International Monetary Fund

Republic of Moldova
and the IMF

Press Release:
IMF Executive Board Completes Fifth Reviews Under the Extended Credit Facility and the Extended Fund Facility Arrangements with Moldova, Approves US$77.0 Million in Disbursements
October 2, 2012

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Republic of Moldova: Letter of Intent, Supplementary Memorandum of Economic and Financial Policies

August 31, 2012

MOLDOVA: LETTER OF INTENT

Chişinău, August 31, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431 USA

Dear Ms. Lagarde:

After expanding by 14 percent during 2010–11, the economy is going through a soft patch in 2012, staunched by the slowdown in Europe. In the first half of the year, foreign and domestic trade, industrial production, and remittances have decelerated markedly. Nonetheless, absent further deterioration in the external environment, the economic expansion is set to continue and macroeconomic stability remains intact, owing to the strengthened fiscal and external positions achieved in the course of our IMF-supported program and our unwavering commitment to economic reforms.

The program remains broadly on track despite some setbacks. In particular, weak tax revenue led to overshooting of the end-March performance criterion on the general government budget deficit by 0.2 percent of GDP. The adoption of legal amendments facilitating debt restructuring in the financial sector—a structural benchmark for end-March—has been delayed due to protracted public discussions. And the indicative target on reducing general government expenditure arrears was missed again by MDL 94 million due to underpayment of district heating bills by the Chişinău municipality. All other quantitative performance criteria, indicative targets, and structural benchmarks for end-March were met.

We will put in place urgent measures as prior actions to eliminate these slippages. Specifically, we have amended the 2012 budget and adopted a package of measures to strengthen revenue and offset unbudgeted expenditure commitments to meet the revised budget deficit target of 1.3 percent of GDP in 2012. The Chişinău municipality will amend its budget in line with this goal. Alongside, Parliament has passed the legal amendments reforming the debt restructuring framework. These measures and continued implementation of reforms in other program areas will support our broader policy goals of improving the well-being of the population and reducing poverty by maintaining macroeconomic stability and promoting sustainable growth.

In consideration of our strong record of program implementation and the corrective actions proposed below, we request the completion of the fifth reviews of the program supported by the Extended Credit Facility and the Extended Fund Facility arrangements and the associated disbursement of SDR 50 million. We request a waiver for non-observance of the end-March performance criterion on the general government budget deficit. In addition, we request a modification of the end-September performance criterion on the general government budget deficit and the National Bank of Moldova's (NBM) net international reserves and net domestic assets. Discussions on the sixth program review, assessing performance based on end-September 2012 performance criteria and relevant structural benchmarks, are envisaged for November 2012.

We believe that the policies set forth in the attached Supplementary Memorandum of Economic and Financial Policies (SMEFP) are adequate to achieve program objectives but will take any additional measures that may become appropriate for this purpose. We will consult with the IMF on the adoption of such additional measures in advance of revisions to the policies contained in the SMEFP, in accordance with the Fund's policies on such consultation. We will provide the Fund with the information it requests for monitoring progress during program implementation. We will also consult the Fund on our economic policies after the expiration of the arrangement, in line with Fund policies on such consultations, while we have outstanding purchases in the upper credit tranches.

Sincerely yours,

/s/
Vladimir Filat
Prime Minister, Government
of the Republic of Moldova

/s/
Valeriu Lazăr
Deputy Prime Minister
Minister of Economy

/s/
Veaceslav Negruţa
Minister of Finance
Ministry of Finance

/s/
Dorin Drăguţanu
Governor
National Bank of Moldova

Attachments: Supplementary Memorandum of Economic and Financial Policies (SMEFP)

SUPPLEMENTARY MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

August 31, 2012

1. The present document supplements and updates the Memoranda of Economic and Financial Policies (MEFPs) signed by the authorities of the Republic of Moldova on January 14, 2010, June 30, 2010, March 24, 2011, June 27, 2011, and January 12, 2012. It accounts for recent macroeconomic developments and introduces policy adjustments, as well as additional policies necessary to achieve the objectives of the program. We remain determined to meeting our commitments made previously under the program.

