

ANNEX III: MOLDOVA—RELATIONS WITH THE EBRD

(As of end of May 2008)

The EBRD's strategy in Moldova is aimed primarily at supporting private sector development in the country and increasing policy dialogue with the authorities. In particular, the Bank will pursue the following operational objectives:

I. The Bank will continue to pursue investment opportunities in all enterprise sectors including, without limitation, the food processing, manufacturing, information and communication technology (ICT), retail and property sectors. Well performing companies will be provided with direct financing including through ETC instruments. The Bank will facilitate foreign investment either by investing alongside foreign strategic investors or by assisting the development of local companies which in due course may attract foreign investment. Working capital may be provided to agribusinesses under the recently established warehouse receipt system. The Bank will continue to provide non-financial support to private enterprises through its Turn Around Management (TAM) and Business Advisory Services (BAS) programs;

II. The Bank will provide its local partner banks with access to its SME and MSE credit lines, its Trade Facilitation Program (TFP) as well as its Medium-sized Co-financing Facility (MCFF). The Bank will seek to extend its cooperation to new partner banks and will assist in the development and promotion of new financial instruments such as mortgage financing, leasing and energy efficiency credit lines. On the equity side, the Bank may consider further investment in banks, leasing companies and mortgage providers. The Bank will further enhance its support for the development of microfinance particularly (but not exclusively) in Moldova's regions. The Bank will explore opportunities to support the emergence of the non-banking financial sector;

III. Given Moldova's sovereign debt capacity constraints and the IMF's concessionality requirements, the Bank will - to the extent possible - co-finance public infrastructure projects with other IFIs and donors to ensure maximum leverage of grant and concessional financing. To enable Moldova to take full advantage of its new EU neighborhood status, the Bank will give priority to infrastructure projects that promote regional integration and interconnection with neighboring countries. The Bank is also committed to resume its municipal infrastructure lending provided sufficient grant financing can be attracted to address affordability constraints. The Bank will continue to support private infrastructure investments.

Sixty three projects have been signed totaling €239.7 million of EBRD resources, including: (i) a wine export promotion project, which is targeting the main Moldovan wineries and glass producer, through restructuring of the sector (€24.6 million) and equity investment into a glass producer (€6.4 million); (ii) an energy efficiency project for upgrading the heating distribution networks in Chisinau (€7.8 million); (iii) several credit lines and equity investment for Moldova-Agroindbank for on-lending to small and medium enterprises (€29.3 million in total); (iv) several credit lines, a co-financing facility and equity investment for Victoriabank (€12.5 million in total); (v) three credit lines and a co-financing facility for Mobiasbanca (€6.4 million); (vi) credit lines for Moldinconbank and Banca Sociala (€9.2 million in total);(v) a project for linking Moldovan satellite earth stations to the Eurovision Network (€0.8 million); (vi) a road rehabilitation loan (€9.6 million); (vii) partial financing for construction of a new oil terminal at Giurgulesti (€9.6 million); (viii) credit facilities for micro enterprises through local banks (€5.4 million); (ix) rehabilitating Chisinau's water services (€17.6 million); (x) Chisinau Airport Modernization (€7.4 million); (xi) trade facilitation program for Victoriabank, Moldova-Agroindbank, Moldindconbank, Mobiasbanca and Banca Sociala (regional TFP—€18.1 million in total); (xii) equity participation in and a loan to ProCredit and a loan to Rural Finance Corporation – two micro-finance companies (€3.2 million in total); (xiii) equity participation and loan financing for three privatized power distribution companies (€26.9 million); (xiv) a loan (MMF) totaling €3.0 million and a credit line of €5 million to Banca Sociala to extend medium- to long-term loans of up to €500,000; (xv) equity and loan participation for SUN Communications (€1.9 and €3.7 million, sequentially); (xvi) a loan facility in the amount of up to €30 million, including €12.5 million for Phase 1 and €17.5 million for Phase 2 for a road rehabilitation project; (xvii) DLF Orhei Vit- a financing of new capital investments into the existing facilities and increased working capital needs of the Company through a €4 million facility; (xviii) a credit line for Eximbank for on-lending to small and medium enterprises (€2.6 million); (xix) an equity investment (€3.3 million) and a co-financing facility (€1.3 million) for Mobiasbanca.

