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REPUBLIC OF MOLDOVA

TECHNICAL ASSISTANCE REPORT— THE GOVERNMENT FINANCE STATISTICS MISSION (OCTOBER 2–8, 2019)

August 2020

This Technical Assistance report on the Republic of Moldova was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in March 2020.

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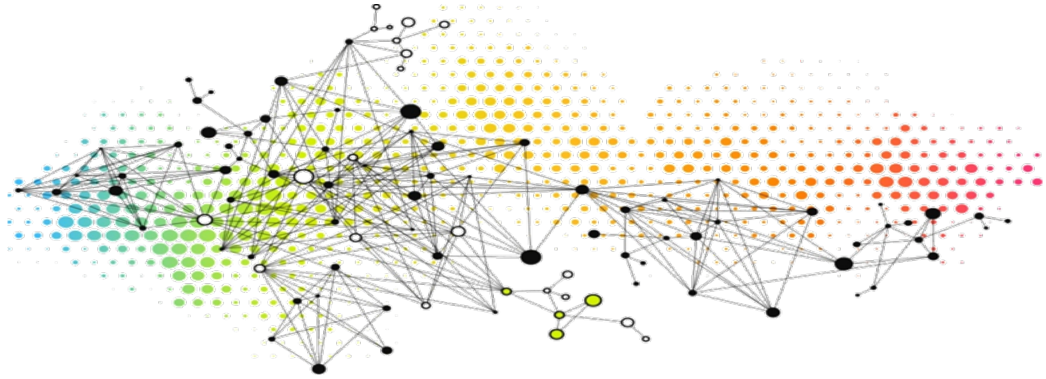

REPUBLIC OF MOLDOVA

MARCH 2020

REPORT ON PUBLIC SECTOR DEBT STATISTICS TECHNICAL ASSISTANCE MISSION (OCTOBER 2–8, 2019)

PREPARED BY PHILIP STOKOE

CONTENTS

Glossary

DGF	Deposit Guarantee Fund
DMFAS	Debt Management and Financial Analysis System
EBU	Extrabudgetary Units
GFSM 2014	*Government Finance Statistics Manual 2014*
GFSY	Government Finance Statistics Yearbook
GOM	Government of Moldova
IMF	International Monetary Fund
JSC	Joint Stock Company
MDL	Moldovan Leu
MOF	Government of the Republic of Moldova Ministry of Finance
NBM	National Bank of Moldova
PSDSG	Public Sector Debt Statistics Guide
PSDSDB	Public Sector Debt Statistics Database
PPA	Public Property Agency
QPSD	Quarterly Public Sector Debt
SDR	Special Drawing Rights
SOE	State-Owned Enterprise
SSF	Social Security Funds
UNCTAD	United Nations Conference for Trade and Development

SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

1. **In response to a request from the European Department, a Public-Sector Debt Statistics (PSDS) technical assistance (TA) mission was conducted in Chișinău during October 2–8, 2019**. The mission funded by the Data for Decisions (D4D) multi-donor trust fund and followed up on a D4D Public Sector Debt Statistics (PSDS) workshop held in Vienna, Austria during July 2019, where participants from Moldova identified data gaps with current compilation of debt statistics. The mission primarily worked with the Ministry of Finance (MOF) Public Debt Department (PDD), but also had discussions with the Budget and Treasury Department. Outside the MOF, the mission had meetings with the Public Property Agency (PPA), the Municipality of Chișinău and the National Bank of Moldova (NBM). Finally, the mission also held a joint meeting with representatives of a separate IMF TA Mission on sectoral accounts with Treasury and attended the concluding meeting of that mission with the NBM.

2. **The mission would like to express its appreciation for the positive and welcoming atmosphere with which the mission was received and to say thanks for the assistance they received throughout the mission.** The team would like to thank staff of the PDD especially Ms. Elena Matveeva and Ms. Marina Ghidirim for their help in organizing the mission. A full list of officials met is in Appendix II.

3. **The mission built on the findings from the previous mission, which visited Moldova in April 2018**. The mission did follow up work on the sectoral coverage of debt, the instrument coverage, and valuation of debt instruments. The mission also considered intra-public sector assets and made recommendations for further consolidation of public debt. The mission also discussed changes to headline general government debt measures to exclude Special Drawing Rights (SDR) allocations and recommended strengthening oversight of Public Private Partnerships (PPPs) by PPA and MOF. Finally, this report also includes a short section on the desirability of also compiling some net debt measures, alongside the existing gross debt measures.

4. **On sectoral coverage, the mission recognizes that while debt data already covers the majority of public sector units, the boundaries of the public sector and delineation between general government units and public corporations may not be fully aligned with international standards**. The mission recommended therefore that a joint working group be formed, included representatives from MOF, NBM and the National Bureau of Statistics to review the public sector and general government boundaries. This should include a review of the classification of specific entities, including Moldovagaz and the Deposit Guarantee Fund (DGF).