I. Macroeconomic Developments and Outlook

2. **The economy has cooled down in 2012, reflecting weaker external conditions and adverse weather**. In the first half of the year, growth of exports, retail sales, and remittances have dropped to single digits while the industrial and agricultural production and transport services declined, in part owing to a cold winter and drought in the summer. With weak activity in the EU partially counterbalanced by resilient growth in the CIS, real GDP growth is expected at 3 percent in 2012 before bouncing back next year. However, downside risks persist, stemming from the uncertain outlook in Europe.

3. **The current account deficit remains elevated but should gradually adjust as reforms bear fruit.** Slowdown of exports and remittances has so far been more pronounced than the deceleration of domestic demand, maintaining the current account deficit at around 12 percent of GDP. In the medium term, the deficit should narrow to 9½ percent of GDP on the back of sustained reform and export promotion efforts, recovery of external demand, and increased access to EU and CIS markets. Nevertheless, the trend toward appreciation of the real exchange rate should be monitored carefully.

4. **Inflation declined and is likely to remain low.** A cooling economy and relative stability of food and energy prices have halved the inflation rate since end-2011 to 4 percent in July. Barring new supply shocks, inflation is expected to remain within the National Bank of Moldova's (NBM) target range, stabilized by the recent monetary policy loosening and a gradual recovery of domestic demand.

5. **The financial sector remains strong although recent decline in asset quality in the majority state-owned Banca de Economii (BEM) is troubling.** Even though the nonperforming loans (NPL) ratio has increased to 15.3 percent in June 2012—mostly reflecting methodological changes and the rise in the BEM's NPLs—the sector remains well capitalized and liquid, and credit growth net of write-offs stayed healthy at 16 percent. Meanwhile, liquidation of the Universalbank has proceeded well with most household deposits already paid out. The implementation of remedial actions prescribed by the NBM to strengthen the BEM's balance sheet will be important to maintain stability.

II. Revised Policy Framework for 2012–13

6. **We are committed to continuing with our reform agenda under the IMF-supported program to maintain macroeconomic stability and boost the economy's growth potential.** To this end, our policy efforts will focus on completing the fiscal adjustment, maintaining low and stable inflation, solidifying financial stability, increasing transparency in the banking system, strengthening the debt restructuring and contingency planning frameworks, and promoting structural reforms in education, health care, energy, and privatization, while improving the business climate.

A. Fiscal Policy

7. **We will adopt policy measures to cap the 2012 budget deficit at 1.3 percent of GDP and sustain a sound fiscal position in 2013.** This target accommodates the impact of a slowing economy on revenue and allows uninterrupted implementation of important structural reforms, while remaining consistent with our objective to return to fiscal sustainability, enabling the budget to finance essential expenditure without exceptional external aid. Weak value added tax (VAT) and excise revenue and expected delays in grant receipts have opened a projected end-year revenue shortfall of over MDL 900 million (1 percent of GDP). Furthermore, various recent expenditure initiatives proposed by both the central government and the Chişinău municipality are worth MDL 800 million (0.9 percent of GDP). These developments call for compensating measures worth MDL 1.3 billion (1.5 percent of GDP) to reach the modified deficit target. We plan to fill this gap with measures strengthening revenue by 0.5 percent of GDP and reducing non-critical expenditure by 1 percent of GDP, and Parliament passed an amended 2012 budget on July 11, 2012 as a **prior action**. Moreover, we adopted measures to ensure sustainability of the budget framework and prevent resurgence of fiscal slippages in 2013. Specifically:

- *We will streamline the VAT regime and eliminate loopholes* this year and beyond: (i) VAT on agricultural output will be raised from 8 to 20 percent, with the additional proceeds rebated to producers, as of January 1, 2013; (ii) this rebate will not apply to processed goods; (iii) VAT on natural gas will be raised from 6 to 8 percent effective January 1, 2013, reducing the number of VAT rates to facilitate tax administration; (iv) we will amend Article 4 (18) of the Law No. 1417-XIII on Enacting Chapter III of the Tax Code with a view to tighten eligibility requirements—based on a Government-approved list of organizations—for VAT exemption under this article, effective January 1, 2013. Corresponding legal amendments have been adopted in July 2012 as a **prior action.**

- *The car registration regime has been tightened* to prevent avoidance of excises and other applicable fees, which should raise MDL 125 million in 2012 alone. A temporary suspension of the 7-year age limit until November 1, 2012 has been provided for the existing stock of cars with foreign registration owned by Moldovan residents to register in Moldova. For cars older than 7 years, the excise payable upon registration has been raised in proportion to the age of the car (by 5 percent for each year above seven relative to the existing rate, but capped at 35 percent). In addition, from 2013 we will raise the age limit on used cars that can be registered in Moldova from 7 to 10 years, and the excise for cars older than 7 years will be raised in proportion to their age as well. Corresponding legislative amendments have been passed as a **prior action** in July 2012. From November 1, 2012, we will introduce a new road toll system of the vignette type for cars with foreign registration entering Moldova, with parliamentary passage of the necessary legislation by October 15, 2012 (**structural benchmark**).