In addition to banking projects, some 86 Technical Cooperation projects have been completed or approved (totaling €15.2 million).

ANNEX IV: MOLDOVA—STATISTICAL ISSUES

1. Economic and financial data provided to the Fund are generally adequate for surveillance and program monitoring. In July 2005, a ROSC Data Module found that while the quality of macroeconomic statistics has improved significantly in many areas in the past few years, accuracy and reliability need to be enhanced further regarding compilation of fiscal and national accounts statistics.

2. Moldova subscribed to the SDDS in May 2006, and became the sixth country which has graduated from the GDDS to the SDDS. Participation in the GDDS began in February 2003.

3. **National accounts statistics** are prepared according to the *1993 SNA* methodology. Estimates do not include the Transnistria region for which data have not been collected since 1991. GDP is estimated from the production and the expenditure sides, annually and quarterly. The data are prepared in current and constant (previous-year) prices, and annual data are revised—in two stages—as updated information becomes available. However, the quarterly data remain unadjusted, thus limiting their consistency with the revised annual data. Overall, the national accounts statistics need improvement in the following areas: (i) improving the accuracy of the data sources (quarterly reporting of all basic statistics on a discrete basis, industrial production index and price indices following international standards); (ii) benchmarking the annual and the quarterly data; and (iii) estimating the consumption of fixed capital in line with international standards.

4. **Price statistics** still have several shortcomings. Price collection for the CPI and PPI is limited geographically and new observations are not imputed. The weights of the CPI basket, underestimate the share of durable goods. The PPI is not a transaction price index, and covers a small population of industrial establishments. The industrial production index is compiled from data in constant prices adjusted to price changes by establishments themselves.

5. **Labor market statistics** have been substantially revised following the 2004 population census, substantially improving data reliability. While the methodology, training and practices of surveyors have improved, the most substantial revision was the expansion of sampling, thus achieving a more accurate reflection of the labor market situation. No comprehensive attempt has been made to revise the old series based on new methodology.

6. **Fiscal statistics.** In January 2008, the IMF Government Finance Statistics Advisor for Southeastern Europe at the Ljubljana *Center of Excellence in Finance* (CEF) visited Chisinau during January 21-25. The purpose of the visit was to develop an understanding of and assess the environment for the production of government finance statistics — both annual and subannual — according to the methodology of the *GFSM 2001* and to discuss with the authorities a work program for 2008 in that area. The authorities have indicated a need to

review the newly introduced budget classification, which will be undertaken in liaison with the CEF Public Finance Management Advisor**.** The Advisor also has requested the support of the MoF in reporting of monthly fiscal data (the *GFSM 2001* Statement of Sources and Uses of Cash) to STA for publication in *International Financial Statistics*. In addition, World Bank technical assistance has been provided to improve the budgetary reports of local authorities as well as the Social Fund. The authorities reported annual cash-based data through fiscal year 2006 in the *GFSM 2001* format for publication in the *2007 GFS Yearbook.*

7. **Balance of payments.** The compilation methodology follows the fifth edition of the *Balance of Payments Manual*. Problems remain related to: (i) under-reporting of imports and exports; (ii) collection of data on services; (iii) measurement of private capital inflows, including direct investment data; and (iv) treatment of transactions with Transnistria. Besides the balance of payments statistics, Moldova disseminates quarterly international investment position and external debt statistics. Data on international reserves and foreign currency liquidity are disseminated monthly.