5. **On instrument coverage, the main gap, as identified in the April 2018 report, is the exclusion of local government and public corporation ST debt**. The mission reiterated the

need to expand debt to include these liabilities and did further work to establish the size of these missing liabilities. Local government ST debt is small, but public corporations ST debt may be more significant, potentially up to around MDL1 billion at end 2018. Public debt also excludes the ST liabilities of NBM, including NBM Certificates (MDL 6.3billion at end 2018) and the banks substantial currency and deposit liabilities.

6. **On valuation, while the previous mission recommended moving debt to be recorded at nominal value, this mission recommends debt be recorded at face value in the ST, pending a move to nominal value at a later date**. Moldova currently records debt at issue price, and this valuation is problematic for instruments issued at a discount like treasury bills and it systematically understates Moldova's public debt. Most countries report debt at face value, so moving to this valuation will improve the cross-country comparability of Moldova's debt.

7. **Public debt in Moldova is currently not being fully consolidated, and so overstates public debt.** Both the NBM and the DGF have holdings of GOM securities as part of their assets, which should be, but are not currently being, consolidated. **The headline number for public debt in Moldova at the end of 2018 was MDL 57.9 billion, expanding the definition of debt to include the NBM certificates increases this number, but once the DGF and NBM holdings are consolidated, public debt falls to MDL 48.1 billion**.

8. **Public debt, and central and government debt in Moldova includes around MDL3 billion of liabilities in the form of SDR allocations.** The SDR allocations are included as according to the provisions of the Law 51/2009, the funds in the form of Special Drawing Rights allocated by the IMF to the Republic of Moldova through the National Bank of Moldova, were used to finance the state budget deficit and in interest payments related to the SDR allocations are made from the state budget. However, the authorities should consider removing these from the headline measures of debt. In most countries SDR allocations are recorded as liabilities of the Central Bank, and those countries who do record them as government liabilities typically do not include them in headline debt measures. **Removing SDR allocations from the headline debt measure, would further reduce headline debt, to MDL 49.1 billion at end 2018**.

9. **Finally, the mission discussed Moldova's existing PPP projects and in pipeline**. Under accounting standards and statistical guidance, these contracts can give rise to government assets and government debt. The mission recommended strengthening the oversight of PPP contracts, and ideally creating a more comprehensive database of PPP project including an assessment of the correct accounting or statistical treatment, in advance of any expansion of Moldova's PPP Portfolio.

10. **To support progress in the above work areas, the mission provided a detailed action plan, with short, medium and longer term recommendations (see Appendix I), with the following priority recommendations carrying weight to make headway in improving PSDS**.

Table 1. Moldova: Priority Recommendations

Target Date	Priority Recommendations	Responsible Institutions
January 2020	Make decision to move recording of debt securities issued at a discount from issue price, to face value in all debt reports.	**MOF**
June 2020	Seek Parliament's approval of modification to existing legislation to include ST debt liabilities for Local Government and public corporations in Gross Debt statistics.	**MOF**
June 2020	Amend QPSD reporting to include NBM Certificates but also consolidate NBM and DGF holdings of government debt.	**MOF**

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

A. Institutional Coverage of General Government and Public-Sector Gross Debt

11. **At present the Moldovan Ministry of Finance covers the majority of public sector institutional units in their compilation and dissemination of PSDS**. Debt data compiled and reported by the PDD covers the general government including the budgetary central government and local government, public nonfinancial corporations and the NBM.

General Government

12. **Institutional coverage of general government gross debt includes all budgetary central government entities and Moldova's local government units.** The previous report suggested that there were two missing components – what the report referred to as extrabudgetary units (EBU) and social security funds (SSF).

13. **EBUs are government or public entities that are partially, but not fully covered by the budget. They often have substantial own revenues and autonomy on how their revenues are spent.** In Moldova, these are often referred to as public institutions and include universities, hospitals and some independent agencies. The Moldova budget includes an Annex with a list of several hundred entities which receive money from the budget. Following the previous mission, the MOF surveyed the 82 largest entities to inquire about any debt liabilities. These entities reported having no debt, (although it is almost certainly the case that these entities have outstanding amounts of trade credits and other accounts payable) and so it is not a priority to extend the debt reporting to cover these entities, however it would continue to be prudent to have a centralized data collection/reporting mechanism for EBU liabilities.

14. **With respect to SSF, the previous report recommended including the debt of Moldova's two SSFs - the Moldovan Compulsory Medical Insurance Fund and State Social Insurance scheme**. The previous report also stated that "to give an idea of the size and exposure of these funds, the Medical Insurance Fund had total assets and liabilities equal to MDL 293 million at the end of 2017, while the State Social Insurance scheme had total assets and liabilities equal to about MDL 2.0 billion at the end of 2017". The mission reviewed the 2018 financial statements for both institutions and concluded that there is no debt for these institutions (in the form of debt securities or loans). Instead, what the accounts for the State Social Insurance scheme show is that the vast majority of the MDL 2 billion quoted in the previous report is actually capital / equity rather than debt, and while both entities do have some accounts payable or trade credits,

the current definition of debt in Moldova would not include these kinds of liabilities. So as with the EBUs, it would also be prudent to collect data from these two institutions on their liabilities.