- We have *increased license fees* for gambling by 60 percent in July 2012. We will also index with the post-2008 cumulative inflation the license fees for imports and sales of tobacco and alcohol, as well as for several other activities. These measures are projected to raise budget revenue by MDL 40 million.

- In addition, on June 13, 2012 we adopted a government decision that will pave the way for the *issuance of at least two new telecom licenses* providing access to wide frequency bands (4G). This will bring about MDL 300 million to the budget in 2012.

- *Budget expenditure will be re-aligned with the revised revenue outlook*. In particular, we will restrain expenditure tied to the delayed grants (by MDL 260 million) and cancel the planned wage increase for public dignitaries and identify additional wage bill savings (a total of MDL 100 million). These measures will be complemented by other structural reforms, including in education, social assistance, and health care (a total of MDL 360 million).

- *The Chişinău municipality is going to adopt an amended 2012 budget with a deficit of no more than MDL 252 million* (**prior action**). The budget will reflect adjusted local taxes and fees to raise MDL 65 million in 2012 and eliminate heating arrears by end-August 2012.

- The recently adopted Law 87 that established *fiscal responsibility for judicial errors and delays* has generated large claims. To address this threat to fiscal sustainability, the tax code was amended in July to assign the Ministry of Justice (MoJ) the responsibility to review the claims for accuracy and appeal those of them that appear unjustified or exaggerated.

8. **Furthermore, we will intensify our tax and customs administration efforts to safeguard fiscal revenue.** In particular:

- *The Director of the Customs Service, in consultation with the MoE and MoF, issued an order in late May 2012* to (i) improve customs clearance procedures to reduce discretion of customs officers and the time spent by vehicles crossing the border; (ii) authorize access to warehouses based on economic needs and only for economic agents with good compliance record; (iii) intensify in-land control and inspections to monitor the final destination of imported products and reduce misclassification; and (iv) better monitor free economic zones' imports, production, exports, re-exports, and unjustified buildup of inventories to identify and correct inconsistencies.

- *Domestic revenue administration will be strengthened along several dimensions*. From July 1, 2012, we have begun expanding the general electronic invoices register to all eligible businesses and banning the right to VAT credit for invoices not generated through the register. This will allow real-time monitoring of transactions and immediate corrective actions. Starting from end-September 2012, we will begin publishing aggregated tax audit results in mass media, thus raising general public awareness about fraud and sanctions. With the compliance plan for large taxpayers finalized and the risks identified, the large taxpayers office has placed the 40 riskiest large taxpayers under permanent monitoring since July 1, 2012. We have also extended the measures envisaged under the compliance program to large taxpayers and businesses in agricultural products processing from end-August 2012.

9. **Maintaining fiscal sustainability will anchor our medium-term plans.** In this context, by end-September 2012 we will adopt a medium-term budget framework (MTBF) for 2013–15 with a budget deficit target gradually declining from its 2012 level of 1¼ percent of GDP despite falling external grants (**structural benchmark**). This will be achieved mainly by reducing current expenditure, with the wage bill and spending on goods and services capped at 9½ and 8¾ percent of GDP respectively, creating space for capital expenditure to remain around 6 percent of GDP in

line with improved implementation capacity. General government revenue relative to GDP will decline broadly in line with the declining external grants, with strengthening domestic revenue, notably consumption and real estate taxes, offsetting the projected reduction in nontax revenue. In this context, VAT loopholes will continue to be closed and excise rates adjusted in line with our EU integration agenda, while key social and health insurance contribution rates will be maintained at current levels with the contribution base broadened by eliminating privileges and exemptions.

10. **Meanwhile, we will implement a number of structural reforms underpinning our fiscal strategy**:

- A new *fiscal responsibility framework* will introduce a rule-based approach to budgeting, enhancing fiscal discipline, and improving transparency. These principles form the cornerstone of a new law on public finance to be adopted by Parliament by end-September 2012.