8. **Monetary and financial statistics are** broadly in line with international statistical standards and of a generally good quality. The NBM has compiled and submitted a complete set of monetary data beginning from December 2001 using Standardized Report Forms (SRFs). Monetary data are reported by the NBM on a regular basis and are being published in the *IFS Supplement*. An STA technical assistance mission in April 2008 assisted the NBM in expanding the coverage of monetary statistics to include other financial corporations.

MOLDOVA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of February 1, 2008)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items:	
						Data Quality – Methodological soundness[7]	Data Quality – Accuracy and reliability[8]
Exchange Rates	6/30/2008	6/30/2008	D/M	D	D/M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	5/23/2008	5/30/2008	W/M	W	M		
Reserve/Base Money	5/23/2008	5/30/2008	W	W	M	O, LO, O, O	LO, O, O, O, O
Broad Money	6/16/2008	5/30/2008	W	W	M		
Central Bank Balance Sheet	5/23/2008	5/30/2008	W	W	M		
Consolidated Balance Sheet of the Banking System	5/16/2008	5/30/2008	W	W	M		
Interest Rates[2]	5/30/2008	6/2/2008	W	W	W		
Consumer Price Index	May 2008	6/13/2008	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	May 2008	6/24/2008	M	M	M	O, LO, LO, O	LO, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	May 2008	6/24/2008	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	4/30/2008	5/15/2008	M	M	M		
External Current Account Balance	Q4 2007	3/30/2008	Q	Q	Q	LO, LO, O, O	O, O, O, O, O
Exports and Imports of Goods and Services	March 2008	5/12/2008	M	M	M		
GDP/GNP	Q3 2007	12/27/2007	Q	Q	Q	O, LO, LO, O	LO, O, LO, O, O
Gross External Debt	Q4 2007	5/15/2008	Q	Q	Q		
International Investment Position	Q4 2007	4/15/2008	Q	Q	Q		

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).
[7]Reflects the assessment provided in the data ROSC or the Substantive Update (published 03/2006, and based on the findings of the mission that took place during July 17-19, 2005) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[8] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment, and revision studies.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MOLDOVA

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Nonobservance of Performance Criterion

Supplementary Information

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

Approved by Poul M. Thomsen and Anthony R. Boote

July 9, 2008

1. **This statement summarizes developments in Moldova since the issuance of the staff report**. The additional information does not change the thrust of the staff appraisal.

2. **All prior actions for the Fourth Review have now been completed**. A rectified budget with a zero deficit, consistent with the MEFP, was passed by Parliament on July 3, 2008.

3. **End-June structural benchmarks were also observed**. The State Treasury has introduced a system whereby the accounts of the social insurance budget and the mandatory health insurance fund are balanced on a daily basis. Indicative monetary and fiscal quantitative targets for end June are on track.

4. **Recent economic developments have been favorable and broadly in line with projections**. GDP grew by 4.3 percent in the first quarter of 2008, and agriculture is expected to rebound strongly due to favorable weather conditions. Twelve-month inflation in June declined to 15.6 percent from 16.8 percent in May, suggesting that monetary tightening is starting to have an impact. Current account developments in Q1 2008 remain in line with staff projections.

5. **On May 27, 2008 Moldova became a full member of the EGMONT group.** This reflects good progress achieved by the authorities in strengthening AML/CFT legislation.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 08/176
FOR IMMEDIATE RELEASE
July 14, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review of Moldova's PRGF Arrangement and Approves US$18.6 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed on July 10, 2008 the fourth review of Moldova's performance under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement on a lapse of time basis[1]. The completion of the review enables the release of an amount equivalent to SDR 11.44 million (about US$18.6 million), which will bring the total disbursements to Moldova under the PRGF arrangement to SDR 88 million (about US$143 million). The PRGF arrangement was approved on May 5, 2006 (see Press release No. 06/91).

The Executive Board also granted a waiver for the non-observance of the end-March 2008 structural performance criterion related to the adoption of legislation on the State Tax Inspectorate.

[1] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.