Public Corporations

15. Coverage of public nonfinancial corporation gross debt is relatively comprehensive in terms of institutional coverage however, as noted in the previous report, there are some issues with these entities in terms of instrument coverage (see B below). Moldova has several hundred state owned enterprises, which are included in public sector debt statistics. There are 32 Joint Stock Companies (JSCs - of which 28 are currently trading, and 4 in liquidation) where Government of Moldova (GOM) has more than 50 percent shareholding. In addition, there are more than 100 wholly owned State-Owned Enterprises (SOEs). There are a further ~500 local government owned enterprises (though some of these are also in liquidation and not operational), but all of these companies are required to report debt to the Public Debt Department and are captured in the debt statistics.

16. The National Bank of Moldova was described in the previous report as Moldova's only public financial corporation, and although some NBM liabilities are included in debt reports, instrument coverage is incomplete (see B below). In addition, NBM is the holder of what is now a considerable stock of government debt, following the 2016 bank failures and associated transactions. This stock of debt is not currently consolidated and should be when considering Moldova's public sector debt (see section D for more discussion on this).

Classification Issues

17. Although coverage of public institutions in Moldova's debt statistics is largely complete, the classification of entities may not be in full alignment with international standards. The lists of JSCs and SOEs contain at least some institutions, such as the State Road Administrator, which may be wrongly classified as public nonfinancial corporations in Moldova's statistics, rather than general government units.

18. Reclassifications of public entities from outside to inside the general government boundary has implications for debt and other macroeconomic statistics. If entities are reclassified, then ideally this would also be reflected not just in debt statistics but also in GFS data and will also have implications for national accounts and monetary statistics. Consequently, the mission recommends establishing a joint working group to include the MOF, NBM and National Bureau of Statistics to review the classifications within the public sector. Ultimately the aim will be to have a complete list of all public units, divided between general government units and public nonfinancial and public financial corporations, delineated in line with international standards, as set out in *GFSM 2014*.

19. The Working Group should also review the classification of Moldovagaz. The GOM has a significant minority shareholding (35 percent) in Moldovagaz, but currently excludes

Moldovagaz from its debt statistics. Ownership of Moldovagaz is split between three shareholders – Gazprom, with 51 percent, GOM, with 35 percent, and the Transnistria authorities with 15 percent. Under normal circumstances this shareholding pattern might be expected to place Gazprom in overall control of the company, making Moldovagaz a Gazprom subsidiary and a private nonfinancial corporation from Moldova's perspective. However, Gazprom's 2018 financial statements do not list Moldovagaz as a subsidiary but rather as an "associate", and they do not fully consolidate the company into their consolidated financial statements. This implies that Gazprom's accountants, following International Financial Reporting Standards (IFRS), do not consider that Gazprom has control of Moldovagaz. In addition, GOM retains the power to appoint the Chief Executive of Moldovagaz, an indicator of control under *GFSM 2014* (see Box 1) and therefore the mission thinks that a closer look at the ownership and governance arrangements at Moldovagaz should be conducted, within the wider review of classifications.

Box 1. Government Control of Corporations

Control of corporations is defined as the ability to determine the general corporate policy of the corporation. To determine if a corporation is controlled by the government, the following eight indicators of control would be the most important and likely factors to consider.

Control of the appointment and removal of key personnel—If control of the board or other governing body is weak, the appointment of key executives, such as the chief executive, chairperson, and finance director, may be decisive. Nonexecutive directors may also be relevant if they sit on key committees, such as the remuneration committee determining the pay of senior staff.

Source: *GFSM 2014* Box 2.2

20. The current debt statistics also do not include the Deposit Guarantee Fund (DGF) and its classification should also be reviewed. The DGF was established in 2004 to provide protection for depositors in the case of a bank failure. It levies Moldovan banks and invests the proceeds of the levy in a range of investments including NBM and GOM debt securities. DBF has no debt of its own[1], but its ownership of government and NBM securities should be reflected in Moldova's debt statistics through the consolidation of these holdings. (see section D)

21. DGF is a financial protection scheme, as defined in *GFSM 2014* Chapter 2[2]. Under *GFSM 2014* guidance, these types of entity are typically classified as part of general government. *GFSM 2014* advises that if fees payable to government for such a protection scheme are compulsory—that is, if beneficiaries cannot opt out of the scheme, then the scheme should be classified within general government. This is the case for the vast majority of deposit protection of guarantee funds and almost certainly the case for the DBF.

[1] Though faces significant contingent liabilities should there be bank failures

[2] See GFSM 2014 §2.132-2.135

Target Date	Recommendation	Responsible Institutions
June 2020	Establish a joint working group to review sectorization and boundaries of Public Sector (Moldovagaz) and General Government.	**MOF / NBM / NBS**

B. Instrument Coverage of General Government and Public-Sector Gross Debt

22. Moldova is currently reporting PSDS on a modified cash basis. They currently record debt using three instruments in the *Public Sector Debt Statistics Guide (PSDSG) 2013* framework: (i) debt securities; (ii) loans; and (iii) SDR liabilities. In addition, the current debt definition includes both ST and LT term for central government, but only long-term debt (by original maturity) for local government and public corporations. Conceptually, Moldova does have other public debt liabilities, especially other accounts payable, and while this is available on an annual basis from Moldova's JSCs and SOEs and their accrual based financial statements, estimates of other accounts payable are not available from the government's cash-based accounting data.