- In close cooperation with the World Bank, we will continue to implement our *education sector* reform. Recent adoption of related legal amendments (¶19 of SMEFP dated March 24, 2011) will allow the reform to continue with optimization and quality improvement. To preserve safe and adequate access to education, we will make maintenance of the school bus routes a priority for the Road Fund in 2012–13.

- Alongside, a government decision formalizing *wage bill and employment ceilings* in the budget sector has been adopted by end-May 2012.

- Raising *efficiency of public investment* will be critical to promote growth. By end-September 2012, in consultation with IMF staff, the government will approve a new mechanism for allocating capital expenditure based on projects' viability, economic growth potential, and capacity for implementation. The new mechanism will be applied starting 2013.

- Other structural reforms *rationalizing the use of health care* will proceed as planned. Specifically, the mechanism for sick leave benefits will be further improved by: (i) assigning coverage of the first three days of sick leave by the employers from July 1, 2012; (ii) extending the coverage by the employers to five days from 2013.

B. Monetary and Exchange Rate Policies

11. **The NBM's current monetary policy stance is appropriate in the context of stable inflation and moderating economic activity.** The inflation outlook over the policy-relevant

horizon is consistent with the NBM's target, warranting a pause to assess the impact of the recent sizable policy easing that is still making its way through the financial system. Further monetary policy adjustment would be necessary only if the economic outlook deteriorates or demand-driven inflation pressures re-emerge. In case of supply shocks, the NBM will consider their size and likely duration before adjusting its policy stance to minimize second-round effects. At the same time, the high current account deficit and rising external debt, combined with the declining official aid, imply the need for augmentation of NBM's foreign exchange reserves. The NBM will seek to accomplish this objective at times of ample supply of foreign currency on the market and in a manner consistent with the inflation targeting framework. The revised end-September performance criterion on net international reserves is consistent with this goal.

12. **Furthermore, by end-2012 we expect to adopt legal amendments to the central bank law** to increase its independence in line with international best practice and enhance the mechanisms of internal control over NBM's corporate governance.

C. Financial Sector Policy

13. **Continued deterioration of the financial situation at BEM amid a struggle for control between shareholders needs to be promptly addressed.** In this context:

- On June 11, 2012, the MoJ issued an opinion on the legality of recent transactions involving BEM shares and proposed a strategy to address the uncovered irregularities and prevent their recurrence in the future.
- In late June 2012, the Ministry of Finance and the NBM agreed on a Memorandum of Understanding (MoU) regarding issues of timely information exchange, making the BEM's newly elected Board of Directors operational, and improving the bank's risk management.
- The government, as a representative of the majority shareholder, will take decisive actions to strengthen BEM's management capacity and lending practices and bring the bank's capital back to the minimum required level.
- The NBM will continue to monitor closely the implementation of the remedial measures imposed on BEM and will share with IMF staff a progress report on the bank's financial condition by end-September 2012.

- Meanwhile, we will continue to work on a strategy to prepare the bank for privatization in due course.

14. **In parallel, we will move swiftly to improve the transparency of our banking system.** Recent legal disputes over ownership in several banks were enabled by nontransparent ownership in banks which creates risks of money laundering, tax evasion, and reputational concerns for the entire banking system. To this end, by end-May 2012 the NBM—in consultation with IMF staff—will finalize and submit to the government draft legal amendments seeking to ensure full transparency and disclosure of ultimate controllers in banks. We plan to secure Parliamentary adoption by end-June 2012 (existing **structural benchmark**). The new requirements will be applied to existing shareholders with a limited transition period. In this context, we will explore the possibility of (i) lowering the shareholding threshold in bank ownership above which fit and proper examination is required and (ii) prohibiting any transfer of bank shares without prior approval of the NBM.

15. **The long-overdue measures strengthening the debt restructuring framework were adopted in July.** The legal amendments to enhance the speed and predictability of collateral execution by banks and strengthen their incentives and ability to restructure nonperforming loans (¶15 of SMEFP of June 30, 2010) were passed by Parliament in July 2012 (**prior action**). Alongside, Parliament also passed a law revising the insolvency framework. We are working to finalize the contingency planning framework (¶16-18 of SMEFP dated March 24, 2011).