23. Even where countries have accrual data, and data on other accounts payable, many countries exclude these from their national headline debt measures. For example, Maastricht debt, the headline debt measure across the European Union (EU) is defined as general government consolidated gross debt in the form currency and deposits, debt securities and loans, and excludes other accounts payable, even though this is widely available across EU member states. Consequently, while widening debt statistics to include a comprehensive estimate for other accounts payable is a longer-term objective, it would be possible to start disseminating annual estimates for other accounts payable for some parts of the Moldova public sector in the shorter term, however this was not a key focus of this mission and is therefore not discussed further in this report.

Central Government

24. Instrument Coverage of Central Government debt is good. For central government, all loans and debt securities are included, whether short or long term. The central government also holds a smaller amount of liabilities in the form of SDRs. These are Moldova's SDR allocations and it is unusual for these to be recorded as government debt. In most countries these are recorded on the balance sheet of the central bank. The inclusion of SDRs in Moldova's debt is discussed in greater detail in section E.

Local Government

25. Although Moldova's debt statistics include the debt of local governments, only long-term debts of local government are included, and short-term debts are not captured. Although missing, the amount of short-term debt is very small. The mission met with the Municipality of Chișinău, comfortably Moldova's largest local government entity, who provided more information on their debt. By law, local governments have limited ability to borrow. ST debt, to manage cash flow and liquidity issues, is limited to 5 percent of a municipalities' own revenues, and must be paid off by the end of fiscal year. Consequently, when viewed on an annual basis local government ST debt is near zero. ST borrowing is higher in mid-year but, total amounts are constrained by the strict laws on borrowing.

26. Although not captured by the PDD, local government entities report their total debt to the Treasury. As a result, by comparing total debt reported to Treasury with the long-term debt reported to the PDD the mission was able to generate estimates of local government ST debt for the Q4 2018 – Q2 2019. Total local government ST debt, in Q2 2019, was just under MDL62 million. Given municipalities already report total debt to Treasury, requiring them to also report to PDD would not add a significant reporting burden, and should be relatively easy to implement.

Table 2. Moldova: Estimates of LG ST Debt Q4 2018 – Q2 2019

MDL '000s	Q4 2018	Q1 2019	Q2 2019
Total Local Government Debt (Treasury)	37,792	72,790	92,335
Total LT Debt (Public Debt Department	36,400	32,800	30,600
Estimated ST Debt	1,392	39,990	61,735

Public Nonfinancial Corporations

27. Public nonfinancial corporations' debt in Moldova covers the long term (LT) debts of Moldova's JSCs and SOEs, but like local government, does not include any ST debts. Information on these entities is collected and collated by the Public Property Agency and published in their "Raport privind administrarea și deetatizarea proprietății publice de stat în anul 2018". This report contains financial accounts information on assets, liabilities, turnover and profit for each institution, and the mission used this data to estimate the amount of ST liabilities that are currently not included in Moldova's public nonfinancial corporations' debt data.

28. In total, the JSCs and SOEs had total short and long term liabilities at the end of 2018 of MDL7.8billion, of which MDL3.3billion is LT debt already included in the debt statistics. Consequently, at end 2018, there was a maximum amount of ST debt of MDL 4.5 billion missing from Moldova's debt statistics, using the PSDSG definition of gross debt including other accounts payable, but this is likely a far too high estimate under the authorities current definition, which does not include other accounts payable. , The mission estimates that there is a much smaller amount of borrowing in the form of loans, overdrafts and other types of debt that would be included in the debt as defined by PDD. This debt is concentrated in just 11 enterprises, who accounted for 85 percent of the total liabilities.

Table 3. Moldova: JSC and SOE Total Short and Long Term Liabilities, Plus Total Liabilities of Selected Entities – End 2018

	2018 (MDL '000s)
Total Short- and Long-Term Liabilities of which:	7,787,298.00
Moldtelecom	1,312,187.00
TRACOM	1,050,060.00
Termoelectrica	775,445.00
Moldtranslectro	630,792.00
Administrator de Stat a Drumurilor (State Road Administrator)	548,957.00
Calea Ferata Din Moldova	528,784.00
Moldelectrica	505,756.00
Cricova	352,335.00
Energocom	308,447.00
Centrala Electrica de Termoficare Nord Din Balti	298,488.00
Posto Moldovei	297,666.00

Source: PPA Raport privind administrarea și deetatizarea proprietății publice de stat în anul 2018

29. The amount of ST debt is not as large as the simple calculation of total liabilities minus LT debt would suggest, and more likely in the region of MDL1 billion, (+/-).
The mission reviewed the financial statements of Moldtelecom to provide a ballpark estimate of missing ST debt under the current national definition. While Moldtelecom is not representative of all JSCs and SOEs but extrapolating from this would suggest around MDL900million of ST debt (see Box 2).

Box 2. Estimating Missing ST Debt

Missing ST debt for a JSC or SOE can be estimated using the following calculation:

ST debt = Total short- and long-term liabilities *minus* other accounts payable *minus* LT debt reported to PDD

At the end of 2018, Moldtelecom's financial statements indicated they had total short- and long-term liabilities of MDL 1312million at the end of 2018. Of this, MDL538million were various kinds of other account payable. This left MDL774million of short- and long-term borrowings in forms of loans / bank borrowings etc. PPD recorded LT debt for Moldtelecom of MDL 635 billion, so removing this from the MDL774million, suggested that Moldtelecom had ST debt of around MDL139million that are not captured in current debt statistics.

MDL 139 million is around 20 percent of Moldtelecom's total short- and long-term liabilities excluding the existing LT debt captured by PDD.

Therefore, were Moldtelecom representative of the other JSCs and SOEs, this would suggest around 20 percent of the MDL4.5billion of liabilities not captured in the PDD data are short term loans and similar borrowings that should be included. This results in an estimate of MDL900million, though obviously as this is based on a single firm in a single year, this is a very crude estimate, but it does provide some insight into the likely size of the missing ST debts.

Target Date	Recommendation	Responsible Institutions
June 2020	Seek Parliament's approval of modification to existing legislation to include ST debt liabilities for Local Government and public corporations in Gross Debt statistics	**MOF**

National Bank of Moldova

30. The biggest missing item in Moldova's public debt is the stock of NBM certificates. NBM certificates are 14-day instruments, closely resembling Treasury Bills issued by the NBM for monetary policy / liquidity management purposes. At end of 2018, these were MDL 6.2 billion in the NBM financial statements, but the amounts have fluctuated significantly over the last several years.

Table 4. Moldova: Outstanding Stock of NBM Certificates 2011–18

(MDL millions)	2011	2012	2013	2014	2015	2016	2017	2018
Certificates Issued by the National Bank of Moldova	2,908.0	3,741.4	2,602.0	219.0	614.0	5,915.5	9,217.4	6,298.7

Source: NBM Audited Financial Statements

31. The mission recommends that NBM certificates be included in public debt and reported to the QPSD database. Although information on the stock of NBM certificates is available on the NBM website, and could be collected by the PDD, it would be preferable to agree a more formal data reporting with NBM, for example by also including collection of data on NBM certificates from the NBM in the revised public debt law.

Target Date	Recommendation	Responsible Institutions
June 2020	Include NBM Certificates in the Public debt	**MOF**

NBM Currency and Deposit Liabilities

32. In addition to the NBM certificates, NBM (like all central banks) has considerable liabilities in the form of currency and deposits, that should also be included in public debt reported to the QPSD. Table 4 presents the total liabilities of the NBM, taken from their annual audited financial statements. Currently only the NBMs loans to the IMF (a subset of "due to international financial institutions" is included. If the previous recommendation is followed a further amount of NBM certificates would be included, but outside of these two instruments the NBM at the end of 2018 had ~MDL 24billion national currency in circulation and a further ~20 billion due to the banks and other liabilities too.

Table 5. Moldova: NBM Liabilities 2011–18

Liabilities (MDL millions)	2011	2012	2013	2014	2015	2016	2017	2018
National currency issued into circulation	12,016	14,554	19,040	19,217	17,044	18,990	21,032	23,748
Due to the Government of the Republic of Moldova	1,963	1,895	1,641	2,398	3,311	5,712	8,783	9,292
Due to the Banks	5,139	5,976	7,029	8,509	12,787	14,319	15,978	19,715
Certificates Issued by the National Bank of Moldova	2,908	3,741	2,602	219	614	5,915	9,217	6,298
Due to international financial institutions	6,055	7,922	8,299	8,896	10,035	10,498	8,758	7,876
Other liabilities	64	175	312	955	64	43	48	177

Source: NBM Financial Statements

33. In longer term, the mission recommends reporting all NBM liabilities to the QPSD database. The mission recognizes that, while this approach is in line with the guidance in the *PSDSG 2013*, this is not widely practiced currently but there are peer countries - Albania, Armenia, Georgia - that do this currently. Were Moldova to compile and report this data, it would be broadly comparable to debt for other countries who already do this, as shown in table 5 below.

Table 6. Moldova: QPSD – Debt of Public Financial Corporations – Q4 2018 (% of GDP)

	Albania	Armenia	Georgia	Moldova
Total gross debt	30.68	25.63	23.68	34.9
of which:				
Special Drawing Rights	0.43	1.01	1.3	
Currency and deposits	30.22	19.76	21.1	29.7
Debt securities		0.13	0.19	3.3
Loans	0	4.7	1.08	1.9

Source: QPSD (Data for Albania, Armenia and Georgia, NBM financial Statements and Mission calculations

34. The mission recognizes that expanded public debt to include an additional ~30 percent of GDP in currency and deposits liabilities may prove difficult to swallow. Any decision to do this would require careful communication, and perhaps inclusion of these liabilities in a secondary debt number, rather than in headline debt. It would remain a medium to long term recommendation.

C. Valuation of Debt Instruments

35. The *PSDSG 2013* recommends the recording of gross debt at both market and nominal value. The previous report noted that MOF and NBM are both currently using the United Nations Conference on Trade and Development (UNCTAD)'s Debt Management and Financial Analysis System (DMFAS) for recording PSDS. Under this system, Moldova is reporting gross debt at issue price. While this is acceptable for coupon bonds issued at par, for treasury bills, or other instruments issued at a discount, this leads to a systematic undervaluation of Moldova's debt.