16. **We will continue to improve the financial sector supervision and regulation framework.** To this end, the Financial Stability Committee (FSC) will establish a subcommittee to examine technical financial sector issues and propose decisions to the FSC. The subcommittee will be chaired by the Ministry of Finance with the NBM performing the secretariat function. Moreover, the NBM and the NCFM, as well as other FSC members, will ensure proper information exchange and coordination, as per the MoU signed in 2011.

D. Structural Reforms

17. **We will continue to strive for timely payment of current bills in the energy sector.** With a renewed commitment to eliminate arrears to the heating sector by the Chişinău municipality (¶7), we will aim to have all bills from the previous heating season settled before end-October 2012. To this effect, the existing Memorandum of Understanding on repayment of arrears in the energy sector signed by the Chişinău municipality and the main companies of the sector was amended on

August 8, 2012 to strengthen incentives for compliance with the agreed payment schedule, including execution of court orders to recover arrears and penalties. In this context, the Chişinău municipality will deposit in an escrow account half of its receipts from taxes shared with the central government (about MDL 25 million per month); money from this account can only be used to repay the municipality's arrears to Termocom. Furthermore, the Chişinău municipality, as the main shareholder in Termocom, will continue to prohibit Termocom from contracting new bank loans. Alongside, we will continue to work closely with the World Bank on restructuring the energy sector.

18. **We will keep up our efforts to reduce the state's presence in the economy.** A Government decision expanding the list of companies subject to inclusion in regular privatization auctions by 59 names was adopted in July 2012. In 2012 we aim to launch the privatization of 60 companies and other public assets, as well as initiate 15 public-private partnerships. Owing to the delay in the privatization advisory work at Moldtelecom, the Ministry of Economy will propose a roadmap for introducing private participation in the company and implementing accompanying sector reforms by end-September 2012. In the context of our accession to the common aviation space with the EU, we are in the process of incorporating Air Moldova amid continuing search for potential investors.

19. **We are committed to completing the transition to the system of targeted means-tested social assistance this year.** To this end, we have abolished the existing system of category-based (nominative) compensations. Moreover, by end-October 2012, we will revise the eligibility criteria (proxies) for *Ajutor Social*—in close cooperation with the World Bank—to improve targeting and coverage within the funds available for social assistance in the approved 2012 budget (MDL 766 million). In parallel, we will speed up our efforts to expand enrollment. Finally, the Ministry of Labor and Social Protection in cooperation with the World Bank is expected to complete its analysis and approve an action plan to put other benefits and social payments on a means-tested basis by end-2012.

20. **To boost economic growth and promote poverty reduction, we have adopted a new medium-term National Development Strategy (2012–20).** The new strategy—based on input from government institutions and development partners—was adopted by Parliament in July 2012. It outlines seven priority areas for reforms and development: education, access to financing, road infrastructure, business regulation, energy efficiency, justice system, and social insurance. We

understand that having an approved strategy in place is a necessary condition for the completion of the last review of the IMF-supported program.

E. Program Monitoring

21. **The program will be monitored through semi-annual reviews, prior actions, quantitative performance criteria and indicative targets, and structural benchmarks.** The phasing of purchases under the arrangement and the review schedule are set out in Table 1 of this memorandum. The list of the quantitative performance criteria and indicative targets remains as set in ¶2 of the Technical Memorandum of Understanding (TMU) dated January 12, 2012. We are requesting a waiver for the missed performance criterion on the overall cash deficit of the general government for end-March 2012 on the basis of our proposed corrective actions. We are also requesting modifications of the performance criteria for the overall cash deficit of the general government and the NBM’s net international reserves (NIR) and net domestic assets (NDA) for end-September 2012, to reflect changes in the macroeconomic outlook for 2012 (Table 2). The prior actions for completion of the fifth review, along with existing and proposed new structural benchmarks are listed in Table 3.