36. Data on face value for discounted instruments is not currently available from UNCTAD's DMFAS system, used by Moldova, and to obtain this it will be necessary to remove all T-Bills and re-register them. This may take some time, due to limited staff resources. However, some data was made available by MOF. In the last few quarters, the difference between the two valuations has been limited, but at the end of 2016 the use of issue price rather than face value removed MDL732 million from Moldova's headline debt measure. Face value is the preferred measure for many countries, included EU countries under Maastricht debt for discounted instruments.

Table 7. Moldova: Domestic Debt – Issue Price vs Face Value 2016- Q3 2019

MDL Millions	2016	2017	2018	Q1 2019	Q2 2019	Q3 2019
Issue price	21,520	22,579	23,059	23,458	23,430	23,082
Face Value	22,251	22,929	23,371	23,768	23,720	23,381
Difference	732	351	312	310	290	299

Source: PDD

Target Date	Recommendation	Responsible Institutions
January 2020	Make decision to move recording of debt from issue price, to face value in all debt reports.	**MOF**

37. **While the previous mission recommended that the authorities move to the recording of all relevant debt instruments at nominal value, this mission recommends moving initially to record debt at face value.** While in the longer term, nominal value remains desirable, since DMFAS does not currently allow for the reporting of debt at nominal values, at least for all other debt instruments other than loans, and the software remains in development. Although Moldova does not have a very large number of instruments in issue at any one time, which could mean an excel based process for calculating nominal value could be put in place, the MOF has limited resources, such that the mission thinks it best to await the availability of the upgraded DMFAS system to implement debt at nominal value.

38. **It would be desirable to link the recording of debt at nominal value with recording of accrued interest in GFS data**. Consequently, moving debt to nominal values should be done alongside a switch from recording interest on a cash basis to an accrual basis in the budget and in fiscal reports. This requires PDD and the Budget and Treasury Departments to work closely together and may mean moving to nominal value may be a longer-term goal, 2 or 3 years down the line. In the meantime, Public Debt Department will liaise with UNCTAD to have the possibility to record debt at nominal value. But, in order to ensure consistency between Budget/Treasury/Debt Department data, PDD will start to report debt at nominal value at the moment when the budget will be prepared and reported using the accrual method (including the GFS Report also), rather than cash method that is being used at the moment.

Target Date	Recommendation	Responsible Institutions
December 2021	Liaise with UNCTAD for the configuration of the debt recording system to have the possibility to record accrued (not-cash) interest and Gross Debt for General Government at nominal value	**MOF Public Debt Budget and Treasury Departments/UNCTAD**

D. Consolidation

39. Public Debt Data in Moldova is currently not fully consolidated, and thus significantly overstates public debt. Since 2016 General government and public sector debt has included ~MDL 15 billion of GOM debt securities held by NBM. In addition, there is a smaller stock of securities held by the DGF. Table 7 shows the claims on government by NBM and DGF over the last several years.

Table 8. Moldova: NBM and DGF Holdings of Public Sector Debt 2011–18

Assets (MDL millions)	2011	2012	2013	2014	2015	2016	2017	2018
National Bank of Moldova	2,246	2,075	2,079	2,075	2,119	15,584	15,522	15,472
Deposit Guarantee Fund - Total assets					283	361	421	521

Source: NBM Financial Statements, DGF Financial Statements

40. All these assets held by DGF and NBM are claims on other public sector entities and should be consolidated, thus reducing public sector debt. Table 8 provides some indication of the impact of this additional consolidation. The headline number for public debt in Moldova at the end of 2018 was MDL 57.9 billion, Table 8 expands the definition of debt to include the NBM certificates, increasing this number, but once the DGF and NBM holdings are consolidated, debt falls to MDL 48.1 billion.

Table 9. Moldova: Consolidated Public Sector Debt 2018

(MDL million)	1. General Government	2. Non-Financial Public Corporations	3. Financial Public Corporation	Consolidation	4. Public Sector
Total gross debt	**52,342.4**	**3,299.1**	**10,032.4**	**-17,486.8**	**48,187.1**
Special Drawing Rights (SDRs)	2,798.2				2,798.2
Debt securities	23,058.6		6,298.7	-15,992.9	13,364.4
Loans	26,485.7	3,299.1	3,733.7	-1,493.9	32,024.5

Source: PDD QPSD Submission, NBM and DGF Financial Statements, Mission calculations

41. Consolidation will be also important if reporting is expanded to include currency and deposit liabilities of NBM. NBM currency and deposit liabilities include ~MDL 9 billion of government deposits, which would be consolidated. Table 9 shows the impact of expanded public debt to include NBM currency and deposit liabilities, but also consolidating the NBM's liabilities to the GOM.

Table 10. Moldova: Consolidated Public Sector Debt (Including Currency and Deposits) 2018

MDL millions	1. General Government	2. Non-Financial Public Corporations	3. Financial Public Corporations	Consolidation	4. Public Sector
Total gross debt	**52,342.4**	**3,299.1**	**66,931.4**	**-26,778.8**	**95,794.1**
Special Drawing Rights (SDRs)	2,798.2				2,798.2
Currency and deposits			56,899.0	-9,292.0	47,607.0
Debt securities	23,058.6		6,298.7	-15,992.9	13,364.4
Loans	26,485.7	3,299.1	3,733.7	-1,493.9	32,024.5

Target Date	Recommendation	Responsible Institutions
June 2020	Amend debt reporting to fully consolidate public sector asset holdings of other public sector debt.	**MOF**

E. Inclusion of SDRs in Debt

42. **Headline debt in Moldova currently includes the GOM's liabilities in the form of SDR allocations.** The SDR allocations are included as according to the provisions of the Law 51/2009, the funds in the form of Special Drawing Rights allocated by the IMF to the Republic of Moldova through the National Bank of Moldova, were used to finance the state budget deficit and in interest payments related to the SDR allocations are made from the state budget. However the mission recommends that the authorities consider removing these from the headline debt measure**.** Under *PSDSG 2013*, SDR Allocations *are* a debt liability, and its correct to record them in the government balance sheet or in QPSD submissions, however its very unusual for SDR allocations to be recorded as general government debt or in the general government balance sheet.

43. **In the vast majority of IMF member states, SDR allocations are recorded as liabilities of the Central Bank.** Out of 95 countries that reported data to QPSD, just 7 reported SDR allocations as GG Debt (Australia, Canada, Greece, Latvia, Japan, UK, USA). None of Moldova's peers have SDR allocations in government debt.

44. **For the three EU countries (Greece Latvia, UK) that do record SDR allocations as general government liabilities, they do not record them in their Maastricht debt.** As noted earlier, Maastricht debt does not include SDR allocations, only debt securities, loans and currency and deposits. The UK headline national debt measures also exclude SDRs, even while they are reported alongside other liabilities like accounts payable, on the UK government balance sheet.

45. **SDR Allocations are unlike most of Moldova's other liabilities, in that unlike instruments that require payments of interest *and principle*, SDR allocations do not have to**

be repaid. The stock of SDR allocations, at least expressed in SDR terms, has stayed the same since 2009, and will remain the same in the future, and will only change in MDL terms due to movements in exchange rates.

46. Consequently, the Moldovan authorities may wish to consider amending headline debt measures by removing the SDR allocation (while still reporting SDRs on their debt liabilities reporting to QPSD). Adjusting for these would further reduce headline public sector debt – to MLD 49.1 billion at end 2018.

Target Date	Recommendation	Responsible Institutions
June 2020	Review headline measures of debt for GG, and consider removing SDRs allocations.	**MOF/NBM**

F. Public Private Partnerships

47. Moldova has approximately 30 public private partnership (PPP) contracts, which under certain circumstances should give rise to public debt. PPPs in Moldova include a range of projects, from health-related projects providing dialysis services, to housing projects, to school and sports center projects, and public infrastructure projects to modernize Chișinău airport and bus stations. These contracts involve contracts where public land is provided, or concession agreements and other contract forms, but few are thought to involve payments from the budget itself. There are however some considerations of an expansion of PPP projects in the future, and similar types of contracts such as Power Purchase Agreements to facilitate new generating capacity.

48. Accounting standards such as IFRS or International Public Sector Accounting Standards (IPSAS), or statistical standards like *GFSM 2014* or EU guidance in the Manual of Government Deficit and Debt set rules or guidance on PPP accounting. These standards seek to determine whether an asset built under a PPP contract should be considered as a government asset, giving rise to debt, or a private asset with no debt implications. Under *GFSM 2014* and EU rules, the emphasis is on risks and rewards. If enough risk and rewards are transferred to the private partner, the asset is considered to be a private asset. For IFRS and IPSAS, the emphasis is on who controls the asset (which is very often government in a PPP, which IPSAS and IFRS refer to as a "service concession agreement".

49. The PPA collects information on PPP contracts, but it would be highly beneficial for MOF to have much greater oversight of PPPs. The mission shared a copy of the list of PPP contracts maintained by the UK Treasury[3] as an example of the kind of information which should be collected by PPA and MOF. Importantly, the UK Treasury asks PPP contracts to be assessed

[3] See https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2018-summary-data

during the procurement process against IFRS, UK Generally Accepted Accounting Principles and EU statistical rules to determine the correct accounting treatment under these standards to inform the correct reporting of these contracts in the fiscal reports.

50. Consequently, the mission recommends that the MOF and PPA strengthen oversight of PPP contracts and collect and collate more detailed data on current and planned projects. This could usefully include an assessment of the correct accounting and statistical treatment, prior to financial close, under IPSAS and / or statistical standards. Risks related to PPP contracts are assessed by the Ministry of Finance at the moment of preparation the Fiscal risk statement, which is part of the annual Budget Law.