Table 1. Moldova: Disbursements, Purchases, and Timing of Reviews Under the ECF/EFF Arrangements 1/

Date 2/	Conditions	Amount (millions of SDR)			Percent of quota		
			of which			of which	
		Total	ECF	EFF	Total	ECF	EFF
January 29, 2010	Board approval of the Arrangement	60.00	40.00	20.00	48.70%	32.5%	16.2%
July 16, 2010	Observance of end-March 2010 performance criteria and completion of first review	60.00	40.00	20.00	48.70%	32.5%	16.2%
April 6, 2011	Observance of end-September 2010 performance criteria and completion of second review	50.00	40.00	10.00	40.58%	32.5%	8.1%
July 13, 2011	Observance of end-March 2011 performance criteria and completion of third review	50.00	20.00	30.00	40.58%	16.2%	24.4%
February 1, 2012	Observance of end-September 2011 performance criteria and completion of fourth review	50.00	16.96	33.04	40.58%	13.8%	26.8%
June 30, 2012	Observance of end-March 2012 performance criteria and completion of fifth review	50.00	13.92	36.08	40.58%	11.3%	29.3%
December 31, 2012	Observance of end-September 2012 performance criteria and completion of sixth review	49.60	13.92	35.68	40.26%	11.3%	29.0%
	Total	369.60	184.80	184.80	300.0%	150.0%	150.0%

Source: IMF staff estimates and projections.

Note: A total of SDR 95 million of access under the ECF has been disbursed to the account of the Ministry of Finance at the National Bank of Moldova for budget support. This amount was spread over the first three purchases as follows: (i) SDR 40 million from the first purchase; (ii) SDR 40 million from the second purchase, and (iii) SDR 15 million from the third purchase.

1/ Moldova's quota is SDR 123.2 million

2/ For past purchases, actual dates are shown. For potential future purchases, the earliest possible dates are shown.

Table 2. Moldova: Quantitative Performance Criteria and Indicative Targets, March 2011–December 2012 1/

(Cumulative from the beginning of calendar year; millions of Moldovan lei unless otherwise indicated)

	2011								2012							
	March 31		June 30		Sept. 30		Dec. 31		March 31		June 30		Sept. 30		Dec. 31	
	Performance criteria		Indicative targets		Performance criteria		Indicative targets		Performance criteria		Indicative targets		Performance criteria		Indicative targets	
	Program	Adjusted program	Program	Adjusted program	Program	Adjusted program	Program	Adjusted program	Program	Adjusted program	Program	Adjusted program	Program	Revised	Program	Revised
1. Quantitative performance criteria																
Ceiling on the overall cash deficit of the general government 2/	685	610	994	1,121	1,119	1,097	1,596	1,828	312	576	505	315	673	891	837	1,193
Actual/Preliminary		845		1,875		1,880		1,989		781		935				
Ceiling on net domestic assets of the NBM (stock) 2/ 3/	-5,594	-5,051	-7,003	-6,532	-6,509	-6,137	-6,500	-6,107	-6,190	-5,943	-5,949	-6,058	-6,170	-7,080	-5,856	-6,998
Actual/Preliminary		-7,090		-6,781		-6,551		-6,723		-6,952		-7,071				
Floor on net international reserves of the NBM (stock, millions of U.S. dollars) 2/ 3/	1,430	1,423	1,603	1,565	1,707	1,677	1,730	1,698	1,706	1,686	1,702	1,711	1,776	1,857	1,821	1,883
Actual		1,614		1,652		1,699		1,752		1,751		1,816				
Ceiling on contracting or guaranteeing of non-concessional external debt of the general government (millions of U.S, dollars) 3/	50		80		80		80		80		80		80		80	
Actual	0		0		0		0		0		0					
2. Continuous performance criteria																
Ceiling on accumulation of external payment arrears (millions of U.S. dollars) 2/	0		0		0		0		0		0		0		0	
Actual	0		0		0		0		0		0					
3. Indicative targets																
Ceiling on change in domestic expenditure arrears of the general government	0		-25		-50		-50		0		-12		-24		-24	
Actual/Preliminary	63		1		-41		-65		94		-2					
Ceiling on the general government wage bill	1,830		4,064		5,807		7,844		2,028		4,628		6,650	6,551	8,745	8,633
Actual/Preliminary	1,767		3,939		5,677		7,700		1,977		4,300					
Floor on priority social spending of the general government 4/	2,369		4,933		7,391		10,457		2,482		5,181		7,852		10,696	
Actual/Preliminary	2,403		5,118		7,657		10,422		2,567		5,429					
Memorandum items:																
EC Macro Financial Assistance budgetary grants (millions of euros)	0		20		20		50		0		0		0	30	0	30
Actual/Preliminary	0		0		19		19		0		30					
Budget support grants	…		…		797		1,488		288		288		506	715	981	715
Actual/Preliminary					549		923		0		528					
Official external budget support and project grants and loans from the European Commission and the World Bank (millions of U.S. dollars)	20		88		126		201		30		59		91	98	160	136
Actual/Preliminary	13		50		96		169		10		68					
Foreign-financed project loans	299		834		1,117		1,331		52		373		551		748	765
Actual/Preliminary	132		368		719		897		120		423					
Other capital expenditures 5/	…		…		…		…		448		793		1,714	2,069	3,000	3,295
Actual/Preliminary									395		1,265					
Reserve requirement ratio	8		11		14		14		14		14		14		14	
Actual/Preliminary	11		11		14		14		14		14					