Target Date	Recommendation	Responsible Institutions
June 2020	Strengthen oversight of PPP contracts and collect / collate more detailed data on current and planned projects (including accounting / statistical treatment).	**MOF / PPA**

G. Net Debt

51. Public debt in Moldova is focused on the gross debt of government and the public sector, but it might be beneficial to supplement gross debt with net debt measure. *PSDSG 2013* recognizes two concepts of net debt. Net debt is equal to gross debt minus financial assets in the equivalent categories of gross debt. Debt net of highly liquid assets is equal to gross debt minus deposits in the form of currency and deposits.

52. As Moldova already compiles a financial balance sheet, these measures would both be available on an annual basis and provide a further insight into the governments financial position. The mission took balance sheet data reported to the IMF GFS Database and calculated both net debt measures for general government for the last five years, shown below in Table 11.

Table 11. Moldova: General Government Gross and Net Debt 2015–18

(MDL millions)	2015	2016	2017	2018
Gross debt	31,020	51,165	52,049	52,344
Net debt	22,711	27,990	27,399	28,949
Debt, net of highly liquid assets	27,812	46,385	45,272	45,940

Appendix I. Action Plan

Target actions and achievement dates are broken down below.

Priority	Action/Milestone	Risk Assumptions/ Verifiable Indicators	Target Completion Date	Actual Completion Date	Implementation Status
Outcome:					
H	Make decision to move recording of debt from issue price, to face value in all debt reports	Low risk. Government decision must be revised.	January 2020		
H	Seek Parliament's approval of modification to existing legislation to include ST debt liabilities for Local Government and public corporations in Gross Debt statistics	Medium risk – depends upon changes to existing laws governing dissemination of debt statistics (political support). Verifiable via the publication of ST debt for all public-sector entities and instruments	June 2020		
H	Include NBM Certificates in the Public debt	Medium risk – depends upon changes to existing laws governing dissemination of debt statistics	June 2020		

Priority	Action/Milestone	Risk Assumptions/ Verifiable Indicators	Target Completion Date	Actual Completion Date	Implementation Status
		(political support). Verifiable via the publication of ST debt for NBM / public financial corporations			
H	Amend debt reporting to fully consolidate public sector asset holdings of other public sector debt	Medium risk. Data is available, but not formally reported, and so formal collection mechanisms with NBM and DGF may be needed. Verifiable via the publication of fully consolidated public debt in QPSD.	June 2020		
M	Establish a joint working group to review sectorization and boundaries of Public Sector (Moldovagaz) and General Government	Low risk. Recommendation is to establish a group – not to complete the work. Verifiable through the publication of a list of public sector entities on NBS / MOF or NBM	June 2020		

Priority	Action/Milestone	Risk Assumptions/ Verifiable Indicators	Target Completion Date	Actual Completion Date	Implementation Status
		websites (in longer term)			
M	Strengthen oversight of PPP contracts and collect / collate more detailed data on current and planned projects (including accounting / statistical treatment)	Medium risk. A partial list of projects already exists, but further discussions will be needed between MOPF / PPA on roles and responsibilities.	June 2020		
L	Review headline measures of debt for GG, and consider removing SDR allocations	Low risk. Although the debt law may need to be revised, the authorities could create a revised measure of debt alongside the existing measure that removes the SDR allocations.	June 2020		

Priority	Action/Milestone	Risk Assumptions/ Verifiable Indicators	Target Completion Date	Actual Completion Date	Implementation Status
M	Liaise with UNCTAD for the configuration of the debt recording system to have the possibility to record accrued (not-cash) interest and Gross Debt for General Government at nominal value	Medium risk – implementation is dependent upon availability of updated debt software, outside of the Moldovan authorities' control, and moving to accrued interest in GFS will require close working across MOF Departments.	December 2021		

Appendix II. Officials Met During the Mission

Name	Institution
Ministry of Finance	
Ms. Elena Matveeva	Head of Division: Public Debt Department
Ms. Marina Ghidirim	Head of Unit: Analysis and Risk Unit, Public Debt Department
Ms. Angela Voronin	Head of Division: State Treasury Department
Ms. Diana Belaia	Principal Consultant: State Treasury
Ms. Nadejda Slova	Head of Section, Reporting: State Treasury
Public Property Agency	
Eugeniu Moraru	General Director of the Public Property Agency;
Dorina Cebotarean	Head of the Privatization and Post-Privatization Department
Natalia Vrabie	Head of the Public Heritage Records Department
Ion Gîlcă	Head of Corporate Administration, Methodologies and Regulations;
Mihail Țîrdea -	Chief - Directorate for Public Heritage Monitoring
Mariana Ceban	Directorate of Public-Private Partnerships and Concessions

Municipality of Chișinău	
Corina Mazur	Lead Specialist, General Financial Department
Zinaida Jaloba	Deputy Head of the General Financial Department
Neonila Lazari	Head of Division, General Financial Department
Galina Semeniuc	Deputy Head of the General Financial Department
Marina Andreeva	Head of Division, Synthesis of the revenues from the local government units
Lilia Josanu	Lead Specialist, Communication Division
National Bank of Moldova	
Daniel Savin	Head of the Financial Markets Department
Lidia Duca	Head of Division, Financial Markets Department
Angela Gherman-Cernei	Head of Division, Reporting and Statistics Department
Tatiana Ciloci	Head of Section, Reporting and Statistics Department