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

1/ 'Program' columns up to June 2012 refer to targets in effect during the third review of the program; 'Adjusted program' columns refer to program targets incorporating adjusters as defined in the TMU; 'Revised' columns refer to targets, if any, that were revised during the fourth review.

2/ Adjusters apply to the ceiling on the overall cash deficit of the general government, ceiling on net domestic assets, floor on net international reserves, and ceiling on reserve money. The indicative target on reserve money was discontinued after March 2011.

3/ Program target based on the program exchange rates.

4/ The priority social spending of the general government is the sum of essential recurrent expenditures directed to social protection.

5/ Defined as total capital expenditures minus foreign-financed project loans.

Table 3. Moldova: Prior Actions and Structural Benchmarks for the Fifth Review

Measure	Due	Status	Objective
Prior actions			
Parliamentary passage of legal amendments to facilitate debt restructuring and speed up execution of collateral on bank loans (¶15) 1/	PA	**Done**	Clean bank balance sheets and reduce structural impediments to bank lending
Parliamentary passage of an amended 2012 budget with a deficit of no more than 1.3 percent of GDP and incorporating the agreed measures to butress revenue and contain expenditure (¶7) 2/	PA	**Done**	Support the programmed fiscal adjustment in 2012
Parliamentary passage of legal amendments to close VAT loopholes (¶7) 2/	PA	**Done**	Facilitate structural fiscal adjustment
Parliamentary passage of measures to tighten the car registration regime to prevent avoidance of excises and other applicable fees (¶7) 2/	PA	**Done**	Close loopholes in the excise regime for used cars and butress budget revenue
Chişinău municipality will adopt an amended 2012 budget with a deficit of no more than MDL 252 million (¶7) 2/	PA	**Done**	Protect the programmed fiscal consolidation in 2012
Structural Benchmarks			
Fiscal consolidation and governance			
Cabinet approval of a mechanism to bring commitments on agricultural subsidies in line with available funds (¶8) 1/	31-Mar-12	**Done**	Control spending and maintain fiscal discipline
Government adoption of the Medium-Term Budget Framework for 2013-15 with a budget deficit target not exceeding 1.1 percent of GDP (¶9) 2/	30-Sep-12		Support fiscal sustainability over the medium term
Parliamentary passage of legislation introducing from November 1, 2012 a new road toll system of the vignette type for cars with foreign registration entering Moldova (¶7) 2/	15-Oct-12		Close loopholes in the tax regime for used cars and increase budget revenue
Parliamentary approval of legal amendments to continue the reform in the education sector (¶10) 1/	31-Mar-12	**Done with delay**	Support the 2012 budget
Financial stability			
Parliamentary passage of legal amendments to facilitate debt restructuring and speed up execution of collateral on bank loans (¶15) 1/	31-Mar-12	**Delayed, converted to PA**	Clean bank balance sheets and reduce structural impediments to bank lending
Parliamentary passage of legal amendments to strengthen disclosure of beneficial bank owners (¶14) 1/	30-Jun-12	**Delayed**	Raise transparency in the banking sector to strengthen confidence by depositors and prevent further raider attacks
Supporting growth and mitigating fiscal risks			
Government will reactivate its contract with Banca de Economii's privatization advisor BNP Paribas and ask the advisor to prepare an action plan and a timetable for the bank privatization (¶13) 1/	31-Jan-12	**Done**	Promote market-oriented decision-making at Banca de Economii

1/ Paragraph numbers refer to paragraphs of the SMEFP dated January 12, 2012.
2/ Paragraph numbers refer to paragraphs of the SMEFP dated August 31, 2012.